

REFORMS FOR ECONOMIC GROWTH AND BUSINESS RESILIENCE 2022

ENERGY COMMITTEE



AMCHAM SERBIA
A LEADER IN CHANGE

ENERGY COMMITTEE

Stable energy supply is important for further economic development and the current energy crisis just highlights the urgency and gravity of the next steps the Government of Serbia needs to undertake to secure short-term energy availability and stability, while increasing diversification of energy sources and efficiency, and in the medium-term secure effective transition to cleaner and more reliable sources of energy, including renewables.

Securing stable and unobstructed energy supply throughout 2022/2023, while managing prices volatility and increasing energy efficiency is the matter of the utmost urgency and importance for maintaining the economic activity during the current energy crisis. At the same time, it is important to **finalize regulatory framework for attracting investments into renewable energy sector, as the main prerequisite for energy sources diversification** and achieving of optimal energy mix, which should, in the medium-term, support energy supply stability and decrease pressure on price volatility. As it is clear that significant investments are needed in the capacity development of the transmission and distribution power network, as well as hydropower capacities, it is necessary to adopt a credible investment plan for its financing.

OBJECTIVE 1: INCREASE SHARE OF RENEWABLE ENERGY

...BY INTRODUCING A WELL-DESIGNED AND STABLE REGULATORY FRAMEWORK FOR RENEWABLE ENERGY PROJECTS

CHALLENGE: Amendments to the Energy Law and the new Law on Renewable Energy Sources, both adopted in 2021, have improved the statutory framework for the energy transition, bringing it into line with the most stringent European standards. These steps have served as positive signals for investors in renewable energy and have guaranteed the efficiency and transparency of reforms and decarbonisation of the Serbian energy sector. Apart from laying the groundwork for a sound investment climate, this legal framework is expected to bring major benefits to consumers and businesses by reducing the need for imported electricity and increasing market liquidity. No less important is the fact that more renewables in the overall energy mix would positively impact air quality and the environment in general.

Nevertheless, **more than a year after the regulations were adopted, the byelaws for their implementation are still lacking**, which has been delaying renewable energy projects and the development of new generation capacity. Setbacks in enacting regulations have led to significant legal insecurity for investors, which may mean projects are delayed for years and causing the country's power grid to lose out on new megawatts it so sorely needs in this time of energy crisis.

Challenges that pose an obstacle to continuing green energy transition include balancing of electric power generation, construction of additional storage capacity, inadequacy of the high voltage network, multitude of applications for connection to the grid received by the system operator and absence of selective connection arrangements, and limited price incentives for producers to sell electric wind power.

RECOMMENDATIONS:

- **Adopt the Integrated National Energy and Climate Plan** (focusing on the timeframe for development of pumped storage hydroelectric plants and introduction of a carbon tax).
- Adopt a **Government Order regulating conditions for electricity delivery and supply** to streamline the requirements and procedures for connecting new capacity to the grid. This new order should ensure legal certainty for projects already in the process of being connected whilst at the same time making eligibility criteria stricter by preventing abuses (such as by requiring applicants to post collateral to demonstrate serious intent but keeping the amounts involved low enough so as not to pose barriers to entry for new investors).

- Adopt a **Government Order on assumption of balance responsibility and criteria for determining liquidity in the organised intraday market** that will regulate balance responsibility based on market principles (including imbalance buffers and a fixed imbalance fee) during a transitional period in a manner acceptable to both investors and the EPS and EMS.
- **Revise the maximum purchase price for electricity generated by wind farms and adopt prices for solar and other technologies** that will recognise the actual Capex and Opex of these projects.
- Develop a regulatory framework for **large-scale electricity storage facilities** (using batteries, hydrogen, etc.) that will permit rapid permitting for development and construction of this capacity, especially for connecting the facilities to the grid.
- Adopting a **joint decision of the Ministry of Mining and Energy and the Ministry of Finance** on the method of calculating the access price to the distribution system for the prosumers, which would recognize compensation only for the used energy and provide companies with a reasonable return on investment period.

...BY STREAMLINING ADMINISTRATIVE PROCEDURES TO REIGNITE THE GREEN TRANSITION

CHALLENGE: Complicated procedures and excessive administrative requirements often hold back the development of renewable energy projects.

RECOMMENDATIONS:

- **Eliminate the undue administrative burden on renewable energy projects** (such as, for instance, the outdated Cultural Heritage Law, which requires approval for solar power projects even though these investments require no earth-moving).
- **Ensure compliance with time limits in the construction permitting procedure**, including fines and other penalties for permitting officials who fail to adhere to the prescribed timeframes.

...BY ACCELERATING PROCEDURES FOR PUMPED STORAGE HYDROELECTRIC PLANTS

CHALLENGE: The current global energy crisis, which has led to a shortage of electricity and natural gas in the global and the European market and driven prices to unprecedentedly high levels, has highlighted the need to reignite the Bistrica and Đerdap 3 pumped storage hydro plants, projects that are now close to 50 years old.

These pumped storage hydro facilities are very important for the stability of the power grid, not just because they will generate additional power, but also for their ability to balance wind and solar electricity, especially given the high cost of building battery-based storage capacity.

RECOMMENDATION: Accelerate the development of pumped storage hydroelectric plants, which could play a major role in shifting to clean energy. Break down the investment plan into the part that can be financed from international funds, such as the hydroelectric power plant itself, and the part that the state must finance or provide guarantees, such as the dam itself. Current assessments and technical documentation suggest that the Bistrica project is preferable to Đerdap 3. The Bistrica facility will provide flexible generation capacity at the heart of the power grid not only of Serbia but of the region as well.