

ENERGY COMMITTEE

OBJECTIVE 1: DEVELOP ENERGY EFFICIENCY PROJECTS

...BY STRENGTHENING PUBLIC-PRIVATE PARTNERSHIPS

CHALLENGE: The energy efficiency market is still at an early stage of development. With the exception of a few energy performance contracting (EnPC) projects awarded to private investors for street lighting, and a number of larger projects in preparation in major cities (Belgrade and Novi Sad), the public and the private sector are yet to engage in closer co-operation to improve the energy efficiency of public buildings.

No piece of secondary legislation currently governs energy supply contracting (ESC) arrangements, and no ESC model contract has been adopted, which has been creating difficulties (such as with public partners' budgeting procedures).

Other challenges are associated with the limited resources, knowledge, and experience of public partners, which taken together limit their ability to design and deliver these projects. The public sector remains overly cautious when considering prospective projects, and this has been adversely affecting delivery.

RECOMMENDATIONS: Adopt and consistently use new model electricity purchase contracts as envisaged by the Law on Public-Private Partnerships and Concessions.

- **Adopt an ESC model contract** suitable for application to public-private partnerships (PPPs) to ensure that investment in energy efficiency or renewable energy pays off through cost savings for consumers. This model would be based on lower energy prices offered by private partners. In this arrangement, the public partner would reduce costs and in turn benefit from energy efficiency improvements that would remain in effect after the private partner has left the partnership. Comprehensive consultations with stakeholder groups must be performed to ensure that the final model comprises all relevant provisions. That being said, the contracts must be allowed to include arrangements building on those set out in the model.
- Improve implementation of the **EnPC model**, in which remuneration for the private partner depends on the achievement of savings. Engage regional and international experts to **educate public partners** and raise their awareness of procedures, requirements, and effective PPP and concession options. Strengthen exchange of experience between public entities that have entered into energy efficiency PPPs.

CHALLENGE: Approval by the Public-Private Partnerships and Concessions Commission is required for the development of any PPP project. However, in practice the Commission is often unable to provide appropriate support for project design and implementation, as it currently numbers only nine members who all also have other duties as well.

Although the Commission has 90 days to review a prospective private partner's PPP initiative proposal and determine whether it is in the public interest, this time limit is often not respected. The length of time required for the Commission to make decisions has been having an adverse impact on the predictability of the business environment.

RECOMMENDATIONS:

- A detailed assessment is warranted of the composition and duties of the Public-Private Partnerships and Concessions Commission so as to enhance its capacity and expertise (including better understanding of EnPC and ESC arrangements). One option would be to set up a body to assist the Commission assess and evaluate initiatives, which would ensure prospective partners (chiefly in the public sector) receive appropriate technical assistance for designing projects.

- Ensure the Commission adheres to statutory time limits when making decisions whether proposed PPP projects are in the public interest and legislate clear sanctions for breaches.

OBJECTIVE 2: INCREASE PROPORTION OF RENEWABLE SOURCES USED IN ENERGY PRODUCTION

...BY IMPROVING GENERATION CAPACITY AND SUPPORTING SOLAR AND WIND POWER

CHALLENGE: A sound regulatory framework for renewable energy was established in 2016 with the adoption of the Government Order on Recognition as Privileged Producer, Temporarily Privileged Producer, and Producer of Energy from Renewable Sources, Government Order on Incentives for Production of Electricity from Renewable Sources and High-Efficiency Cogeneration Plants, and Government Order on Electricity Purchase Contracts. Amendments to the Government Order on Incentives for Production of Electricity from Renewable Sources and High-Efficiency Cogeneration Plants extended these incentives to 31 December 2019. Nevertheless, Serbia still lacks a plan to stimulate production from renewable sources after 2020: it remains unclear whether the current incentive structure will be retained or the country will move to an auction system. This lack of predictability has been directly responsible for decreased investment in renewable sources of energy, which has kept Serbia away from achieving its obligations related to gross electricity consumption.

Lastly, incentive quotas for wind (500 MW) and solar power (10 MW) have already been used up and are far below what the market demands.

RECOMMENDATIONS:

- **Increase maximum capacity** for eligibility as ‘privileged’ or ‘temporarily privileged’ producer for solar and wind power plants. The decommissioning of large boilers that will inevitably occur as Serbia incorporates EU Directives in this area into its national law will result in the need for allocating maximum capacity for various sources of energy that will emerge as substitutes.
- **Introduce auctions** for exports of electricity from renewable sources (chiefly wind and solar) in accordance with the Energy Community’s current recommendations in this field.

OBJECTIVE 3: ENSURE MARKET-BASED AND PREDICTABLE ELECTRICITY PRICES

...BY ABANDONING ADMINISTRATIVE REGULATION AND PROVIDING GREATER PREDICTABILITY FOR INDUSTRIAL BUYERS

CHALLENGE: There is a lack of true competition in the energy supply market that is caused by excessively low retail prices.

RECOMMENDATION: Abandon administrative regulation of electricity prices whilst introducing safeguards for vulnerable consumers. This would allow new investment and modernisation, enabling coal and electricity production to be restarted.

CHALLENGE: The Serbian national power company (EPS) has been known to raise energy prices for industrial buyers in an unpredictable fashion, which does not allow time for the increased costs to be factored into company budgets.

RECOMMENDATION: The EPS ought to announce any price adjustments for industrial contracts with sufficient advance notice whilst being free to set prices to reflect its actual justifiable costs.

OBJECTIVE 4: PROMOTE USE OF ELECTRIC VEHICLES

CHALLENGE: In spite of recent subsidies from the Green Fund, Serbia lags far behind European countries in terms of electrical and hybrid vehicle registrations and the infrastructure they require (such as charging points). An additional drawback here is that the electricity used to power electric cars continues to be generated from fossil fuels.

RECOMMENDATION: Construct charging point infrastructure for electric vehicles and introduce customs and tax incentives to promote the use of electric and hybrid vehicles in Serbia, whilst simultaneously increasing the proportion of electricity used to power them that is generated from renewable sources. Additional incentives are also needed, including free or discounted parking for electric cars, free or discounted road tolls, and lower registration costs. A Government Order should be adopted to regulate billing of electricity used to charge electric vehicles, with good examples of such rules available from Nordic countries, where the share of electric vehicles in total fleets is the highest.

OBJECTIVE 5: ENHANCE ENERGY SECTOR REGULATION

CHALLENGE: No secondary legislation has been adopted to govern operating reserves, even though these rules are envisaged by Article 345 of the Energy Law.

RECOMMENDATION: Adopt the missing regulations to govern the provision, use, and replenishment of operating reserves.

CHALLENGE: Regulation of explosives and other hazardous substances ought to be brought up to date. The current Law on Explosives, Flammable Liquids, and Gases dates back to 1989; other legislation has since amended or repealed many of its provisions, but explosives have been subject to the same treatment for over 30 years and now warrant updated rules.

RECOMMENDATION: Given the needs of businesses and requirements to align national law with EU regulations, we believe the conditions are now in place to hold a public consultation and subsequently adopt a new piece of legislation and the appropriate byelaws to govern the production and marketing of explosives and other hazardous substances. The Serbian Government's 2020 Work Plan calls for the Government to introduce an Explosives Bill into Parliament at the latest by June 2020. In addition, the explanatory statement accompanying the January 2020 draft Fire Safety Bill noted that 'requirements for aligning Serbian legislation with EU rules as part of EU accession negotiations, including the transposition of the Directive on Explosives for Civil Uses and the Pyrotechnic Directive, have led to the development of a new Explosives Law that will govern only explosives for civil uses and pyrotechnic articles'.