ENERGY SECTOR 1.60

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Electricity				
Regulation of electricity prices for households and small customers to be abandoned, allowing new investments in the modernisation and revitalisation of coal and electricity production	2016			√
Renewables				
Incentive system from 2019 to be tailored to accelerate investments in the renewables sector	2018		√	
Increase of the cap on incentives for wind and solar energy	2018			√
Energy Effciency				
Adoption of a functional model contract to govern the energy supply contracting	2017		√	
Improvement of capacities of the PPP Commission and other notable public stakeholders in respect of both energy performance contracting and energy supply contracting projects involving the public and private sector	2017		√	

CURRENT SITUATION

Electricity

The legal framework for electricity in Serbia is set out under the 2014 Energy Law, which for the most part transposes the European Union's (EU) Third Energy Package.

The main authorities responsible for this sector are: (i) the Serbian Government; (ii) the Ministry of Mining and Energy; and (iii) the Energy Agency.

State-owned enterprises Elektromreža Srbije (EMS) and Elektroprivreda Srbije (EPS) remain the dominant players in the sector. EMS is the transmission system operator. EPS is engaged in the production, wholesale and supply of electricity. EPS's subsidiary EPS Distribucija carries out the distribution and operates the distribution system.

The electricity market is fully liberalized on paper. Households and small consumers remain, for the time being, entitled to opt to be supplied under regulated prices (unlike other consumers which do not have the right to regulated prices). There is an intention to phase out the regulated supply of electricity, but the Energy Agency has taken the position that there is still a need for the regulation of electricity prices. On the other hand, the Energy Agency has allowed an increase of regulated prices - starting from October 2017, prices of electricity were increased by around 2% for households and small consumers.

While there are around 60 wholesale suppliers, the retail market remains dominated by EPS (holding around 95% of the retail market).

The day-ahead market is operated by the joint-stock company South East European Power Exchange (SEEPEX).

Renewables

After long delays and extensive involvement of key stakeholders, Serbia has finally adopted a bankable framework to promote the production of electricity from renewable sources.

The incentives for renewable energy remain:

- a mandatory offtake of the entire production, under a feed-in tariff (FiT), for the 12-year period after the launch of commercial operations,
- an offtake of electricity during the plant's trial period, at 50% of FiT,

- exemption of the privileged producer from balancing responsibility, and,
- priority and free-of-charge access to the transmission and distribution system.

The current framework is applicable until the end of 2019, whereas all wind projects within the 500 MW cap are either under construction or already operational.

Energy Efficiency

The Law on Efficient Use of Energy, adopted back in 2013, explicitly defines the energy services company (ESCO) and sets rules for energy performance contracting in line with the EU acquis, with the aim to provide a comprehensive legal framework for energy efficiency arrangements.

To enable the implementation of these general possibilities, the Rulebook on Model Energy Service Contracts for the Implementation of Energy Efficiency when Users are from the Public Sector (ESCO By-Law) was finally adopted in May 2015.

The ESCO By-Law prescribes two models of ESCO agreements, one for public buildings and one for public lighting. It requires public-private partnerships (PPP) to be established between the relevant public partner (e.g. a municipality, a public company, the state) and the relevant private partner (i.e. an ESCO company) on a long-term basis.

The energy efficiency market is still in early stages of development. With several energy performance contracting (EnPC) projects awarded to private investors in the area of public lighting and a few bigger ones in the preparation phase in large cities (Belgrade and Novi Sad), the market is yet to see a successful cooperation between the public and private sector in the area of public buildings.

The energy supply contracting (ESC) has also started functioning recently, with public sector facilities such as schools and hospitals being the main point of interest. However, some of the implementation aspects, such as public budgeting, remain a point of misunderstanding for the public sector.

Unlike EnPC, ESC arrangements are currently not governed by any by-law, nor is there a prescribed model available. The most notable difference between ESC and EnPC is in that EnPC implies backing the project with guaranteed savings, unlike the ESC, which focuses on a renewed arrangement regarding energy supply where the private partner guarantees the continuous provision of a certain minimum amount of energy. It is expected that, once the ESC model is regulated too, a much needed certainty will be brought into the sector, allowing for successful cooperation between the public and private sectors.

POSITIVE DEVELOPMENTS

Electricity

SEEPEX membership grew to 18 members.

Renewables

Several notable projects approved under the present framework have reached financial close and are under construction. The Decree on Incentives for the Production of Electricity from Renewable Sources and from Highly Efficient Combined Electricity and Heat Production extended the validity of incentives until 31 December 2019.

Energy Efficiency

The successful awarding of several energy performance contracting projects to private investors in the area of public lighting throughout Serbia is surely a positive step towards the further development of the energy efficiency market. The same holds true for the current preparation of projects in the same sub-sector in larger Serbian cities, including Belgrade and Novi Sad.

Energy supply contracting has also started to function, although it is still of somewhat limited scope. Several PPP contracts in this sub-sector have been awarded to private investors, with the projects typically relating to the heating systems of public utilities. Even so, private-to-private arrangements continued to grow, although existing practices are rather diverse and of different contracting quality.

REMAINING ISSUES

Electricity

Coal is still the single most significant resource for electricity generation – three quarters of annual production comes from the coal-fired power plants.

Coal mines are in a relatively poor shape and in need of extensive modernisation in order to meet demand. Some major thermal power facilities will also need to be phased out or overhauled. It is not clear whether Serbia will have enough funds for these investments.

It can often be heard that an electricity price increase in Serbia would be justified, but vulnerable customers must be protected.

Renewables

Serbia still does not have concrete plans for incentivizing renewables from 2020 – it is still not clear whether FiT will be kept or whether Serbia will switch to a new, market-based mechanism. The lack of predictability has a direct impact on a decrease of investments in the renewables sector, keeping Serbia away from reaching binding targets on renewables in gross energy consumption.

Also, quotas for incentivizing wind (500 MW) and solar (10 MW) energy have already been exhausted, and are way below the market demand, consequently, Serbia should revisit the idea of raising them.

Energy Efficiency

As to energy performance contracting (EnPC), apart from the need to have consistent practices in the formal preparation of projects fully in line with the ESCO By-Law and the PPP legislation, the challenges ahead also include the need to reduce subsidies, which keep energy prices on an artificially low level, and to introduce further sector-specific incentives for energy efficiency projects in the relevant regulations (notably, real estate and tax-related regulations) as well as the need to gradually raise financiers' awareness of the practical feasibility of ESCO projects.

As to energy supply contracting (ESC), the adoption of a model contract by the relevant authority (i.e. the Ministry of Mining and Energy) would be very helpful in addressing projects involving both the public and private sectors and removing the existing ambiguities. At present, the public sector is still overly careful in considering prospective projects, while the understanding of this concept and its practical implementation is still lacking on the authorities' side. This specifically relates to an absence of understanding of public budgeting procedures, with some important projects involving hospitals and schools in Serbia still lagging behind as a result thereof. In this regard, it is encouraging that the said Ministry is currently preparing a model ESC contract to allow for a greater transparency and feasibility of projects on the market.

The challenges ahead relating to both EnPC and ESC arrangements include:

- capacities of the PPP Commission to be improved (including better understanding of EnPC and ESC projects' specifics);
- sharing of knowledge and existing know-how among various public entities to be strengthened and supported (especially in the case of minor Serbian municipalities);
- practical implementation of the rules relevant to determining the value of projects that are PPP-specific and of the rules of public budgeting needs to be improved, and the capacities of the public sector to be strengthened.

FIC RECOMMENDATIONS

Electricity

- Regulation of electricity prices to be abandoned (but vulnerable customers to be protected), allowing new investments in the modernisation and revitalisation of coal and electricity production.

Renewables

- Incentive system to be tailored to accelerate investments in the renewables sector.
- Increase of the cap on incentives for wind and solar energy.

Energy Efficiency

- Adoption of a functional model contract to govern energy supply contracting.
- Improvement of capacities of the PPP Commission and other notable public stakeholders with respect to both energy performance contracting and energy supply contracting projects involving the public and private sectors.