

# PILLARS OF DEVELOPMENT

## ENERGY

This sector includes generating and transmitting electricity, the market for renewable energy sources and energy efficiency. Last year, the situation in the field of electricity production was dramatic. In addition, due to the energy crisis in the world and economic sanctions, which interrupted the regular supply channels, our country faced significant challenges in ensuring a steady supply of other types of energy. The price shock due to the reduced supply of energy products and supply uncertainty was extreme, significantly increasing inflation and the instability of the domestic market. The initial market liberalisation hit the hurdle of increased costs for households and the economy, so the government introduced price controls. At the same time, the management structure of EPS was replaced, its business policy was changed, and the main causes of its bad business were eliminated. Electricity supply has improved, but the problem of pricing remains.

In 2023, Serbia supplemented the regulatory framework in accordance with the EU's Third Energy Package and de jure liberalised the electricity market. In this regard, 2023 continues the policy of fully implementing the relevant EU regulations. The Republic Commission for Energy Networks was established as an independent body for controlling the electricity transmission system operator - Elektromreža Srbije and the natural gas transport system operator Transportgas Srbija. The newly formed body will take over state responsibilities from the Ministry of Energy over these two state operators of the electricity and natural gas transmission system. That will enable them to obtain appropriate certificates from the Energy Agency of the Republic of Serbia and European regulatory bodies. Also, the transformation of EPS from a public company to a joint-stock company was announced, and a new supervisory board was appointed, which took necessary steps towards professionalising the management of this company.

Households and small customers, for now, have the right to be supplied at regulated prices (unlike other customers, who do not have the right to regulated prices). There is an intention to supplant the regulated electricity supply, but the Energy Agency has taken the position that there is still a need to control electricity prices. On the other hand, the Agency for Energy twice increased regulated prices.

Despite the liberalisation, EPS remains the most dominant supplier, with about 97% share in the open market. The

South East European Power Exchange (SEEPEX) manages the day-ahead market.

Coal remains the dominant source of electricity production – more than 70% of the annual output comes from coal-fired power plants. Coal mines are in relatively poor condition and need serious modernisation to meet demand. Some of the largest thermal power plants must be phased out or overhauled. There is an increased import of coal to maintain production in thermal power plants. The transition to a “green” economy has been postponed for some time.

In the case of renewable energy sources, a system of incentive measures for producing electricity from these sources is crucial. Incentive measures are provided through a market premium system and feed-in tariffs. Both methods will be implemented through an auction and relate to the price of electricity, the assumption of balancing responsibility and the right to priority access to the network. By abandoning the incentive system in order and introducing auctions, the opportunity for a new cycle of investments and achieving a competitive price for purchasing electricity opens up.

In the field of energy efficiency, the Directorate for Financing and Encouraging Energy Efficiency began its work. New regulations were adopted that regulate the financing of measures to improve energy efficiency and the use of funds for their implementation. In the energy efficiency market, many local governments have begun implementing projects on energy performance contracting (EnPC) in the public lighting field. Energy Supply Contracting (ESC) has also started to function, primarily in the public sector, where schools and hospitals are priorities.

The Foreign Investors Council made eight recommendations for improving this area's situation. Among other things, in the case of electricity production, it is proposed to abandon price regulation despite the energy crisis; in the case of energy efficiency, the application of a more functional contract model that will regulate the supply of energy, while in the case of renewable energy sources, an adjustment of the methodology for determining the maximum price at auctions is requested to reflect the influence of market conditions. By the way, the Foreign Investors Council highly rated the progress in 2023 with an index of 2.30, although it is somewhat lower than the previous year (2.50).







