

Regional energy news

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Serbia

Commencement of construction works on wind park Plandište

NIS Energowind, a joint company of NIS (50% share) and number of private investors, commenced works on construction of wind power plant Plandište. The works on construction were officially opened by CEO of NIS Mr. Kiril Kravčenko and Serbian Vice-Prime Minister Aleksandar Vučić, in presence of other high officials and guests, including the Minister of Energy Zorana Mihajlović.

The WPP will be comprised of 34 wind generators, installed capacity of 3 MW each, making the total installed capacity of the plant 102 MW. The total value of the investment is estimated at some EUR 160 million, out of which NIS will provide about EUR 23 million, while the remaining part will be provided by other partners and lenders.

WPP Plandište will be selling the electricity in the system of feed-in tariff under the PPA with the Public Supplier (see below for news about the models PPA).

Model Power Purchase Agreement adopted

On 16 July 2013, the Serbian Ministry of Energy finally adopted the official model Power Purchase Agreements (PPA) and Preliminary Power Purchase Agreement (Preliminary PPA), based on which privileged power producers will be able to utilise incentives for green electricity (i.e. the feed-in tariff).

The PPA and Preliminary PPA have been adopted months after the first drafts were prepared and published by the Ministry in March this year. Months of vivid discussions amongst stakeholders to get the best possible models (specifically in terms of bankability) took place. Even though these model agreements represent a step forward compared to the previous solution, the first impressions are that they do not address the main concerns of financiers and investors in the sector. The main reason for this is the fact that the laws and regulations themselves (which regulate the content of the PPA and the Preliminary PPA) are such that they do not provide optimal solutions for investors and that consequently the model agreements cannot fully meet investors' needs at this time. The Ministry of Energy had previously announced changes in the regulatory framework in the renewables sector by the end of 2013, and hopefully, this will lead to more bankable model agreements.

Considering the importance of the topic, our Firm hosted an interactive working breakfast on energy financing and PPA in Serbia on 17 September 2013. During the panel discussion held, the Assistant Minister from the Ministry of Energy, Development and Environmental

Protection, Dejan Trifunović, discussed the recent activities of the ministry and the efforts that they are making towards putting a fair, balanced and transparent regulatory framework into place in order to support foreign and domestic investments, particularly in the renewables sector.

Mr. Trifunovic on behalf of the Ministry announced amendments which will soon be made to the Energy Law and which should address some of the main concerns of financiers and meet the requirements of investors in the sector. He also spoke of the possibility of a foreign investment fund entering the Serbian market in the near future, in order to help the investors in RES energy projects which have problems with financing.

At the highly interactive discussion, it was concluded that although much has been done, the most significant accomplishments remain ahead. The next step will be legislative changes and the implementation of the EU's 3rd energy package, which is planned for the end of 2013/ beginning of 2014.

Macedonia

Amendments to the Energy Law

The latest amendments to the Energy Law are expected to contribute to the development of gasification, increased energy efficiency and new job opportunities. According to the amendments, each municipality will be able to prepare a feasibility study and submit it to the Ministry of Economy in order to be considered for gasification. However, the Macedonian Government will be authorised to make concession agreements regarding the gasification of the respective municipality.

The construction of new buildings or the future reconstruction of old buildings should be carried out according to the minimum energy efficiency requirements, as stipulated in the newest amendments to the Energy Law. The amendments introduce an energy passport, referring to the energy efficiency characteristics of a building with such a certificate, i.e. the total energy demand for heating, cooling and ventilation, as well as the need for domestic hot water and electric lighting.

In order to ensure the implementation of the new requirements, the amendments also introduce energy controllers, i.e. trained professionals who will control the compliance of the public facilities with the relevant energy efficiency regulation.

Changes to the Mineral Resources Law

Although the Mineral Resources Law was recently enacted in November 2012, more than 40% of the original text was edited with the July amendments of this Law .

The amendments focus on improvement of the allocation of concessions for geological research and exploration, as well as on fixing the technical deficiencies of the law which were determined by the stakeholders.

The amendments specify the types of mineral resources that fall under the scope of the Law. One of the most significant novelties is that the exploitation of mineral waters is stipulated as a mineral resource under the authority of the Ministry of Economy (whereas previously it was regulated under the Law on Waters and the authority of the Ministry of Environment and Spatial Planning).

Another novelty is the introduction of possible extensions of concessions for exploitation of mineral resources in event of:

- Increased mineral reserves and extension of the period of exploration, and
- Development of infrastructure facilities that would improve rational exploitation of mineral resources (access roads, electrical installations and equipment, buildings and equipment, waste disposal etc.).

The amendments stipulate an obligation for all concessionaires performing exploitation of raw materials used in gold production, to primarily offer their products to the National Bank of Macedonia, at market conditions and for a price determined on the London Metal Exchange.

At the beginning of 2013, the Government founded a Geological Institute as a separate specialized institution to conduct basic geological research of public interest. The amendments of the Law introduce an obligation for entities that wish to conduct scientific geological research to sign an agreement with the Geological Institute that has to be approved by the Government.

South Stream Project Developments

In July 2013, the Governments of Macedonia and Russia signed a bilateral cooperation agreement on the construction of the South Stream gas pipeline section in Macedonia. The project is intended to create a favourable environment for designing, building and operating gas infrastructure in Macedonia.

Gazprom and Macedonian Energy Resources - MER should form a joint venture project to build a section of the pipeline, each with a 50 per cent share, if the project is found viable based on analysis being conducted by both parties.

Gazprom would have sole control over the pipeline; the document also locks Macedonia's guarantee not to introduce any limits with regards to capital investments made by Russia into businesses in Macedonia (within the framework of the agreement). Macedonia is also required to facilitate a favourable customs and tax environment for its Russian partners.

Macedonia already uses Russian gas which is accessible to several big companies (however only 130 million cubic meters a year). With the new pipeline, estimates are that by 2030 the country will use 2.5 billion cubic meters of gas.

New Biogas-Fuelled Power Plant

The company Elektro Sharri launched the construction of the first biogas-fuelled power plant with a capacity of 999 kW in north-western Macedonia. The planned annual output of the power plant is 7,950,000 kWh. The power plant should operate on biogas fuel produced from organic waste. The investment of the local company is estimated at EUR 5 million. This private investment is strongly supported by the authorities considering that it is in line with the Government's plan to manage up to 23% of energy needs with renewable resources.

ELEM Launches Construction of 36.8 MWh Wind Park

In May 2013, ELEM the main electricity producer in Macedonia launched the construction of "Bogdanci," the first wind park in Macedonia. It is expected to be operational by the end of 2013. This facility is expected to provide clean energy using wind as the drive force. In the first phase, 16 wind turbines are planned with a total capacity of 36.8 MWh and an annual output of 100 GWh of electricity. At a later stage, the total capacity of the wind park will be increased to 50 MWh by adding more wind turbines. ELEM announced that the facility's capacity is equal to the demand of 15,000 households.

Montenegro

Production of Oil and Gas Tender Announced

The oil and gas market in Montenegro seems to be gaining momentum as, after several years of delays and development of fiscal policy, on 7 August 2013, the Government of Montenegro published the First Round for the Production Concession Contract on "Ulcinj blocks." The First Round includes 13 blocks in the Adriatic Sea covering an area of 3,191 km² of Montenegrin offshore. Tender is expected to attract interest from major international oil and gas stakeholders, as previously 18 major companies expressed interest and visited the data room prepared for the tender.

The exploration of oil and gas in Montenegro offshore dates back to the 1950s with pioneer exploration endeavours by the then-Yugoslavian-now-Croatian company INA, with partners. From that point on, a vast amount of data has been collected and preliminary results indicate that Montenegrin offshore may contain significant reserves of both oil and gas. The deadline for submission of applications/bids expires on 28 February 2014.

Tender for SHPPs Announced

Continuing previous practice and two concluded Tenders, the Government of Montenegro has announced the Third Round Tender for the Construction of Small Hydro Power Plants (SHPP) on Montenegrin streams. The tender was announced on 13 July 2013 whilst the concession agreement and accompanying documents were published day before. In the current Round, eight streams have been put to public offering, three of which have been tendered earlier. All streams are in a northern part of Montenegro. The deadline for the submission of applications expires on 18 November 2013.

In related news, the Government of Montenegro re-negotiated several Concession Agreements earlier this year that were awarded in the first round, while two Concession were revoked due to, as was stated, a breach of contractual obligations by the concessionaires.

Croatia

Plomin C Tender Goes Into Final Phase

The Croatian national electricity company HEP is moving the tender for the construction of the 500 MW coal-fired power plant Plomin C to replace an existing 125 MW plant into a final phase. The local population petitioned the Government to put a referendum to the construction, expressing health and environmental concerns. However, since the matter is under the competence of the Croatian Parliament, the Government rejected the petition in August 2013 and the project was green-lighted to continue.

Initially seven international companies expressed interest, but only four qualified. In the shortlisting procedure Polis POL-MOT exited, therefore after the three final shortlisted bidders, Italian Edison, South Korea KOSEP and Japan's Marubeni submit their binding offers at the end of October, the name of the winning strategic partner will soon be known. The investment value is estimated at EUR 800 million.

The Game for Power Supply is On

Although Croatian energy legislation has allowed for changing electricity supplier for home users since 2008 (from the national incumbent electricity company HEP to alternative suppliers), only very recently has the race for customers gained real traction. Supply operators initiated intense advertising campaigns, claiming up to 30% savings. Though the Croatian regulator issued 15 electrical energy supply licences, the two companies leading the campaign for swapping suppliers are Slovenia's GEN-I and Germany's RWE. User reports claim a 5-8% savings, but cite an inconvenience of having split invoices, as the metering service and distribution fee are still charged by HEP. HEP responded with a proposal to the regulator to allow it a 6% discount on current electricity prices, but the change in laws postponed the decision on the proposal. Alternative suppliers plan to take up to 15% of the customer base in the next three years.

Bosnia & Herzegovina

—Republic of Srpska

The adopted Law on Energy Efficiency aims to attract new investments and improve energy efficiency

By adopting the Law on Energy Efficiency that entered into force on 23 July 2013 (EE Law), the Republic of Srpska (RS) started a long journey towards the implementation of energy

efficiency measures for final consumption that will lead to the reduction of energy consumption, attract new investments and raise awareness on environmental protection. The three most significant measures for improving energy efficiency introduced by the EE Law are energy services, energy management and funds for the use of renewable energy sources for the purpose of upgrading energy efficiency. Under the EE Law, energy savings companies (ESCO) are companies “specialised” in providing energy services. Nevertheless, all other legal entities shall be entitled to provide energy services in accordance with the EE Law.

Distribution system operators, energy distributors and energy suppliers are anticipated to be the mandatory energy service providers (i.e. legal entities that have an obligation to offer energy services to final consumers under competitive prices). The EE Law stipulates that in order to provide energy services, energy service providers shall conclude a written agreement on the provision of energy services with the relevant beneficiary.

The adoption of the EE Law is a major step towards the planned reduction of energy consumption. However, the lack of “operational” bylaws necessary for the implementation of energy efficiency measures, incentives for energy efficiency projects (e.g. the tax deductions) and an unclear system for collection of funds for energy efficiency projects remain a major obstacle to improvements introduced by the law.

—Federation of Bosnia and Herzegovina

New Electricity Law

In July 2013, the FBiH Parliament finally adopted a new Electricity Law (the Law), which was published at the very end of August 2013 in the Official Gazette of FBiH.

The Law is entirely a new enactment, since the previous law regulating this area had been amended numerous times. The solutions provided by the Law are harmonized both with European Union directives and certain provisions of the Electricity Law of the RS.

This Law defines all components of the electric power strategy, which is a first in the Federation, and also what precisely electric power activity is, excluding from it the production of electric power for one’s own needs. The Law prescribes an obligation for electricity entities that perform two or more electricity related activities (or perform additional activity to the electricity activity) to provide for functional unbundling of the performed activities.

In terms of electric power facilities, the decision for construction is now clearly distinguished by the levels of government, depending on the strength of the facility.

The Law also introduces conditions for small customers of electricity, such as households, to become qualified customers that are able to choose the supplier of electricity.

The newly adopted solutions aim to allow for more economical and rational use of electric power and energy efficiency, the introduction of competitiveness, transparency and the prevention of the negative effects of monopolies. The Law also focuses on environmental protection, the protection of interests of the users of the system and the use of the renewable energy sources.

The text of the Law is available at:

http://www.fmeri.gov.ba/systems/file_download.ashx?pg=614&ver=1.

Highly expected RES Law recently adopted

The Law on Renewable Energy Sources and Efficient Cogeneration (the RES&EC Law) was adopted by the FBiH Parliament in July 2013 and published in the Official Gazette of FBiH no. 70/13 in September 2013. This is the first time that planning and incentives measures for the production and consumption of energy from renewable sources and efficient cogeneration (RES&EC) is regulated by a separate law.

As incentives measures, the RES&EC Law provides for number of benefits for producers of electricity from RES, such as: priority in the connection to the electricity grid; priority in the delivery of electricity produced from RES&EC to the grid; the right of a certificate of origin; the right to repurchase produced electricity by the reference price; and other. This piece of legislation also regulates the obligation for end consumers to pay incentives compensation for the production of electricity derived from RES&EC, which will be further established by the Decree on Incentives for Production of Electricity from RES&EC and for Determining Incentives Compensation. This decree should be adopted by the FBiH Government within six months form the entry of this law into force.

Under the law, the Operator for Renewable Energy Sources (RES Operator) is to be established by the end of 2013. RES Operator does not have the status of a supplier and it will be established as a non-profit legal entity for the purpose of creating an institutional structure for the operationalization of the system of incentives for the production and purchase of electricity from plants using RES&EC.

The OIE Operator, will be seated in Mostar and have the following authorities: keeping the Register of Issued Certificates of Origin; keeping the Register of Projects and Plants of RES&EC; concluding agreements for repurchase of electricity at the request of an eligible / qualified / potential producers and in accordance with the law; collecting fees for incentives from suppliers and qualified customers; keeping special transaction account for the calculation and payment of electricity derived from RES&EC; and other authorizations in accordance with the law.

Prior to the adoption of the law, the Government's Decree on the Use of Renewable Energy and Cogeneration (Decree) regulated the renewable energy sources. The Decree was declared unconstitutional in June 2012 for not being adopted by the competent authority and was no longer applicable in 2013. Due to the occurred events, for a couple of months a legal gap was present in the RES sector. For this reason, the adoption of one comprehensive law was highly anticipated, as well as necessary in order to provide guidelines in this sector, especially for investors.

The RES&EE Law came into force on 19th September 2013. However, the commencement of application is postponed for a period of 6 months, i.e. by March 2014. It is expected that within this period the FBiH Action Plan for the RES will be adopted as well.

The text of the law is available at: <http://www.fmeri.gov.ba/zakon-o-obnovljivim-izvorima-energije-i-kogeneracije.aspx>.

Draft Law on Gas

In May 2013, the Federal Government introduced the Draft Law on Gas. The Draft Law governs the organisation and functioning of the natural gas sector, rules and conditions for carrying out energy activities in this sector, planning and development of the natural gas market, market regulation and "unbundling" of the activities.

Other areas of the gas sector to be regulated under this law are third party access, the construction and reconstruction of infrastructure facilities, as well as the technical rules related to the transmission and distribution systems. The Draft Law also stipulates the establishment of the Regulatory Commission, which will take over all the responsibilities, competences and powers of the gas regulator in the Federation.

The gas sector in FBiH is currently regulated by the Decree on the Organisation and Regulation of the Gas Industry Sector of the FBH, which should be superseded by this law upon its enactment.