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SERBIA: Shake-up in the energy market – auctions for premiums, new foreign entrants in the gas market, and much more

The Serbian Ministry of Mining and Energy opened a public debate on a set of draft energy laws intended to introduce substantial changes in the Serbian energy market. The public debate is open until 9 February 2021 and relates to: (i) a draft of the new Law on Renewable Energy Sources; (ii) draft amendments to the Energy Law; (iii) a draft of the new Law on Energy Efficiency and the Rational Use of Energy; and (iv) draft amendments to the Law on Mining and Geological Research.

OUT WITH THE OLD, IN WITH THE NEW

The proposed, completely new Law on Renewable Energy Sources should replace the set of provisions on renewables in the current Energy Law. The most important novelties relate to (i) the introduction of auctions for premiums in the incentive scheme for renewables, (ii) maintaining feed-in tariffs, but on an auction basis and only for small facilities and demonstration projects, (iii) introducing prosumers and energy communities, (iv) creating incentives for energy-efficient heating plants, and (v) introducing innovative technologies, such as green hydrogen, into Serbian legislation.

From a procedural aspect, the most notable change is a strive for digital transformation – the draft law proposes the submission of applications and necessary documents in a digitalised, electronic manner via an e-Gov portal.

The race for premiums and feed-in tariffs

The draft envisages that the following types of new or reconstructed power plants are entitled to incentives:

- Hydropower;
- Biomass;
- Biogas;
- Wind;
- Solar;
- Geothermal;

- Power plants using biodegradable waste;
- Power plants using landfill gas;
- Power plants using gas from municipal wastewater treatment facilities;
- Power plants using other renewable energy sources.

Serbian début of auctions for market premiums

The draft introduces what is a novel concept in Serbian law – market premiums allocated in auctions. Under the proposed wording, the Ministry of Mining and Energy will conduct the auctions on the basis of available quotas: (i) collectively, for two or more types of power plants; or (ii) separately, by type. The winning bidders gain the status of a temporary privileged power producer that lasts until the end of the plant's investment amortisation period, but no longer than 12 years as of the day of the first market premium.

By proposing allocation of incentives through auctions, Serbia aims for a public, transparent, competitive, and non-discriminatory process that should ensure a higher level of realisation of renewable energy projects. Auctions are intended to serve as a catalyst for increased bankability of RES projects and ensure long-term return for the investments in this sector.

A noteworthy point - balancing responsibility - is intended to remain on the public company Elektroprivreda Srbije, but only until the establishment of an organised intraday market. Once such market is established, incentivised power plants will cease to be exempt from full balancing responsibility.

Feed-in tariffs are still in play, but not for all

Feed-in tariffs are not abandoned by the new draft law. Small facilities with capacity under 500 kW and wind power plants under 3 MW are still eligible to receive them. Unlike the practise so far, the tariffs shall also be allocated in auctions. Power plants operating in the feed-in tariff system will not bear balancing responsibility and costs, as those will be assumed by the universal transmission system operator, i.e. the universal supplier.

As per the draft, small hydro power plants are not exempt from the incentives scheme, which was the proposal of many civil society organisations. Considering that construction and incentivising of small hydro power plants previously caused uproar and the protest of citizens and environmental organisations in Serbia, we can expect this will be one of the key topics in the public debate.

What about existing beneficiaries of feed-in tariffs?

The draft law contains an attempt at a stabilisation clause which appears to allow existing (preliminary) privileged power producers to keep acquired rights. It can be expected that the position of existing market players and their interplay with newcomers in the market will be one of the more sensitive topics of this public debate.

Prosumers and energy communities

The concept of prosumers will give individuals and legal entities in Serbia an opportunity to produce green energy for their own needs and, at the same time, sell it on the market. Prosumers will have the right to produce electricity for self-consumption, store electricity and deliver electricity excesses to the grid for sale. Such sale of electricity gives a prosumer the right to a reduction of the next electricity bill or payment of compensation by the supplier.

The introduction of the prosumer concept intends to promote installation of PV rooftop panels, offering new opportunities to companies operating in that sector. More importantly, this concept offers the opportunity to real estate-heavy companies outside of the energy sector, such as large factories, to enter the energy market.

Along with the prosumers, the draft law provides a concept of the energy communities - associations of individuals and/or legal entities and/or local municipalities with the primary purpose of a coordinated utilisation of renewable energy resources by its members.

The first step towards greener heating solutions

With historic issues surrounding the use of dirty coal in its key heating systems, Serbia is making a step towards more efficient and green production, distribution and supply of heat with incentives for the use of heat pumps, solar energy, geothermal energy, energy from biodegradable waste, biomass and other renewable energy sources.

Laying the ground for innovation – green hydrogen and biofuels

With a purpose to increase usage of the renewable energy sources, the draft law provides the possibility to incentivise the innovative technologies in the early development stage, such as green hydrogen and other sources.

It is expected that the Government will determine an incentive scheme for the production, transportation, storage and use of green hydrogen.

For the transportation sector, the draft law provides the possibility of an incentive scheme for the producers of biofuels, in the form of state investment measures, with the aim of achieving a pre-determined share of renewable energy in transportation by 2030.

FINE-TUNING THE FRAMEWORK ENERGY LAW

In order to lay a path for the above changes, the Ministry of Mining and Energy also prepared a draft Law on changes and amendments to the Energy Law. Along with some new legislative solutions, the draft predominately supplements the current wording and improves certain defined terms (e.g. blending of bioliquids, advanced energy measurement systems, strategic energy projects, etc.) and provisions (e.g. those that

related to energy activities, vulnerable customer groups, operational reserves in oil production and sale, etc.).

New legislative solutions are intended to increase the number of players and decrease prices in electricity, natural gas and oil markets. A key novelty is the introduction of a completely new energy activity in the Serbian market – the wholesale of natural gas. Foreign legal entities would be permitted in the Serbian gas market and allowed to engage in gas wholesale activities.

The draft also defines new engine fuels such as liquid natural gas and hydrogen, making their trade possible on the Serbian market and foresees the merger of the local organised electricity day-ahead and intraday market into bordering electricity markets.

EFFICIENT USE OF ENERGY - EVERYWHERE

Finally, as a companion to the above changes, the proposed draft of a new Law on Energy Efficiency and Rational Use of Energy aims to give a broader perspective on energy efficiency. The new solutions should result in a significant decrease of energy consumption and consequently lead to a decrease of hazardous air pollutants, greenhouse gases and the overall costs of business operations and living.

Following its European counterpart, this draft law imposes energy efficiency obligations on project developers, introduces eco-design considerations on product manufacturers and sellers, and provides for licensing and education of three types of energy advisors and managers and monitoring of energy efficiency in road transportation.

The draft also introduces a novel concept of energy supply contracting for the efficient supply of heat. Under such an agreement, a supplier is obliged to increase energy efficiency of its services or decrease CO₂ emissions, and to receive consideration for such actions. Additionally, suppliers are entitled to enter into energy performance contracts to implement energy efficiency measures on behalf of their customer, for which they receive additional consideration.

All above mentioned drafts can be accessed in Serbian language here: <https://www.mre.gov.rs/javne-rasprave.php>.

The public debate is open for suggestions, comments and objections from all interested parties until 9 February 2021.

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