

**ENERGY SYNOPSIS**

**Business Forum CEE - Balkans**

**Milan – 21 May 2019**

**ALBANIA** ..... 2

**BOSNIA & HERZEGOVINA**..... 9

**BULGARIA** ..... 15

**CROATIA**..... 21

**NORTHERN MACEDONIA** ..... 28

**MONTENEGRO** ..... 36

**SERBIA**..... 43

**SLOVENIA**..... 50

## ALBANIA

### 1. Introduction

To address the main issues affecting the Albanian energy sector and to meet obligations deriving from its international commitments (such as the Treaty establishing the Energy Community), during the last decade the Albanian Government has undertaken several initiatives for the liberalization of the electric energy sector and the increase of the local generation capacities.

Such initiatives include:

- the unbundling from the State power corporation, of a number of functions, including the Transmission System Operator (TSO) and the Distribution System Operator (DSO);
- the introduction of new liberalized rules for the energy market;
- the granting of a significant number of concessions for the erection of new hydropower plants;
- the privatization of a number of state owned hydropower plants;

### 2. Legal Framework

The main law governing the electric energy sector is Law No 43/2015, dated 30 April 2015 (“On the Power Sector” – the Power Sector Law “PSL”).

The PSL provides for roles of the regulatory authorities, scope and limits to market regulation, unbundling and market liberalization, ownership and structure of market players, etc. The PSL aims to create a competitive and liberalised energy market by establishing the Albanian Power Exchange as a day-ahead and energy balancing market.

In addition, renewable energy sources are governed by law No 7/2017 “On the promotion of use of energy from renewable sources” – the Renewable Energy Law “REL”). The REL provides for types of renewable energy sources, technical priorities and incentives for renewable energy producers (defined as “Priority Producers”).

In addition, a number of secondary legislation and regulations have been approved to implement the PSL and REL.

### 3. The Market

#### 3.1 Involved Authorities

With the exception of certain activities, the sector of electric energy sector is substantially regulated. The public bodies involved in the e regulation under the PSL, are:

- The Council of Ministers: it approves secondary legislation and the main energy policies (e.g. energy strategy, market model, etc.);

- The Ministry for Energy (currently the Ministry of Infrastructure and Energy): it drafts energy policy documents and approves those energy policies that are not reserved for approval by the Council of Ministers;
- The Albanian Energy Regulatory Authority (“ERE”): ERE is the regulator of the electric energy sector, having the regulatory powers and competences defined under the PSL. It acts as an independent authority appointed by the Albania Parliament. The role of ERE is to license market operators, approve technical rules (e.g. grid code, meriting codes, market rule, contractual terms for regulated activates), approve the transfer of relevant energy assets, act as adjudicator of certain disputes between market operators etc.). ERE is also involved in providing opinions and comments in policymaking activities of the Ministry for Energy.

Despite certain failures such as the privation of the Distribution System Operator by the Czech company CEZ, such measure have created a lively market, especially in the segment of renewal energy.

### ***3.2 Liberalized and Regulated Activities***

Pursuant the PSL, the activities of Distribution System Operator (DSO) and Transmission System Operator (TSO) are reserved activates. These activities are heavily regulated in all aspects, and are currently performed by the state owned companies mentioned in the above paragraph.

The activity of supply of electric energy is in principle liberalized, and all customers may be supplied with electric energy at market price.

Pursuant the PSL, the universal service supplier (“USS”) has the obligation to meet all of the energy demand of consumers that have not accessed the liberalized supply market (see below), at regulated tariff and regulated cotntractual terms.

A number of high demand customers (consuming more than 50 million kWh/pa) or connected above 0,4 kV (with few exceptions) have the obligation to access the liberalized supply market, and may not be supplied by the USS at regulated tariff, but must instead find alternative qualified suppliers (either OSHEE at market price or other third qualified suppliers).

Households and generally all consumers connected at 0,4 kV (exceptionally including certain customers connected at 10/6 kV) are free to choose the access the liberalized supply market, or continue to be supplied by the USS regulated tariff and regulated cotntractual terms.

As the total number of the customers having the obligation to access the liberalized supply market is not very high, and considering also that that regulated tariff applied by USS is heavily subsidized, there is currently no meaningful competition in household customer supply segment.

The activities of energy generation and trading are substantially liberalized, and there are a number of privately owned, local and international players. With respect to energy generation activates, even though market players are free to sell their energy at market terms, as the majority of current producers are enjoying feed-in tariff incentives, they exclusively sell to OSHEE at regulated price and cotntractual terms. Therefore, a degree of regulation is practically applicable also to generation activities.

### 3.3 Market Structure

The PSL provides for the establishment of the Albania Power Exchange, as an electronic marketplace for electric energy, to be operated by OST. However, at the time of writing, despite the publication of different timelines, different there is no clear date for the start of operations of the power exchange.

Currently, the electric energy market in Albania is dominated by state owned companies, namely:

- **Operatori i Sistemi të Transmetimit (OST)** – OST acts as the Transmission System Operator (TSO), and by owning and operating the transmission network of electric energy. It further acts as operator of the energy market, and will be responsible for the operation of the upcoming Albanian Power Exchange. It also manages the energy balancing.
- **Korporata Elektroenergjetike Shqiptare (KESH)** – KESH is the biggest energy generator in Albania. It owns and operates the majority of the domestic generation capacities. It further acts as main energy provider for USS, at regulated price. It is currently the main provide of balancing services for the TSO. KESH is fully owned by the Albanian government;
- **Operatori i Shpërndarjes së Energjisë Elektrike (OSHEE)** – OSHEE currently acts as the USS of the energy sector, by procuring energy at regulated price and terms from KESH as well as from renewable energy producers (i.e. it is the payer of the feed-in tariff), and by producing the difference in the open market at market terms. It is currently the biggest buyer of electric energy in Albania. OSHEE is fully owned by the Albanian government;
- **Operatori i Sistemit të Shpërndarjes (OSSH)** – OSSH was recently established to act as Distribution System Operator (DSO), by owning and operating the distribution network of electric energy. OSSH is fully owned by OSHEE, and it is current in the process of receiving the full transfer of the distribution network of electric energy form OSHEE. In practice technical functions related to the management and operations of the distribution network of electric energy are still shared between OSSH and OSHEE.

In addition to the above state owned companies, a number of privately owned, local and international investors, are active in:

- **Generation:** mainly hydropower plants under public concession
- **Trading:** mainly on cross-border capacities;
- **Supply:** mainly to the industry and customers of the liberalized supply market

The biggest privately owned electric energy producers currently active in Albania include: Austria's Verbund, EVN, the Norwegian Statkraft, Turkey's Kurum and Ayen Energji.

A number of smaller Italian companies are also active in hydropower generation based on public concessions.

A number of European companies, including the Swiss Axpo, the Slovenian GEN-I, the Danish Danske Commodities, etc. are active in trading activities.

On the side of the generation mix, the entire domestic market is dominated by hydropower generation, in almost 100%. A thermal plant of 98 MW is owned by KESH, but it is currently non-operational.

Moreover, Albania permits imports and exports of energy to/from other jurisdictions. The current available interconnections lines are with Montenegro (220 kV and 400 kV), Greece (150 kV and 400 kV) and Kosovo (220 kV and 400 kV).

Interconnection capacities are auctioned periodically by the TSO, based on the rules of procedure approved by ERE. The parties having been awarded the interconnection capacities are free to price the energy imported/exported.

#### **4. Renewable Energy Investments / Incentives**

##### ***4.1 Investments in Renewable Energy***

Based on the REL, the following non-fossil energy sources are considered as “Renewable Energy Sources”: is energy wind, sun, aerothermal energy, geothermal energy, hydrothermal energy and ocean energy, hydropower, biomass, energy from gas accumulated in landfills, energy from gas accumulated by sewage treatment and biogas.

Based on the REL, all producers of electric energy Renewable Energy Sources, excluding producers from hydropower, with an installed capacity of more than 15 MW, are deemed to be “Priority Producers”.

##### ***4.2 Available Support***

Based on the REL, Priority Producers enjoy the following support:

- Priority Access to the Grid;
- Simplified Grid Connection requirements;
- Issuance of transferrable Certificate of Origin;
- Financial Incentives;
- Temporary exemption from the energy balancing regime<sup>1</sup>.

In addition, the Albanian Law on Strategic Investments (no. 55/ 2015) provides incentives to encourage foreign investments in a number of sectors, including the energy sector.

The Albanian government, through the Albanian Investment Development Agency (“AIDA”), provides effective ways to invest in the country by facilitating or accelerating administrative

---

<sup>1</sup> Until 31 December 2022, or until the full establishment of a balancing marketplace, whichever occurs first.

procedures; “assisted procedures” apply to investments of at least EUR 30 million, while “special procedures” apply to investments of at least EUR 50 million.

### 4.3 Financial Incentives

The current financial support mechanism available is the feed-in tariff system, consisting of a fixed price for kWh of electric energy injected in the grid by Priority Producers, approved by ERE on an annual basis. The feed-in tariff is paid by OSHEE on the basis of a standard power purchase terms approved by ERE, for a period of not more than 15 years.

The feed-in tariff approved by ERE for 2019 all Priority Producers is: 8.4582 Lekë/kWh (approx.. EUR 68/MWh at the current change rate).

The feed-in tariff approved by ERE for small scale photovoltaic plants and wind farms are as follows<sup>2</sup>:

- EUR 100/MWh for photovoltaic plants with installed capacity of up to 2 MW;
- EUR 76/MWh for wind farms of up with installed capacity of up to 2 MW;

Based on the REL, Priority Producers will be financially supported through the mechanism of the Contract for Difference (“Cdf”), by accessing the “renewable energy fund”, to be financed by a specific fee to be applied to the Albania energy consumers and managed by a Renewable Energy Entity.

To receive Cdf financial support consists in a compensation for Priority Producers having accessed the renewable energy fund through competitive procedures, equal to the negative difference between the price offered during the competitive procedure (“bid price”) and the price they are able to achieve in the open market for the sale of the energy they generate (“market price”). Priority Producers must pay to the renewable energy fund the positive difference between the bid price and the market price.

The Cdf financial support will be available for Priority Producers for a 15 years period, or until they have achieved the return on investment, deducted of other eventual received financial support, whichever occurs first.

The Cdf financial support mechanism is expected to become effective following to the 31<sup>st</sup> of December 2020, and the details of the rules for its functioning are not fully in place.

Priority Producers (with the exclusion of small scale generation units, as detailed below), in operation prior to 31<sup>st</sup> of December 2020 will be entitled to continue with the current feed-in tariff support mechanism, or apply for the Cdf financial support mechanism.

The Cdf financial support mechanism will not apply for the following small scale Priority Producers:

- with an installed capacity of up to 3 MW for wind power; and

<sup>2</sup> Note that these are the tariffs for 2018. ERE has already started the process for their update for 2019, but the final tariffs have not been approved to date.

- with an installed capacity of up to 2 MW for all other renewable energy resources;

These small scale Priority Producers will continue to enjoy the feed-in tariff support also after the 31st of December 2020, at the price approved annually by ERE, which shall in no case be lower than the feed-in tariff value for 2016 (equal to 7.448 Lekë/kWh, or approx.. EUR 60/MWh, at the current change rate, which cannot be however be increased with more than 15% of such value).

Finally, the Albanian government offers fiscal incentives to energy investments, in terms of exemption from import VAT (currently at a rate of 20%) on the value of certain fixed assets imported in Albania, as detailed in the applicable exemption rules, in relation to the implementation of investments for a value equal to or exceeding 50 million Lekë (approx.. EUR 400 thousand).

Based on the National Action Plan for Renewable Energy<sup>3</sup>, for the period 2018 – 2020, Albania expects a total increase of installed capacity in REL, of 798 MW, broken down as follows:

- 600 MW in hydro power (with installed capacity of up to 15 MW) –
- 70 MW in wind power;
- 120 MW in solar power;
- 8 MW in *Waste to Energy units*.

## 5. Investment Permits / Protection

### 5.1 Investment Permits

The Albanian legislation does not provide for any specific foreign investment permit – foreign investments are accorded a treatment not less favourable than that granted to Albanian investors.

Foreign investors are generally free to invest in the energy sector, subject to the same regulatory requirements and sector permits applicable to Albanian investors.

Foreign investors are legally allowed to hold 100% of energy projects and are not required to partner with the state or with state-owned enterprises or local enterprises before undertaking projects in the energy sector.

### 5.2 Investment Protection Laws

Based on Albanian law on foreign investments (law no. 7764/1993) foreign investors are granted protection against seizure, confiscation and expropriation. Foreign investors have access to domestic courts, and may submit disputes at the international investment protection fora, such as the International Centre for Settlement of Investment Disputes (“ICSID”), against seizure, confiscation, expropriation and prohibitions on the transfer of profits.

### 5.3 Treaties

Albania is a party to the Energy Charter Treaty (“ECT”) and foreign investments in the Albania energy sector enjoy protection under the terms of the ECT.

<sup>3</sup> Approved by the Council of Ministers with decision no. 179/2018.

#### 5.4 *BiTs*

Albania has entered into a Bilateral Investment Treaties (BiTs) with a number countries, including Italy (effective from 1996). Therefore, investments in the Albania energy sector by Italian investors, as defined under the treaty, will enjoy protection under BiT between Italy and Albania.

### 6. Final Considerations

The renewable energy sector in Albania offers good investment opportunities, with a degree of legal security for foreign investments.

Despite the prominent market position of state owned operators, the internal market is under continues improvement, on both technical and market aspects, and the start of operations of the Albanian Power Exchange, will further improve competition and market conditions.

On the side of risks, policies on energy sector are not always fully clear and may be subject to sudden changes. In addition, it is quite difficult for foreign investors to be successful in front of local courts for claims against public institutions, and addressing claims to international dispute resolution fora offers a higher security.

The enforcement of commercial arbitration awards is possible, but it is actually not easy to foreclose domestic assets of public authorities. Albania generally voluntarily complies with awards of international investment protection for a, such as the ICSID.



## BOSNIA & HERZEGOVINA

### 1. Introduction

Energy sector in BH has huge potentials and opportunities for further development and investment. BH is a member of the Energy Community of SEE established in November 2002 between EU and SEE countries in order to extend the EU internal energy market to South East Europe and beyond.

BH is endeavoured with various indigenous energy recourses, as follows:

- The main energy resource of BH is coal (brown coal and lignite), with estimated reserves of 10 x 10<sup>9</sup> tons
- Only about 35 % of huge hydro potential of over 6000 MW is in use
- According to the extensive researches, there is significant wind energy potential
- Raw material resources for the bio-mass energy are extremely favourable, including approximately 1.5 million m<sup>3</sup> of forest / wood industry residues (all wood waste, sawdust, chips, and chipped technical wood), etc.
- Potential for exploitation of geo-thermal and solar energy are available too, but have not been explored and exploited.

In recent years number of small HPPs were built throughout the country as well as one 300 MW coal fired TPP.

### 2. Legal Framework

BH has a complex multi-level government structure. It is composed of the Federation of BH (the "FBH"), the Republic of Srpska (the "RS"), collectively referred to as the "Entities", and Brcko District. The regulatory authorities in the electricity sector are divided between BH and the Entities. BH level is responsible for the transmission of electricity in the entire territory. The Entities have regulatory powers for the generation, supply and distribution of electricity within their territory. The Entities are also competent for the "green energy" incentives.

The legal regulatory framework in the electricity sector is governed by laws and regulations issued at both BH and the Entities' level.

At BH level, two laws govern the operation of the transmission grid:

- the Law on Transmission of Electricity, Regulator and System Operator; and
- the Law on Founding of Independent Operator for Transmission System.

In the FBH, the Law on Electricity sets the general legal and institutional framework for the generation, supply and distribution of electricity and the framework for construction, use and maintenance of the electricity facilities.

In the RS, the Law on Electricity governs the terms and conditions for the generation, supply and distribution of electricity including the construction of energy facilities and the licensing system. In addition, the Energy Law sets the general legal framework for energy activities in all sectors including electricity.

In addition to the above, there are a number of bylaws, decisions and rules in the electricity sector issued by the governments, independent regulatory agencies and system operators.

Finally, the laws and regulations governing spatial planning, concessions, environmental protection and water management impact the electricity sector, construction and operation of generation facilities.

### 3. The Market

#### 3.1 Involved Authorities

Following complex structure of the country, there are three regulators in electricity sector of in BH:

- the State Electricity Regulatory Commission ("SERC") regulates the transmission of electricity across the entire BH territory and the export of electricity at BH level.
- the Federal Energy Regulatory Commission ("FERC") regulates licensing and the relationships between the generators, distributors and customers in the electricity and oil sector in the FBH electricity sector.
- the Regulatory Commission for Energy of Republic of Srpska ("RCERS") regulates licensing and the relationships between the generators, distributors and customers in the electricity sector in the electricity, gas and oil sectors in RS.

Both entities have their own ministry in charge for the electricity sector:

- the RS Ministry of Industry, Energy and mining in RS; and
- the FBH Ministry of Mining and Energy in FBH.

#### 3.2 Liberalized and Regulated Activities

The electricity market in BH is only partially liberalised.

As of 1 January 2015, all buyers have the status of qualified buyers who are allowed to purchase electricity from any supplier under the market prices, but this practically has not been achieved many opt to be under public service. This is the point at which the full liberalisation of the market is expected.

The functions of transmission and distribution of electricity are legally separated in different public enterprises, but the supply and distribution of electricity are still not unbundled as they are performed by same companies.

Both the supply and generation of electricity are regulated activities and may be conducted upon the issuance of an appropriate licence by relevant regulators (FERC or RCERS), subject to payment of the appropriate regulatory fees.

In the electricity sector SERC, FERC and RCERS issue the following licenses:

- license for transmission of electricity;
- license for the activity of the ISO;
- international trading license;

- license for trade and supply of electricity on the territory of Bosnia and Herzegovina;
- license for construction of the electric power facility which capacity is more than 1 MW;
- license for generation of electricity in the facilities which capacity is more than 1 MW;
- license for distribution of electricity;
- license for supply of tariff customers with electricity.

Only the companies incorporated in BH may hold licences for conducting activities in the electricity sector, including the Generation Licence and Supply Licence. The applicant has to satisfy many requirements, including:

- technical characteristics of the electricity facilities;
- qualifications of the staff;
- financial guarantees for the business operations; and
- the applicant is also subject to requirements imposed by regulations governing concessions, spatial planning, water management and environmental protection.

Tariff regulation competences are also divided between SERC, FERC and RCERS.

SERC is in charge for regulating, approving and monitoring tariffs and tariff methodologies for transmission services, ancillary services and operation of the ISO, as well as supplying electricity customers in Brčko District.

FERC and RCERS are responsible for tariff system for sale of electricity and use of the distribution network.

The proceedings related to the tariffs' development are initiated either by the regulated company or by the regulator itself.

Tariff methodologies basically define the process for determination of tariffs: tariff elements, categories of consumption and groups of customers, method of determination of prices and tariff rates as well as the method of determination of the connection fee.

They define the following:

- classification of costs,
- allocation of costs on tariff elements, categories of consumption and groups of customers,
- determination of prices and tariff rates as well as the fee for connection to the network pursuant to the prescribed tariff methodology.

### 3.3 Market Structure

Major companies active in the electricity market in BH are:

- Independent System Operator ("ISO") is in charge of the transmission grid, provision of ancillary services and coordination of cross-border transmission capacities with operators of the transmission grids in neighbouring countries and it is owned by the RS and the FBH;

- Electric Transmission Company of Bosnia and Herzegovina ("ETC") is in charge of the management, maintenance and improvement of the transmission grid and it is owned by the RS and the FBH;
- Mixed Holding Power Utility of the Republic of Srpska (Mješoviti holding Elektroprivreda Republike Srpske) ("EPC"), joint stock company fully owned by RS, is in charge of the generation, distribution and supply of tariff buyers;
- BH Power Utility (Elektroprivreda BH) ("EPBH"), joint stock company where the FBH Government is major shareholder and is responsible for the generation, distribution, distribution system management and supply of tariff buyers;
- Power Utility of the Croatian Community of Herceg Bosnia (Elektroprivreda Hrvatske zajednice Herceg Bosne) ("EBCCHB"), joint stock company where the FBH Government is major shareholder and is responsible for the generation, distribution, distribution system management and supply of tariff buyers;
- Energy Financing Team ("EFT"), private company which operates newly constructed 300 MW TPP "Stanari" and trades with electricity.

#### 4. Renewable Energy Investments / Incentives

##### 4.1 Investments in Renewable Energy

BH has significant potential for renewables:

- Only about 35 % of huge hydro potential of over 6000 MW is in use;
- According to the extensive researches, there is significant wind energy potential;
- Raw material resources for the bio-mass energy are extremely favourable, including approximately 1.5 million m<sup>3</sup> of forest / wood industry residues (all wood waste, sawdust, chips, and chipped technical wood), etc.
- Potential for exploitation of geo-thermal and solar energy are available too, but have not been explored and exploited.

BH has set the target of 40% of the energy generated from renewables to be in the overall consumption by 2020.

##### 4.2 Available Support

Number of benefits for producers of electricity from renewable sources are available such as:

- the benefits in terms of access to the grid;
- the right to a mandatory purchase of electricity;
- the right to a guaranteed purchase price (feed in tariff); and
- the right to a premium for the consumption of electricity for their own needs or for sale on the market.

End consumers are paying incentives compensation for the generation of electricity derived from renewables.

The legislation further recognize guarantees of origin for energy from renewable sources.

### **4.3 Financial Incentives**

Feed in prices and premiums for electricity generated in facilities that use renewable energy sources or in efficient co-generation facilities are available in both BH entities.

## **5. Investment Permits / Protection**

### **5.1 Investment Permits**

There is no general investment permit nor other requirements such as JV formation with local companies, nor to have a local shareholder on board or local directors.

### **5.2 Investment Protection Laws**

BH Law on the Policy of Foreign Direct Investments ensures:

- National treatment of foreign investors, i.e., foreign investors have the same rights and obligations as residents of BH.
- Foreign investors are entitled to open accounts in any commercial bank in domestic and/or any freely convertible currency on the territory of BH.
- Foreign investors are entitled to freely employ foreign nationals, subject to the labour and immigration laws in BH.
- Foreign investors are entitled to transfer abroad, freely and without delay, in convertible currency, proceeds resulting from their investment in BH
- Foreign investors may own real estate in BH. Foreign investors enjoy the same property rights in respect to real estate as BH legal entities.
- Foreign investors are protected against nationalization, expropriation, requisition or measures having similar effects; such measures may take place only in the public interest in accordance with the applicable laws and regulations and against the payment of an appropriate compensation, i.e. compensation that is adequate, effective and prompt.

The rights and benefits of foreign investors granted and obligations imposed by the law cannot be terminated or overruled by subsequent laws and regulations. Should a subsequent law or regulation be more favourable to foreign investors, the investor will have the right to choose the regime by which the investment will be regulated.

### **5.3 Treaties**

BH has DTTs signed with the following countries

Albania, Algeria, Austria, Azerbaijan, Belgium, Czech Republic, Egypt, Finland, France, Greece, Croatia, Holland, Iran, Ireland, **Italy**, Jordan, Kuwait, Qatar, China, Cyprus, Hungary, Malaysia, Macedonia, Montenegro, Moldova, Norway, Germany, Pakistan, Poland, Romania, Slovakia, Slovenia, Serbia, Spain, Sweden, Sri Lanka, Turkey, United Arab Emirates, United Kingdom and Northern Ireland.

### **5.4 BiTs**

BH has BITs signed with the following countries:

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

Albania, Austria, Belgium and Luxemburg, Belarus, Canada, China, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, **Italy**, Jordan, Kuwait, Lithuania, Macedonia, Malaysia, Moldova, Netherlands, OPEC Fund, Pakistan, Portugal, Qatar, Romania, San Marino, Serbia, Slovakia, Slovenia, Spain, Switzerland, Sweden, Turkey, Ukraine, United Kingdom, USA – OPIC.

## 6. Final Considerations

Why BH generally:

- Strategic location
- Available natural resources and beauties
- Long tradition in different industry branches
- Abundance of industrial zone, attractive sites and available production facilities
- Favourable legal environment
- Low tax rates

## BULGARIA

### 1. Introduction

The main progress in the electric energy sector is the liberalization of the electricity market in Bulgaria which is carried out in compliance with the requirements of the EU legislation. In practice, liberalization of the electricity market takes place step by step in order to create conditions for competition between electricity producers and the freedom for consumers to choose their supplier.

### 2. Legal Framework

The main acts governing the electric energy sector are as follows:

Energy Act (prom. SG, issue 107 from 09.12.2003, last amendment prom. SG, issue 103 from 13.12.2018) – “EA”;

Energy from Renewable Sources Act (prom. SG, issue 35 from 03.05.2011, last amendment prom. SG, issue 91, 02.11.2018) – “ERSA”;

In addition, a number of secondary legislation and regulations have been approved to implement the EA and ERSA, including Electricity Market Rules issued by the Energy and Water Regulatory Commission, Power Exchange Operational and Trading Rules issued by the Bulgarian Power Exchange Operator - IBEX.

### 3. The Market

#### 3.1 Involved Authorities

The energy policy of the Republic of Bulgaria is performed by:

- **the National Assembly;**
- **the Council of Ministers;**
- **the Ministry of Energy.**

Upon proposal of the Council of Ministers, the National Assembly adopts the Sustainable Energy Development Strategy of the Republic of Bulgaria, which specifies the basic targets, stages, means and methods for energetic development. The Council of Ministers manages the energy policy of the Republic of Bulgaria in compliance with the Strategy adopted by the National Assembly. The Ministry of Energy is the responsible institution at national level for the implementation of the Energy Strategy of the EU.

The regulation of the activities in the energy sector is performed by:

- **Bulgarian Energy and Water Regulatory Commission (EWRC)** - public independent administration body responsible for the licensing and supervision of electricity, natural gas and water utilities companies; setting regulated prices along the energy value chain for natural gas and electricity; monitors the progress and development of the liberalised markets.

### 3.2 Liberalized and Regulated Activities

The prices in the energy sector are subject to regulation by the EWRC. Transactions at regulated prices are concluded between:

- the producers and the end suppliers or the public electricity provider for the quantities of electricity specified by the Commission;
- the public electricity provider and the end suppliers with reference to quantities of electricity specified by the Commission;
- the end suppliers and household and non-household end customers- with reference to sites connected to the electricity distribution network at low voltage, when these customers have not selected another provider.

Transactions at freely negotiated prices may be concluded between electricity producers including producers of energy from renewable sources for respective quantities specified in ERSA, electricity traders, the providers of last resort, the operator of the stock market of electricity balancing, co-ordinators, end-users and transmission and distribution system operators to offset the technology costs of transmission, respectively distribution.

Pursuant to the Energy Act, traders of electricity are licensed entities which can (i) purchase electricity from power plants or other traders; (ii) sell to other traders, to end-customers (both industrial and households), or on the power exchange IBEX; and (iii) export from or import electricity into Bulgaria.

Trading with electricity is currently performed both under bilateral contracts and on the IBEX. IBEX is experiencing a growth both in terms of participants and traded volumes.

- **Elimination of electricity export tax**

At the beginning of April 2019, the Bulgarian Parliament adopted at first reading the amendments to the Energy Act, which are expected to enter into force on 1 July 2019 where expected change is the abolition of the electricity export tariff. Bulgaria is the only country in Europe that still charges fees on its export electricity.

The fee is approximately 5 EUR excluding VAT for each MWh transferred. It is charged as transmission and access to the grid, but essentially it is a tax on electricity paid by the exporter and not by the final customer.

- **Cooperation with other markets**

Market unification with countries from Southeast Europe is expected to stabilize prices on the IBEX. To this end, the IBEX has been in dialogue with all neighbouring markets – Romania, Serbia, Croatia, Macedonia, Greece and Turkey.

At the beginning of 2019 the participants in the project for the trilateral union of the “Day-ahead market” - Bulgaria, Serbia and Croatia, met with the goal of uniting and operating together, bringing long-term positive effects to all market participants and consumers within the initiative.

Furthermore, the European Energy Exchange (EEX) entered into a cooperation agreement with the IBEX in order to expand its product range on the derivatives market with new energy

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA



futures. On 3 June 2019, cash-settled Bulgarian power futures will be launched on the EEX portfolio.

### 3.3 Market Structure

There are 3 distribution network operators operating in the country - CEZ, EVN and Energo-Pro.

Czech energy group CEZ has started exclusive talks over the sale of its assets in Bulgaria with financial and insurance group Eurohold Bulgaria.

The Bulgarian electricity transmission system operator is **Electricity System Operator EAD (“ESO”)** established on 4 April 2007 as a subsidiary of the National Electricity Company (“NEK”). On 4 February 2014, the unbundling of ESO from NEK went through its last stage in line with the Third Liberalization Package. This has been the final step needed to reach compliance with Directive 2009/72/EC and the national legislative provisions. ESO is responsible for the common operational planning, coordination and control of the Bulgarian power system and its parallel synchronous operation with neighboring systems. Its purviews also include transmission grid operation, maintenance and reliable functioning, auxiliary network servicing, as well as maintenance and repair services in the energy sector. It also manages the power transit through the national grid and runs the electricity market.

**The Bulgarian Power Exchange for electricity is Independent Bulgarian Energy Exchange EAD (IBEX)** - established January 2014, as a fully-owned subsidiary of the Bulgarian Energy Holding EAD. IBEX holds a 10-year license (№ JI-422-11) by the EWRC for organizing a Power Exchange for electricity in Bulgaria. IBEX works to establish and develop organised electricity market in Bulgaria based on transparent and non-discriminatory principles. IBEX is a full member of the MRC (Multi-Regional Coupling), as well as an associated member of the PCR (Price Coupling of Regions). Since January 2016, IBEX EAD has been a full member of the association of European energy exchanges EUROPEX. As of 15 February 2018 Bulgarian stock exchange AD is the sole owner of the shareholder’s capital of Independent Bulgarian energy exchange (IBEX) EAD.

There are around 150 licensed electricity traders in Bulgaria. After an initial intensive growth between 2013 and 2016 their number seems now stabilised.

The country is a net electricity exporter (mainly to Greece, Romania and Serbia). More than 50% of the coal used in the lignite power plants is imported from Russia as well as all of the nuclear fuel supplying the two active reactors VVER-1000 of Kozloduy power plant.

## 4. Renewable Energy Investments / Incentives

### 4.1 Investments in Renewable Energy

Pursuant to ERSA “Renewable energy” is the energy from renewable non-fossil sources: wind, solar, energy stored in the form of heat in the ambient air - aerothermal energy, energy stored in the form of heat under the surface of the solid soil - geothermal energy, stored in the form of heat in surface water - hydrothermal energy, ocean energy, hydropower, biomass, renewable gas, landfill gas and waste gas treatment plant.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAIN

Each EU Member State has its own 2020 renewable energy target, taking into account the Member States' different starting points, renewable energy potential and economic performance. Among the 28 EU Member States, 11 have already reached the level required to meet their national targets. Bulgaria is one of them.

#### **4.2 Available Support**

From July 1, 2018, the electricity market was further liberalized: All generators with installed capacities above 4 megawatts, who used to benefit from preferential prices and long-term contracts (such as renewable energy sources and highly efficient cogeneration plants), are obliged to sell electricity on the free market.

- **Drive for full liberalization of the energy market**

At the beginning of April 2019, the Bulgarian Parliament adopted at first reading the amendments to the Energy Act, which are expected to enter into force on 1 July 2019. They will require all producers with a capacity from 1 MW to 4 MW to sell their electricity on the free market.

There are 372 plants ranging between 1 MW and 4 MW, half of which are solar, with a total installed capacity of 750 MW. Until now, their electricity has been bought by the National Electricity Company (NEK) and sold on the regulated market.

Under the new law, producers in the range 1-4 MW will switch from preferential prices to a different feed-in tariff structure. They will sell the produced energy at market prices on the IBEX and be compensated for the difference between the market price and the preferential prices granted in 2010, 2011 and 2012 (premium compensation). The premium compensation will be paid out by the special State Energy Security Fund. The changes provide for the granting of a premium on a competitive basis.

It is expected that the IBEX will significantly increase its liquidity, which will inevitably solve one of the main current issues highlighted by the business – insufficient electricity and high prices.

#### **4.3 Financial Incentives**

- **Feed-in tariff.**

Energy from Renewable Sources Act (ERSA) is the statutory basis for the feed-in tariff, which is the main element of the Bulgarian support system. The ERSA also establishes an obligation to purchase and dispatch electricity from renewable sources.

As of 1 July 2018, the statutory obligation of NEK and the other off-takers to purchase the energy output of RES producers under FiTs is terminated. RES producers, which enjoyed PPAs and FiT are offered to execute Premium contracts with the Electricity System Security Fund (ESSF).

- **Premium tariff.**

RES producers with a total installed capacity of at least 4 MW are obliged to sell their electricity on the exchange. The electricity trade takes place only on an organized stock market,

except when a producer supplies its own electricity branches, businesses and sites or supplies an object of a client through a direct distribution line. The producers may also sell their electricity through a coordinator of a balancing group.

All power plants using renewable energy with an installed capacity of 4 MW and higher should sign contracts with the Electricity System Security Fund (ESSF) on the granting of a premium to offset the difference between the stock price and the price in the long-term contracts that RES producers have with the National Electricity Company (NEK).

Feed-in tariff is applicable to new roof top or facade photovoltaic installations with a maximum installed capacity of 30 KW and to certain installations using combined cycle and indirect use of biomass.

The connection of renewable energy plants to the grid is subject to the provisions of the general legislation on energy. Renewable energy is not given priority access.

The use of renewable energy for heating and cooling is promoted through a subsidy from the European Regional Development Fund, several loan schemes and through an exemption for building owners from property tax.

## **5. Investment Permits / Protection**

### **5.1 Investment Permits**

The Bulgarian legislation does not provide for any specific foreign investment permit. Foreign investors are generally free to invest in the energy sector subject to the same regulatory requirements and sector permits applicable to Bulgarian investors. There is no requirement to have a local shareholder on board, or to appoint local representatives.

### **5.2 Investment Protection Laws**

Based on Investment Promotion Act reassurance of investments referred to in this Act is done by:

- administrative services in shortened period of time and individual administrative services;
- sale or required establishment of a limited real rights on private property or private municipal property, without auction or competition at market or lower prices;
- sale or required establishment of limited real rights on lands without auction or competition at market or lower prices with built technical infrastructure of public property;
- financial assistance for construction of elements of technical infrastructure;
- financial assistance for training for acquiring of professional qualification;
- financial assistance for partial reimbursement of contributions paid by the investors in their quality as employers for mandatory social contributions for the state social security, additional mandatory pension insurance and for mandatory health insurance for the newly appointed employees in relation with the realization of the investment project;
- opportunities for using other forms of state aid, institutional support or the establishment of joint companies for priority investment projects;

- different types of transactions concluded between the investor and a trading company established in order to build and develop industrial areas.
- tax relief under the Corporate Income Tax Act.

Should an international treaty where to the Republic of Bulgaria is a party provide more favourable terms for the conduct of business by non resident persons, the more favourable terms shall apply as provided by the said international treaty.

### **5.3 Treaties**

Bulgaria is a party to the Energy Charter Treaty (“ECT”) and foreign investments in the Albania energy sector enjoy protection under the terms of the ECT.

### **5.4 BiTs**

Bulgaria has entered into a Bilateral Investment Treaties (BiTs) with a number countries, including Italy (effective from 1990). Therefore, investments in the Bulgaria energy sector by Italian investors, as defined under the treaty, will enjoy protection under BiT between Italy and Bulgaria.

## **6. Final Considerations**

Bulgaria plays a vital role in European energy security. Despite having limited reserves of coal, oil and gas, the country has a well developed energy sector. It is a major exporter of electricity to Southeast Europe, generated mainly by thermal, nuclear and hydropower plants. Bulgaria is a key transit route for oil and gas pipelines, which is of crucial importance to the Balkans and Southeast Europe as a whole. Bulgaria has also shown its capacity to become a leading generator of power from renewable sources, especially wind.

The main issues that face the free electricity market in Bulgaria are low liquidity, price volatility, and lack of integration with neighbouring markets.

Bulgaria is expected to adopt the final version of its Integrated National Energy and Climate Plan by 31 December 2019, as required by the Energy Union Governance Regulation, with an overview of investment needs for the different dimensions of the Energy Union until 2030. Having this strategy in place would help improve long-term predictability for investors and eliminate uncertainty.

## CROATIA

### 1. Introduction

There have been several key changes in Croatia over the past years that need to be considered by project developers and other participants in the electric energy sector. The most significant are:

- Electricity market development and market liberalization in the context of opening of the market;
- Consolidation of the Croatian legislation in the field of renewable energy and harmonisation of the Croatian legislation with the EU legislation;
- Change in Renewable energy support schemes;
- Introduction of the Croatian Power Exchange;
- Stimulation of international cooperation in the field of renewable energy.

### 2. Legal Framework

The most important laws regarding the Electricity Sector in Croatia are the following:

- Energy Act (*Zakon o energiji*, Official Gazette Nos. 120/12, 14/14, 95/15, 102/15, 68/18);
- Act on the Regulation of Energy Activities (*Zakon o regulaciji energetske djelatnosti*, Official Gazette No. 120/12);
- Electricity Market Act (*Zakon o tržištu električne energije*, Official Gazette Nos. 22/13, 95/15, 102/15, 68/18);
- Renewable Energy Sources and High Efficient Cogeneration Act (*Zakon o obnovljivim izvorima energije i visokoučinkovitoj kogeneraciji*, Official Gazette No. 100/15, 123/16, 131/17, 96/18, 111/18).

Since its enactment, the Renewable Energy Sources and High Efficient Cogeneration Act (“Renewables Act”) has been and still is a hot topic in Croatia. As of 1 January 2019, the premium model started to be implemented whereby the existing feed-in tariff beneficiaries continued to benefit from regulated prices based on their respective power purchase agreements.

As a matter of balancing policy, the ECO Balance Group members will be obligated to pay fees for balancing expenses, for the purpose of creating an economically fair relation between producers under the feed-in as compared to the premium model, thereby incentivizing future market participants to enter the finally implemented premium/market model.

Further, new tender rules for the award of a market premium and for incentives through a guaranteed offtake price for the small installations of less than 500 kW are aimed at addressing transparency points for future market participants (i.e. project holders).

Finally, the Act foresees publicly available Register of Projects, Project Holders and Preferential Producers of Electrical Energy from Renewable Energy Sources and High Efficient Cogeneration providing an overview of existing projects, obtained licenses and an updated status on quotas.

In addition to the above, a number of secondary legislation in the form of ordinances, rules, regulations and decision are on force.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

### 3. The Market

#### 3.1 Involved Authorities

The authorities involved in regulation of energy sector in Croatia are the following:

- The Croatian Parliament is responsible for enactment of the Strategy for Development of Energy Sector, representing a fundamental document defining Croatian energy policy for the period of ten years. Since the current Strategy has been enacted in 2009, a new Strategy is expected in the course of 2019;
- The Government of the Republic of Croatia is responsible for creating and proposing to the Croatian Parliament the Strategy for Development of Energy Sector, it creates National Action Plan for Renewable Energy, National Action Plan for Energy Efficiency and other documents under the applicable legislation;
- The Ministry of Environmental Protection and Energy supervises the implementation of energy legislation and is responsible for legislative proposals in the field of energy;
- HERA (“Croatian Energy Regulatory Agency”) is the regulator of energy activities in Croatia, having regulatory powers as defined under the Act on the Regulation of Energy Activities. The responsibilities of HERA include licensing, supervision, responsibility for tariff and price determination, participation in legislative process and in creation of secondary legislation.

#### 3.2 Liberalized and Regulated Activities

The organisation of the electricity market model, electricity transmission and distribution are regulated activities performed by system operators, while electricity production, electricity supply and electricity trade are liberalised activities freely performed by entities subject to fulfilment of all legislative requirements.

- HROTE (Croatian Energy Market Operator) performs activities of organizing electricity and gas market as a public service, under the supervision of HERA. In addition, HROTE performs activities in system for incentivizing electricity production from renewable sources and cogeneration.
- HOPS (Croatian Transmission System Operator) is responsible for electricity transmission, maintenance, development and construction of the transmission system, and power system control and is the only operator of the power transmission system in the Republic of Croatia and owner of the entire Croatian transmission network (voltage level 400kV, 220kV and 110kV), and has the license to carry out the energy transmission activity of electricity as a regulated public service.
- HEP-ODS HEP-Distribution System Operator is the only entity responsible for electricity distribution, maintenance, development and construction of the distribution system in Croatian.

Electricity production, supply and trade are liberalised activities, subject to obtaining a valid licence issued by HERA. According to publicly available data, there are nine electricity suppliers currently operating on the Croatian market, whereas there are nineteen electricity traders.

Finally, end-customers are free to choose suppliers by entering into contracts for electricity supply, which are typically in the form of take-it-or-leave it contracts (retail).

### 3.3 Market Structure

Market participants in the Croatian electricity market are:

- Producers;
- Suppliers;
- Traders;
- the Croatian Power Exchange (“CROPEX”);
- end-customers.

Each producer, supplier or trader must have a wholesale licence or other relevant licence issued by HERA.

CROPEX, co-owned by HROTE and HOPS was established in May 2014 and acts as a central clearing party between the buyers and the sellers of electricity. CROPEX acts as a Central Counter Party between sellers and buyers of electricity and takes the risks of buying and selling electricity for all day-ahead and intraday trades concluded on the trading platform.

Current members of the Croatian Power Exchange are nineteen companies, including Enel Global Trading S.p.A., RWE Energija d.o.o., HEP d.d., Energi Danmark A/S, Centrica Energy Trading A/S etc. A full list of electricity traders is available on the following link <https://www.cropex.hr/en/membership/members.html>.

According to publicly available data, the structure of electricity generated in Croatia divided by sources in Croatia for **2017** was as follows:

- Renewable Energy Sources 64%
- Fossil Fuels 33%
- Unspecified Renewables 3%

## 4. Renewable Energy Investments / Incentives

### 4.1 Investments in Renewable Energy

On 31 December 2019, the following structure of renewable energy projects, having status of eligible producers and thereby benefiting from incentives are in the operational phase in Croatia:

Technology	Preferential producers (number)	Installed capacity (kW)
Wind	21	555.800

- WWW.GRIMALDILEX.COM
- INFO@GRIMALDIALLIANCE.COM

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA



Solar	1.229	52.434
Hydro	13	5.785
Biomass	28	58.329
Biogas	37	40.732
Cogeneration	6	113.293
Wastewater treatment plants	1	2.500
<b>Overall</b>	<b>1.335</b>	<b>828.873</b>

*Source: Annual report issued by HROTE, dated February 2019, available at: [https://files.hrote.hr/files/PDF/OIEiK/GI\\_2018\\_HROTE\\_OIEiK\\_verzija\\_za\\_WEB.pdf](https://files.hrote.hr/files/PDF/OIEiK/GI_2018_HROTE_OIEiK_verzija_za_WEB.pdf)*

Based on the data published by HROTE, by the end of December 2018, 2.482.533.220 kWh had been produced by eligible producers in Croatia, whereas the eligible producers' installed capacity amounted to 828,873 kW. In total, in Croatia 1,335 power plants have been operating and are in the incentive system.

Furthermore, on 31 December 2018, there were 49 additional power purchase agreements, having overall connection power of 240.923 kW, concluded between HROTE and project holders that are still in the phase of acquiring preferential producers' status.

Should the current projects under development be realized, additional 49 projects with the installed capacity of 240.923 kW will start with operations (mainly wind generation). With the current energy legislation, the legislator clearly opted for a forward-looking approach in regard to new investments (after a two-year on-hold status). It is to be seen if the amendments from 1 January 2019 a driver for new renewable energy development projects in Croatia will indeed be.

#### **4.2 Available Support**

In Croatia, renewable energy generation is currently supported through a premium model and (for installations of less than 500 kW) fixed feed-in tariff allocated through tenders.

Additionally, the Croatian Bank for Development and Reconstruction (HBOR) and the Environmental Protection and Energy Efficiency Fund (FZOEU) provide financial incentives for certain types renewable energy projects.



### 4.3 Financial Incentives

The Renewable Energy Act provides for a premium model of financial incentive introduced by the previous version of the Act (entered into force on 30 December 2016) replacing the so far existing feed-in tariff system.

While the feed-in tariff system established a fixed power purchase price during the term of the concluded power purchase agreement subject to marginal annual adjustments, the newly introduced premium model provides a variable and market-oriented market premium to be paid to incentivized eligible producers.

A premium represents an amount, which HROTE pays to a producer for net electrical energy delivered by a producer into the grid. Premiums are determined on the basis of the difference between the reference value of electrical energy, which reflects the production costs and which is to be determined in the contract on the market premium and the reference market price which will be determined annually.

HROTE will be conducting a regulated tender process for the award of a market premium, provided that there is available quota and a tender for incentives through a guaranteed offtake price for power plants with up to 500kW connection power.

**It is expected that the first such tender should be conducted within the first six months of 2019.**

The tender process rights and obligations are in detail regulated by the Regulation on Incentivizing Production of Renewable Energy Sources and High-Efficient Cogeneration (as well as the essential terms of the Market Premium Agreement to be concluded with the awarded eligible producers).

Entities who already concluded a power purchase agreement based on the previous feed-in tariff models and are thereby benefiting from the preferential purchase price under the existing tariff models are not entitled to premium incentives and are still within the scope of “old” system.

The Act provides for obligations of electrical energy suppliers to purchase 70% of the electrical energy in the net delivered electrical energy by the incentivized eligible suppliers of electrical energy for a regulated offtake price of HRK 0.42 kWh.

The ratio (currently 70% / 30%) is variable and determined by the Croatian Government, which is to be adopted by each 31 October of the current year for the coming year.

The remaining share in the net delivered electrical energy, to be sold on the market, equals the difference between the production plan of the (mandatory) EKO Balance Group and part of the electrical energy which the suppliers are obligated to offtake.

Further, when determining the aforementioned share of each individual supplier, HROTE shall distinguish plants using renewable energy and electrical energy produced from high-efficient cogeneration plants.

## 5. Investment Permits / Protection

### 5.1 Investment Permits

The Croatian legal framework on foreign investment has been designed under the principle of equal treatment of domestic and foreign investors. All possibilities in relations between domestic investors are also available to foreigners investing capital in Croatia, provided reciprocity principle is met.

In addition to horizontal legislation, foreign investments in Croatia are principally regulated by the Investment Promotion Act which entered into force in 2015 and has subsequently been amended in 2018 and by the Act on Strategic Investment Projects.

The Investment Promotion Act foresees the following incentive measures:

- Tax incentives;
- Employment incentives;
- Incentives for education and training;
- Incentives for investments in development and innovation activities;
- Incentives for the capital expenses of investment projects;
- Incentives for labour intensive investment projects;
- Incentives for investment projects through economic activation of inactive property owned by Croatia.

### 5.2 Investment Protection Laws

The Croatian Constitution provides that no law or other legal document shall reduce the rights granted to a foreign investor at the time of investment in Croatia. It also guarantees the free repatriation of profits or capital upon fulfilment of all legal obligations.

### 5.3 Treaties

Croatia is a contracting party to the Energy Charter Treaty.

The Energy Charter Treaty (ECT) sets forth standards of protection guaranteed to foreign investors by the ECT States members. The ECT provides for a very broad spectrum of standards of investment protection: fair and equitable treatment; most constant protection and security; prohibition of unreasonable or discriminatory measures; „umbrella clause”, national treatment; most favoured-nation standard and effective means to assert the claims.

### 5.4 BiTs

Croatia has entered into Bilateral Investment Treaties with number of countries, including Italy.

However for the investments domiciled in EU development and impact of the ACHMEA case needs to be taken into the account when assessing the provisions of BiTs

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

## 6. Final Considerations

Croatia is small, incumbent dominated, traditionally renewably rich (hydro and wind) energy market with the strong security of supply and interesting cross-border transmission capacities. With the newest legislation implementation, regulatory framework is strongly harmonised with EU standards, which shall lead to the development of the more efficiency driven investments, development of the short-term markets, and introduction of the additional advanced features of the transmission system providing positive climate for additional investments.

## NORTH MACEDONIA

### 1. Introduction

North Macedonia has signed and ratified the Agreement of the Energy Charter, the Energy Community Agreement, the United Nations Framework Convention on Climate Change and the Kyoto Protocol. According to the Energy Community Agreement North Macedonia harmonizes its national legislation with the existing legislation of the European Union (*Acquis Communautaire*) on energy, environment, competition, renewable energy sources, energy efficiency and oil reserves.

The strategic commitments of North Macedonia in the energy sector, including the commitment to harmonize with the *Acquis Communautaire*, have been incorporated in the new Energy Law in force as of June 2018.

Currently, the main source for production of electricity is coal, but considering the great renewable energy potential that the country has, as well as the modern trends in electricity production, the country is strongly engaged in shifting to renewable energy sources (“RES”).

The goal is increasing of the domestic power production by putting into function of all available capacities and using of all natural energy potential.

In the past years the focus was mainly on small hydropower plants and the period to follow will be marked with focus on solar and wind energy.

### 2. Legal Framework

**Energy Law:** The main law governing the energy sector is the Energy law adopted in 2018, brought about for the purpose of harmonization with the *Acquis Communautaire*. The law implements the EU’s Third Energy Package. It focuses on liberalization of the energy market and increasing of renewable energy sources market share, as the Government will undertake the task to maximize their use. It transposes the provisions from the EU Directive on renewable energy sources that refer to statistical transfers, common projects and coordination of the measures for support with countries from the European Union and third countries. Additionally, the law improves the licensing terms. Thereby, the participation on Macedonian energy market has been simplified for traders and suppliers with electricity and natural gas, who hold licenses issued from countries that are parties/participants in the Energy Community Treaty. Such traders and suppliers will be able to participate on the market without the need to obtain Macedonian license, rather, they are given the possibility for performing of the same energy related activities on Macedonian market, by simple registration, through application of the reciprocity principle.

Additionally, a new **Law on energy efficiency** is pending for adoption in the next few months. The draft law is awaiting parliamentary debate and adoption. This law transposes Directive 2012/27/EU on energy efficiency and Regulation 2017/1369 setting a framework for energy labelling.

### 3. The Market

#### 3.1 Involved Authorities

**Ministry of economy** – department of energy has general competence for all energy and energy efficiency related matters

**Energy Agency** – Government agency supporting the government in the implementation of its energy policies through the development of energy strategies, development plans and programs, with a special focus on energy efficiency and utilization of renewable energy sources

**Energy Regulatory Commission** - takes care of secure, continuous and appropriate energy supply; takes care of promoting a competitive energy market; prescribes conditions for supplying certain types of energy; prescribes a methodology for the establishment of prices for certain types of energy; prescribes tariff systems for certain types of energy, makes decisions on the prices of certain types of energy, in accordance with the Methodology for Pricing, Tariff Systems of Certain Types of Energy and other legal regulations; issues, modifies, revokes and monitors the execution of licenses for performing certain activities in the field of energy; prescribes rules for connection of energy networks; takes care of advancing the protection of the rights of energy users; initiates adoption of laws and other regulations in the field of energy; participates in the resolution of disputes and proposes measures in relation thereto; submit a proposal to the competent bodies for taking measures in accordance with their competence and in a procedure prescribed by law to the entities that perform the activity contrary to this Law; adopt the Rules of Procedure and other acts of the Regulatory Commission and perform other activities determined by law.

**Electricity Market Operator / Transmission System Operator (MEPSO)** - MEPSO is in charge of providing unobstructed transmission of electricity through the high voltage network and regular and timely electricity flow to its customers: direct consumers (Bucim, OKTA, Makstil, Archelor Mittal, Jugohrom Ferroalloys, Skopje alloys, Feni Industries, Macedonian Railways) and to the distribution networks of EVN Macedonia and ELEM Energetics.

The two key functions of MEPSO are transmission of electricity and management of the electrical energy transmission system.

**Distribution System Operator (EVN Macedonia)** - EVN Macedonia is a company whose main activity is distribution and supply of electricity to end consumers.

#### 3.2 Liberalized and Regulated Activities

Regulated activities:

- transmission,
- distribution,
- supply of tariff consumers and

- market operation

Liberalized activities:

- trade
- supply
- generation

The activity of supply of electric energy is in principle liberalized, and all customers may be supplied with electric energy at market price.

Tariff consumers that have not selected to enter the open market are eligible to be supplied at the tariff market by the universal supplier – EVN Home. Eligibility depends on criteria such as having less than 50 employees on average in the last two fiscal years and has less than 2 million EUR annual revenues.

Households are eligible to be supplied at the tariff market by the universal supplier – EVN Home and still have the benefit of a subsidized tariff for electricity.

### 3.3 Market Structure

The electricity market in North Macedonia is dominated by state owned companies, namely:

- **Macedonian Transmission System Operator (MEPSO)** acts as the Transmission System Operator (TSO), owning and operating the electricity transmission network. It further acts as operator of the electricity market, and manages the electricity balancing.
- **ELEM – the state owned Power Generation Utility.** It owns and operates the majority of the domestic generation capacities (it is expected for ELEM to be privatized in the near future);
- **EVN Macedonia – Distribution System Operator,** by owning and operating the distribution network of electric energy.

In addition to the above state owned companies, a number of privately owned, local and international investors, are active in:

- **Generation:** one large natural gas fired CCHP and hydropower plants under public concession
- **Trading:** mainly on cross-border capacities;
- **Supply:** mainly to the industry and customers of the liberalized supply market

#### 4. Renewable Energy Investments / Incentives

##### 4.1 Investments in Renewable Energy

The Registry of power plants for RES electricity production in North Macedonia currently records a total of 186 RES power plants, with installed capacity of 132,88 MW and planned annual production of 439.973MWh. Out of these, 102 are photovoltaic power plants, with installed capacity of 16,71 MW and planed annual production of 21.411 MWh; 80 are small hydro power plants, with installed capacity of 72,36 MW and planed annual production of 259.969 MWh; there is 1 windfarm, with installed capacity of 36,8 MW and planed annual production of 100.000 MWh; and 3 biogas plants, with installed capacity of 6,999 MW and planed annual production of 58.592,8 MWh.

Nevertheless, North Macedonia still has a great unutilized potential of RES. The unutilized potential of RES that can be realistically used by 2030 is as follows:

Electricity generation from RES:

- Large hydropower plants - 1260 GWh/year
- Small hydropower plants - 620 GWh/year
- Wind power plants - 720 GWh/year
- Photovoltaic - 80 GWh/year
- Biogas from biomass - 45 GWh/year
- Waste biomass and other waste - 70 GWh/year
- Total electricity from RES - 3795 GWh/year

Heat production from RES:

- Biomass - 860 GWh/year
- Heat from solar power - 155 GWh/year
- Geothermal energy - 550 GWh/year
- Total heat from RES - 1565 GWh/year

Biofuels in traffic:

- Total biofuels in traffic - 1900 GWh/year.

The total unused potential from RES that can be used by 2030 is 7260 GWh/year. This RES potential enables an increase of the share of RES in the final energy consumption up to 21% in 2020 and 27.6% in 2030.

The percentage share of RES in the electricity generation can increase from 20% in the past period, to about 25% in 2020 and to about 30% in 2030.

In addition to the above mentioned values, one may expect an increase in the utilization of the insufficiently researched geothermal energy potential for production of heat and electricity, as well as the additional increase of the potential of biomass for energy purposes.

The investment opportunities in RES in North Macedonia are expected to be top topic in the period to follow. There is already an increased interest of donors and credit lines.

#### ***4.2 Available Support***

The producer of electricity from renewable sources, who according to the Energy Law and the regulations adopted on the basis of the law acquired the status of preferential generator of electricity from renewable sources (hereinafter referred to as: preferential producer) is granted:

- 1) a preferential tariff as a prescribed amount of money allocated for the purchased electricity by the market operator, or
- 2) premium as an additional amount of the price realized by the sale of the generated electricity on the wholesale electricity market.

#### ***4.3 Financial Incentives***

The current financial support mechanisms available are feed-in and premium tariff systems. The premium tariffs apply only to solar and wind projects while the rest RE projects are covered with feed-in tariffs.

#### **Feed-in tariffs**

The producer may acquire a status of preferential producer using feed-in tariff, if the power plant meets the following conditions:

- 1) The installed capacity should not exceed:
  - 10 MW for a hydroelectric power plant,
  - 50 MW for a wind power plant,
  - 1 MW for a thermal power plant using biomass,
  - 1 MW for a thermal power plant using biogas,
- 2) The planned power capacity of the power plant and the total installed and planned capacity of the power plants of the same technology that, up to the day of submitting the



request for obtaining a temporary status of preferential producer, are registered in the register of preferential producers using the feed-in tariff does not exceed the total installed capacity of preferential producers for that technology and

3) The equipment and facilities for electricity generation and connection to the electricity transmission or electricity distribution system represent a technical-technological functional unit and the power plant has a connection to the corresponding system with an independent metering point, which is exclusively intended for that power plant.

Eligibility period for feed-in tariffs is defined as the following:

- 1) hydroelectric power plants for a period of 20 years/10 years,
- 2) wind power plants for a period of 20 years,
- 3) thermal power plant using biomass for a period of 15 years, and
- 4) thermal power plant using biogas for a period of 15 years.

The amount of feed-in tariff for the electricity generated and delivered in the grid shall be calculated as a product of the quantities of electricity generated and delivered and the feed-in tariff that totals:

- 1) For thermal power plants using biomass, 15 €/kWh,
- 2) For thermal power plants using biogas, 18 €/kWh
- 3) For wind power plants, 8.9 €/kWh.

A preferential producer that uses a feed-in tariff for the production of electricity from a thermal power plant using biomass or biogas may also use fossil fuels in the process of electricity generation, whereas the highest allowed percentage of the share of fossil fuels in the total energy value of the fuels used during one calendar year may not be higher than:

- 1) 30% for thermal power plants using biomass,
- 2) 20% for thermal power plants using biogas.

### **Premium tariffs**

As of the day of executing the contract for using premium tariffs, the preferential producer shall be entitled to use a premium for electricity generated from:

- 1) Wind power plant for a period of 20 years, and
- 2) Photovoltaic power plant for a period of 15 years.

In accordance to the 'Program for financial support for electricity production from authorized manufacturers used for 2019 year' payment of premiums will be issued to

preferential producers who produce electricity from photovoltaic power plants with a total installed capacity of not more than 100 MW. The maximum reference amount of a fixed electricity production premium in 2019 is 15 € / MWh for photovoltaic power plants. The funds shall be awarded on the basis of contracts for the use of premiums concluded between the Ministry of Economy and the preferential producer.

## 5. Investment Permits

### 5.1 Investment Permits

North Macedonian legislation does not provide for any specific foreign investment permit – foreign investments are accorded a treatment not less favourable than that granted to domestic investors.

Foreign investors are generally free to invest in the energy sector, subject to the same regulatory requirements and sector permits applicable to domestic investors.

Foreign investors are legally allowed to hold 100% of energy projects and are not required to partner with the state or with state-owned enterprises or local enterprises before undertaking projects in the energy sector. One good example is the TE-TO natural gas CCHP with installed capacity of 230 MW, which is 100% owned by foreign investors.

### 5.2 Investment Protection Laws

The aim of the Law on financial support of Investments is to support the economic growth and development in North Macedonia through support of investments and increase of competitiveness of Macedonian economy and employment. The investment project that is eligible for financial support cannot exceed 5 years. The participation of the investor must be at least 25% of the total investment.

The full financial support that can be awarded to a single user regardless whether under the Law on financial support of investments or other laws cannot exceed 50% of the costs (special limitations apply to major investment projects).

### 5.3 Treaties

North Macedonia is a party to the Energy Charter Treaty.

### 5.4 BiTs

North Macedonia has signed and ratified 38 Agreements for investment support and protection with the following countries: Austria, Albania, Belgo-Luxemburg Economic Union, Belarus, Bosnia and Herzegovina, Bulgaria, Czech Republic, DPR Korea, Egypt, Finland, France, Germany, The Netherlands, Croatia, India, Iran, **Italy**, Serbia, China, Malaysia, Morocco, OPEC Fund for International Development, Poland, Romania, Russia, Slovenia, Slovakia, Spain, Switzerland, Sweden, Turkey, Ukraine, Hungary, Kazakhstan, Lithuania, Montenegro, Qatar and Kuwait.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

BITs usually contain standard guarantees for the protection of foreign investments, such as regulation of expropriation, obligation of fair and equitable treatment, obligation of full protection and security, transparency, prohibition of arbitrary and discriminatory measures, national treatment, most-favoured nation treatment, free transfer of profit.

## 6. Final Considerations

North Macedonia features an emphasized energy deficiency. It imports its total demand for oil, natural gas and good quality coals, and since 2000, a part of its electricity demand. The energy import has grown in the past period, and in the last few years the electricity imports have grown particularly.

Therefore, the goal of the Government is to increase the domestic production from renewable energy sources.

The ease of doing business in North Macedonia has been highly scored by the World Bank, ranking North Macedonia 10, with a score of 81.55 (out of 100).

The strengths of North Macedonia, summed up, arise out of the following:

- Strategic geographic location - located in the center of southeastern Europe.
- Unutilized potential of renewable energy sources
- New legislation and bodies in accordance with the European regulation and the Athens memorandum
- Strengthened activities in the areas of energy efficiency and renewable energy sources.

The activities for accelerated and more significant penetration of RES and accelerated and more significant improvement of energy efficiency can be summarized as follows:

- Introduction of feed-in tariffs for the utilization of RES and adoption of relevant rulebooks for application of RES,
- Published tenders for the construction of small hydropower plants,
- Searching for possibilities to construct the large hydropower plants,
- Construction of a natural gas fired CHP with high level of efficiency,
- Preparation of the first National Energy Efficiency Action Plan and appropriate rulebooks in this area,
- Financial subsidies and financial support for utilization of solar energy as heat,
- Preparatory activities (analyses, measurements) for construction of wind power plants,
- The ongoing activities for greater utilization of the geothermal energy, waste biomass and biogas,
- Activities related to greater and clearly defined participation of biofuels,
- Increased interest of donors and credit lines.

## MONTENEGRO

### 1. Introduction

The Energy Policy of Montenegro until 2030. recognizes three main priorities:

- **Security of energy supply**, which implies a constant, safe, high quality and diverse supply of energy, in order to balance delivery with customer requirements;
- **The development of a competitive energy market**, which implies the provision of a liberalized, non-discriminatory, competitive and open energy market based on transparent conditions; and
- **Sustainable energy development**, which implies the provision of sustainable energy development, based on accelerated but rational use of its own energy resources, taking into account the principles of environmental protection, increasing energy efficiency (EE) and greater use of renewable energy sources (RES) as well as the need for socio-economic development of Montenegro.

In order to achieve the defined priorities, Energy Policy has identified strategic orientations:

- Maintenance, revitalization and modernization of the existing and construction of new infrastructure for generation, transmission and distribution of energy;
- Reducing dependence on electricity imports; (i) by decreasing specific consumption of final energy, (ii) increasing energy production (primary and secondary) by using its own resources; and (iii) reducing energy losses from production to final consumption;
- Increasing energy efficiency;
- Increased use of renewable energy sources.

Proactive role of the state policy in its efforts to provide access to natural gas systems through international projects (Ionian-Adriatic Pipeline, Trans-Adriatic Pipeline, etc.), development of natural gas system (including construction of regional gas pipelines and natural gas utilization plants);

- Increasing the efficiency of energy companies' business by reducing operational costs, technical and commercial losses of energy, with a justified return on investment;
- Continuation of restructuring of energy entities and timely adoption of plans for further development; sustainable energy sector development in relation to environmental protection, and international cooperation in this area, especially regarding the reduction of greenhouse gas emissions in accordance with the Paris Accord;
- Stimulating research, development, transfer and implementation of environmentally sustainable new technologies in the energy sector;
- Harmonization of the legislative and regulatory framework according to EU requirements; - the creation of an appropriate legislative-regulatory and institutional and financial framework for stimulating private sector participation and energy investment;
- Providing social protection to endangered (vulnerable) electricity customers; reaching agreement with neighbouring countries on the optimal exploitation of common hydropower and water management as well as the planning and construction of new power interconnection lines for connection with these countries;
- Active international cooperation in the field of energy.

## 2. Legal Framework

The main legal acts that govern the energy sector is the **Energy Law** specifying energy activities. It inter alia regulates: terms and conditions for carrying out of those activities in order to ensure quality and secure energy supply to final customers; public services and other activities in the energy sector of public interest for Montenegro; procedure for organization and functioning of the electricity and gas market; manner and conditions for use of renewable energy sources and cogeneration; energy efficiency in the sector of energy generation, transmission and distribution, as well as other matters of relevance for the energy sector.

In addition, the **Energy Efficiency Law** prescribes a method for efficient use of energy, measures to improve energy efficiency and other issues important for energy efficiency. This Law does not apply to energy efficiency of facilities for production, transmission and distribution of energy.

A number of secondary legislation and regulations have been approved pursuant to these laws.

## 3. The Market

### 3.1 Involved Authorities

Various authorities can be in charge of the regulation and implementation of energy policy, including planning, monitoring, control, protection, and other technical and related administrative tasks:

- The ministry of Economy (competent for the energy affairs);
- The Ministry of Sustainable Development and Tourism;
- The Ministry of Transport and Maritime Affairs;
- The Energy Regulatory Agency;

### 3.2 Liberalized and Regulated Activities

Pursuant to the Energy Law, the activities of Distribution System Operator (DSO) and Transmission System Operator (TSO) are reserved activities. These activities are heavily regulated in all aspects, and are currently performed by the state owned companies mentioned below.

The activity of supply of electric energy is in principle liberalized, and all customers may be supplied with electric energy at market price.

Electricity transmission, distribution and public supply are public services. Customer protection is mostly ensured, with different customer protection measures by suppliers, supply of vulnerable customers and measures against energy poverty.

EPCG (Montenegrin public electricity producer) shall conclude the contract on supply in writing with the final customer. It shall buy electricity from privileged generators, in a volume proportional to the share of electricity it supplies to its customers in the total electricity delivered to final customers in Montenegro.

### 3.3 Market Structure

- **Montenegrin Electricity Market Operator (COTEE)** organizes and manages the electricity market; establishes market rules; enters into contracts with privileged producers who are entitled to a price support scheme benefit; collects fees for encouraging electricity generation from renewable energy sources and cogeneration from suppliers; and enters into contracts with all suppliers in order to ensure a minimum contribution of electricity is generated from renewable energy sources and cogeneration.
- **Montenegrin Electricity Transmission System Operator (TSO)** carries out the electricity transmission activity and is responsible for operation, use, reliability, management, maintenance and development of the transmission system, dispatch, matching of generation and demand, and reserve in the system. The TSO issues necessary approvals for connection to the transmission system to a facility and enters into the contract for connection of a facility with a system user.
- **Electricity Distribution System Operator - DSO (CEDIS)** carries out the electricity distribution activity and is responsible for operation, use, reliability, management, maintenance and development of the distribution system in a given area. DSOs issue necessary approvals for connection to the distribution system of a facility and enter into contracts for connection of a facility with a system user.
- **Elektroprivreda Crne Gore AD Niksic (EPCG)** – national majority state-owned energy company predominantly engaged in the production and supply of electricity on the Montenegrin energy market. Its main power generation capacity comes from HPP "Perućica", HPP "Piva" and TPP "Pljevlja".
- **Electric Power Exchange (MEPX)** was established by TSO, COTEE and EPCG with the intention of establishing a wholesale organized electricity market in the form of an electronic trading platform.

The electricity market as the central counterpart of central counter party between the seller and the buyer of electricity assumes the risks of purchasing and selling electricity within the framework of the achieved sales transactions formed on the market day in advance.

All market participants have the right to sign bilateral agreements on purchase and sale of electricity and access cross-border transmission capacities for import and export of electricity.

## 4. Renewable Energy Investments / Incentives

### 4.1 Investments in Renewable Energy

In Montenegro, the dominant way of electricity production is from hydro power plants, also wind (e.g. Krnovo 72 MW test operations and Možura 46MW).

Hydroelectric power plants on the Moraca River - The Government of Montenegro intends to develop the country's mostly untapped hydroelectric power potential through Public Private Partnerships. As a priority, the government intends to develop Morača River's potential through a series of four hydroelectric power plants for a total installed capacity of 238 MW and an annual production of 694 Giga-Watt hours (GWh). Extensive geotechnical and hydrological investigations have already been performed on the sites.

As per small hydro power plants, within the last decade only 1/5 out of 50 planned small hydro plants were built. Utilization of the hydro potential in Montenegro is still only cca 17%.

The government hopes to further develop renewable energy sources such as wind, biomass, and solar.

**4.2 Available Support**

The Energy Law generally facilitates the exploitation of the renewables and high efficiency cogeneration with the promotional and incentive measures. The Energy Law prescribes a list of the incentive measures for renewable energy production of electricity which includes:

- Mandatory purchase of electricity via long-term power;
- Power purchase agreement (PPA);
- Feed-in tariff (FITs);
- Incentive period (period of validity for mandatory purchase);
- Exemption from payment of balancing costs;
- Priority dispatching;
- Issuance of transferrable Certificate of Origin.

The incentive measures are awarded in a competitive bidding process on the basis of clear, transparent and non-discriminatory criteria, except for the facilities with up to 1 MW of installed capacity. The incentives are only available to the entities which have the valid status of a privileged producer.

**4.3 Financial Incentives**

Pursuant to the Decree on the Tariff System for the Calculation of the Privileged Purchase Price for Electricity Produced in Renewable Energy Sources and Highly Efficient Cogeneration a feed-in tariff regime has been instituted for small hydro power plants, wind generators, solid biomass power plants, on-roof solar plants, solid landfill waste incineration plants, landfill gas plants and biogas plants.

FITs depend on the type of facilities, their capacities, annual generation and other factors.

Incentive prices for electricity produced in facilities using renewable energy sources and high efficiency cogeneration facilities are expressed in c / kWh and are as follows:

Type of facility of the privileged producer electric energy	Installed capacity (MW)	Incentive price (c /kWh)
Wind farm		9,60
Biomass power plant		12,00
Solar power plant on		12,00

- WWW.GRIMALDILEX.COM
- INFO@GRIMALDIALLIANCE.COM

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

<b>residential, business and / or infrastructure</b>		
<b>Power plant on solid landfill</b>		9,00
<b>The waste gas plant</b>		8,00
<b>The biogas power plant</b>		15,00
<b>Facility for highly efficient cogeneration</b>		
	Pi <1	10,00
	1 < Pi < 5	10,00 - 0,5x(Pi-1)
	5 < Pi < 10	8,00

Incentive prices for electricity produced in small hydroelectric power plants are expressed in c/kWh, and they are determined depending on the power at the plant's threshold, as defined in the following table:

R.N.	Type of facility privileged electricity producers	Power on the doorstep plants (MW)	Incentive price (c/kWh)
1	<b>Small hydroelectric power plant</b>		
1.1		P < 1	10,44
1.2		1 ≤ P < 3	10,44 - 0,7xP
1.3		3 ≤ P < 5	8,87 - 0,24xP
1.4		5 ≤ P < 8	8,35 - 0,18xP

- WWW.GRIMALDILEX.COM
- INFO@GRIMALDIALLIANCE.COM

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA



1.5		$8 \leq P \leq 10$	6,80
-----	--	--------------------	------

According to the envisaged FITs regime, every final electricity user is obliged to pay a fee that will be used to encourage electricity generation from renewable energy sources and cogeneration. This fee is in addition to the regular price of electricity. This will change from 2020, as the Montenegrin Government enacted the legislation abolishing this allocation of the expenses to the final electricity users.

**5. Investment Permits / Protection**

**5.1 Investment Permits**

The Montenegrin legislation does not provide for any specific foreign investment permit – foreign investments are accorded a national treatment regime for all investors.

Foreign investors are generally free to invest in the energy sector, subject to the same regulatory requirements and sector permits applicable to Montenegrin investors.

**5.2 Investment Protection Laws**

Based on Montenegrin Law on foreign investment foreign investors are granted protection against confiscation and damages as a consequence of war and emergency. A foreign investor is also entitled to compensation for damages caused by unlawful or irregular work of a public official or public authority, in accordance with this law.

Foreign investors have access to domestic courts, and may submit disputes at the international investment protection forum, such as the International Centre for Settlement of Investment Disputes (“ICSID”), or may resolve the disputes in accordance with the United Nations Commission on International Trade Law (UNCITRAL) Rules.

**5.3 Treaties**

Brief description of Montenegro’s recent IGAs:

- **Intergovernmental Agreement signed by the Ministries of Montenegro and Italy over TERNA-CGES project** - this project is the first power bridge implemented by means of the undersea cable between EU and the Balkans. It will connect the Terna station in Villanova (Pescara) in Italy via the Adriatic Sea with the CGES station in Lastva Grbaljska in Montenegro.
- **Intergovernmental Agreement to implement FATCA provisions signed by Montenegro and United States** - the agreement with the US on the implementation of FATCA regulations aims at preventing tax evasion by US citizens and related individuals holding accounts in Montenegrin banks.

**5.4 BITs**

Montenegro has concluded 23 BITs on the promotion and reciprocal protection of investments providing guarantees for the protection of foreign investments.

- WWW.GRIMALDILEX.COM
- INFO@GRIMALDIALLIANCE.COM

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

## 6. Final Considerations

Montenegrin Foreign Investors Council (MFIC) published in its White Book the last overview of the reforms in Montenegro stating that generally observed, Montenegro keeps balanced rating within international frameworks in terms of economic and political ratings.

The following recommendations, among others, are given to target specific improvements: more efficient reform implementation when it comes to the company registration and further steps to improve tax procedures; important modernization of operations in land registry and notary services, especially in the part of respecting deadlines in procedures, cost reduction and introduction of modern electronic systems that would shorten the registration processes etc.

Energy sector is probably the best prospect industry sector in Montenegro with investment opportunities especially in the sector of renewable energy. Montenegro has ambition to become an **energy hub of the Balkans**. With the impending completion of the Montenegro – Italy project of construction of electricity transmission system of a one-way underwater energy cable, Montenegro will be able to export electricity to Italy, from its own sources and also from the countries of the region. This provides stability, but it is still insufficient for the fulfilment of the set goals-sustainable and competitive business climate, strong economy and high standard of Montenegrin citizens.

## SERBIA

### 1. Introduction

The Serbian energy sector consists of oil and natural gas industry, coal mines, an electric power system, a decentralized municipal district heating system and industrial energy. Activities in the energy sector include the production of domestic primary energy, the importation of primary energy (mostly oil and natural gas), the production of electric power and thermal energy, the production and the secondary processing of coal and the transport and distribution of energy and energy products to energy consumers. The vast majority of the Serbian energy infrastructure is state-owned and is operated by the public enterprises that were established by the state.

Households consume more than a half of all the electricity produced in Serbia, and home heating with electricity is common. Overall installed power plants capacity of the state-owned electricity company, Elektroprivreda Srbije (EPS) is 7,326 MW. Around 70% of the electricity is produced from the thermal power plants and about other 30% is produced from 16 hydro power plants.

Serbia has committed itself to using 27% of gross final energy consumption from renewable sources by 2020. This target is based on Serbia's agreement with the Energy Community. However, the current percentage is only around 22%. Serbia has significant potential in the utilization of renewable energy sources, as it is only using approximately one third of its potential. Majority of 22% of gross final energy consumption from renewable sources comes from the large hydro power plants that were built in the 1950's and 1960's. Poor energy efficiency and high carbon intensity due to still heavy reliance on fossil fuels are among the main challenges in the energy sector.

Investments in line with the EU standards will have to be increased in the future. It is estimated that in the energy sector, 700 to 900 million EUR are needed for alignment with the EU standards within Chapter 27.

In terms of financing, the objective of the EU assistance is to increase energy efficiency and competitiveness of the Serbian energy market, to improve security of supply and develop renewable energy sources. These areas will remain a priority for EU financing during the next few years.

The energy sector received around EUR 655 million of international donor assistance, including over EUR 50 million of IPA assistance over the period of 2007-13. A number of EU Member States and other bilateral donors have provided capacity-building support. Furthermore, international financing institutions such as EBRD, KfW and the World Bank have provided loans within this sector and will continue to do so in the future.

Serbia has a very significant energy savings potential. It is estimated that the building sector consumes about 34% of total final energy, of which the residential sector uses about 70%, commercial buildings 18% and public buildings 12%. The energy intensity of Serbia is four times higher than that of OECD countries. Poor energy efficiency and high carbon intensity due to heavy reliance on fossil fuels are two of the main challenges in the Serbian energy sector.

The main points concerning the energy sector in Serbia are:

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

- Slow reforms in the energy sector hamper new investments (the transfer from feed-in tariffs to auction or other available models are awaiting, as well as new quotas for renewable energy projects since currently set ones for wind and solar are already fulfilled);
- State owned integrated utilities hold monopoly over development of large hydro and thermal power plants;
- The track record is very negative;
- Energy investments are only possible in renewable energy projects where energy public enterprises do not have super dominant position.

## 2. Legal Framework

The main law governing the energy sector in Serbia is the **Energy Law**- which implements the EU's Third Energy Package, thus making a step forward in harmonising Serbian law with the relevant EU framework in the energy sector. Its main objectives are encouraging investments in the renewable energy sector and generally improving the Serbian energy sector's regulatory framework by removing a number of obstacles contained in the previous energy laws.

Provisions of the Energy Law also aim at ensuring a better functioning of the process for issuing construction permits for energy assets, with a view to bring the Serbian energy law framework in line with provisions of the Serbian Planning and Construction Law.

Implementation of Energy Law gained full force and effect by application of the necessary additional bylaws and further regulations, consisting of, but not limited to:

- Decree on Incentive Measures for Electricity Generation from Renewable Energy Sources and High-Efficiency Cogeneration of Electricity and Heat ("**Incentive Decree**");
- Decree on Conditions of and Procedure for Obtaining of the Status of a Privileged Power Producer, Preliminary Privileged Power Producer and Producer from Renewable Energy Sources ("**Status Decree**"); and
- Decree on the Power Purchase Agreement ("**PPA Decree**").

**The Energy Efficiency Law** regulates and determines, among other things, the conditions and ways of efficient use of energy and energy resources in the sector of transmission production, distribution and energy consumption; the policy of efficient energy use, incentive measures, minimum requirements of energy efficiency (EE), etc. Energy stability (secure energy supply and its efficient use), the increase in the industry competitiveness, the reduction of the negative impact of energetics on the environment and the encouragement of the responsible behaviour towards energy is achieved by a more efficient use of energy.

## 3. The Market

### 3.1 Involved Authorities

The main public authorities competent for the field of energy:

- The Ministry of Mining and Energy;
- The Energy Agency of the Republic of Serbia (AERS); and

- The Agency for Energy Efficiency.

### ***1.1 Liberalized and Regulated Activities***

In Serbia, electricity market for households, the high and medium voltage consumers was liberalized. However, EPS, still covers its most significant part. EPS practically holds a monopoly, as it supplies about 98 % of the total market. In addition, when it comes to household supply, EPS covers almost the entire supply. Although the legal framework for electricity market opening has been prepared, it takes time for other suppliers to strengthen their market position. In addition, it should be borne in mind that the regulated supply price in Serbia is below economically justified, which means it is far below the price other suppliers could offer.

### ***3.2 Market Structure***

The most significant market players are:

- Previously mentioned **EPS** - 100% state owned, public utility. Costs and payments are monitored by the government and they are limited, which is one of the reasons why EPS alone cannot achieve enough of financial resources for investments, since power sector in Serbia is significantly determined by governmental decisions.
- **EPS Snaabdevanje (Supply)** - merged with EPS, established to be public supplier of the end users and customers at regulated prices. It is also the last resort electricity supplier.
- **Distribution System Operator (DSO)** - the company derived from separating distribution business from EPS, in the process of unbundling in line with the EU legislation, undertaking the distribution of the electricity in Serbia.
- **EMS** - transmission system and market operator, also derived from EPS, now operating as a separate company as a part of unbundling process undertaken in line with the EU legislation.
- **SEEPEX Power Exchange**

According to the list of participants on the Serbian electricity exchange, SEEPEX, 19 traders participate in the day-ahead market transactions.

As expected, SEEPEX liquidity is limited due to the EPS monopoly and lack independent producers, with the exception of Naftna Industrija Srbije (NIS), generating some 5% of the total volume of electricity on the market. Consequently, the volume of transactions is lagging behind the leading regional exchanges - HUPX, OPCOM, and even BSP.

This means that for traders/suppliers in Serbia, as a rule, it is expensive and risky to participate in the local exchange. The SEEPEX turnover mainly serves to balance the local portfolio and the day-ahead transactions between electricity traders. Currently the most developed market in Serbia is a bilateral market.

According to the official data of the Energy Agency, AERS, there are around 66 electricity supply companies, and 50 wholesale supply companies. This number varies from year to year, but not all suppliers are active.

## 4. Renewable Energy Investments / Incentives

### 4.1 Investments in Renewable Energy

In Serbia, there are several on-going and already operational projects in terms of wind energy currently in Serbia (Čibuk (158 MW), Kovačica (104 MW), Plandište (102 MW), Košava (69 MW), Alibunar (42 MW), Kula (9,9 MW) and La Piccolina (6,6 MW)).

Concerning small hydro plants in Serbia, there are around 67 small hydro plants with the status of the privileged electricity producer with the total installed capacity of the privileged producers of 43 MW. Additional 2.8MW is under development (temporary privileged power producer status).

Currently, installed output in solar power plant is 8, 5 MW (91 installations). Largest photovoltaic power plant has 2 MW output and it is developed by local company Solaris Energy. Other projects in this field (1000 MW solar park- SEPE, Solar park Beočin- Prima Energy, Solar park Bačka Topola etc.)

Biomass (wood and agricultural) is the greatest untapped potential in the Serbian renewable energy resources market. In addition, there are other investment opportunities in geothermal energy (e.g. project of City of Vranje and Chese Betec resources for the construction of geothermal power plant in Vranjska banja (20 MW), as well as reconstruction of the obsolete and over indebted district heating systems throughout Serbia (Šabac DHS PPP project under preparation –planned installed capacity 20 MW, other smaller projects in Priboj, Prijepolje, Bajina Basta, Uzice and Negotin).

Waste-to- energy, Vinča project is the largest in the region (initially it included incineration of some 500,000 tons of waste annually). The revenue stream is based on 12 year feed-in tariff PPA and supply of heat to the Belgrade DHS. The structure of this project is heavily based on complex UK waste to energy schemes.

Concerning future investments, Incentive Decree with the feed-in tariff system is prolonged until the end of 2019 which is favourable for all technologies not subject to quotas, such as biogas, biomass, small hydropower plants, and cogeneration. The new scheme for wind and especially solar is needed in order of the new investments to be launched as well as new approach to the financial support (e.g. auctions, or combined mechanism compelling feed-in-tariffs and auctions).

### 1.2 Available Support

The Incentive Decree sets out the following five main incentive measures:

- **The incentive period** (i.e. the term under the Power Purchase Agreement – PPA), which is principally set to last 12 years from acquisition of the privileged power producer status;
- **The incentive purchase price**, i.e. the feed-in-tariffs, prescribed at different levels depending on the type of generation facility and being also dependent on the prescribed maximum annual effective operation time for different plants;
- **The undertaking of the balancing responsibility** during the incentive period by the guaranteed supplier, i.e. the off-taker;

- **The undertaking of the balancing costs** during the incentive period by the guaranteed supplier, i.e. the off-taker; and
- **The free-of-charge access to the transmission**, i.e. distribution system.

The respective by-laws contain also so-called ‘political force majeure’ concept, prescribing that the rights and obligations under the PPA shall be temporarily suspended (unless otherwise provided in the PPA) in case that a competent public authority fails to issue (in a timely manner) a license, a permit or any public authorization necessary for the fulfilment of obligations or the exercise of rights related to incentive measures, or such authorization fails to stay in force, or is not properly amended or extended on time, all in cases where such authority’s failures are not the result of the generator’s or the off-taker’s own misconduct. The same contractual consequences are prescribed in the cases of nationalization or expropriation as well as in the case of international sanctions. Evidently, these clauses are a major step forward for projects’ feasibility, essentially tackling the risks of public authorities’ misconduct, which in a nascent renewable market – such as the Serbian one, is quite a relevant concern.

Equally, the Incentive Decree contains the change-in-law provisions, according to which, basically, subsequent changes in the legislation which ultimately lead to an increase in the generator’s expenses shall result in the corresponding adaptation of the applicable feed-in-tariff, including also a possibility to introduce new incentive measures to a particular arrangement (i.e. the PPA, by amending it), with the main goal to put the generator back in the commercial, i.e. financial position it has been prior to the laws’ change.

The increase of feed-in-tariff (or introduction of other relevant incentive measures) is subject to specifically prescribed procedure before the Ministry of Mining and Energy and the Government of Serbia, and is conditional upon the ultimate consent by these authorities.

## **4.2 Financial Incentives**

The incentive purchase prices prescribed (i.e. the feed-in-tariffs) range between 6 Eurocents per kWh for hydropower plants (on existing infrastructure) to 9.2 Eurocents per kWh for wind power facilities to 13.26 Eurocents per kWh for biomass plants up to 1 MW installed power. The feed-in-tariffs are indexed according to the Eurozone inflation.

Importantly, the Incentive Decree prescribes that, during the incentive period, the electricity produced in excess of the ‘maximum produced electricity’ (corresponding to the aforesaid ‘maximum annual effective operation time’, as per the specifically prescribed formula) will be purchased at the price equalling 35% of the respective feed in tariff. Also, the electricity produced before the commencement of the incentive period but during the validity of the preliminary privileged power producer status (i.e. during the commissioning of the relevant facility) is to be purchased at the price corresponding to 50% of the respective feed-in-tariff.

## **5. Investment Permits / Protection**

### **5.1 Investment Permits**

The Investment Law sets forth the regulatory framework for investments in the Republic of Serbia. The Investments law determines certain high-level rights of investors, such as national treatment of the foreign investment, freedom of payment/free foreign exchange, no expropriation, right to transfer profit and property, dispute resolution mechanism, but qualifies them with specific provisions contained in the law governing particular sectors.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA



The Investment law prescribes for a set of incentives, such as state aid, tax incentive and tax relief, custom incentives, as well as incentives covering compulsory social security obligations. Additionally, equipment that is contributed by the foreign investor is generally duty free, subject to a few exemptions.

In accordance with the Investment law, the investor may be local or foreign legal entity or natural person who invested in the Republic of Serbia, in accordance with the applicable laws.

### 5.2 Investment Protection Laws

Investment Law does not make any difference in local and foreign investors. It protects the investor's rights based on the undertaken investment (obligation of full protection and security).

### 5.3 Treaties

Brief description of Serbia's recent IGAs:

- **Intergovernmental Agreement with Russian federation on Cooperation in Gas and Oil and Industry (Russia IGA)** - the purpose of Russia IGA was to create regulatory conditions for realisation of three different investment of Russian Gazprom in the energy and gas sector in Serbia: (i) South Stream-gas pipeline system from Russia, via the Black Sea through Bulgaria, Serbia, Hungary, into Austria; (ii) underground gas storage facility in Banatski Dvor; (iii) privatization of NIS-the state owned oil company. Through this IGA, Serbia took many obligations of protection of these investments and granting certain rights (freezing stabilisation clause with respect of NIS etc.):
- **Intergovernmental Agreement on Economic and Technical Cooperation in Infrastructure Projects between the Governments of China and Serbia (China IGA)** - which facilitates development of several infrastructural projects in Serbia through separate agreements to be signed between the relevant Chinese company and the Government of Serbia. The main points of China IGA concern: (i) abolishment of application of Serbia public procurement legislation to the agreements concluded with Chinese companies; (ii) import of goods and services for the purpose of implementation of the projects are not subject to VAT; (iii) parties will insure entrance, stay and living of the staff accredited for the implementation of the projects pursuant to the local legislation.
- **Intergovernmental Cooperation Agreement concluded between the Government of the UAE and Serbia (UAE IGA)** - is focused of the cooperation in the areas of security, agriculture, financial services, banking, transportation, energy, logistics etc. It prescribes that the agreements executed under the UAE IGA are not subject to public procurement, tender bids, public auctions etc.

### 5.4 BITs

Serbia signed around 50 BITs which usually contain standard guarantees for the protection of foreign investments, such as regulation of expropriation, obligation of fair and equitable treatment, obligation of full protection and security, prohibition of arbitrary and discriminatory measures, national treatment and most-favoured nation treatment. Some of them contain umbrella clauses.

Serbia signed the BIT with Italy, however this document is not in force.



## 6. Final Considerations

In accordance with the last available information, Doing Business List of the World Bank ranked Serbia 48. place in the category of how easy is to conduct business in Serbia. This is five places below in comparison with the last year's ranking of Serbia (which was the most successful ever). Foreign Investors Council (FIC) published in its White Book the latest overview of the reforms in Serbia stating that Serbia continues steady, but moderate progress in reforms, during 2018. This provides stability, but it is still insufficient for the fulfilment of the set goals- sustainable and competitive business climate, strong economy and high standard of Serbian citizens.

## SLOVENIA

### 1. Introduction

By joining the EU, Slovenia became a part of the internal energy market. On the basis of EU directives and regulations, Slovenia implemented the liberalization of the energy market, with which the rules allowing the development of competition between market participants were set. In accordance with the provisions of the legislation, the Energy Agency was established in 2001 as the national energy regulator and is responsible for preparation and compliance of these rules.

The new Energy Act adopted in 2014 brought the Energy Agency greater independence, more powers, new organization and operation rules.

Due to the significant recovery of the Slovenian economy over recent years (a 4.1% growth in GDP was recorded for 2018 by Statistical Office RS), the country's overall energy demand is increasing and this is reflected in all energy markets. In 2017 domestic generation covered 82.9% of Slovenian electricity consumption and the country's import dependence was 17.1%. Total consumption of electricity amounted to 14,558 GWh and increased by 2.7% in comparison to 2016<sup>4</sup>.

Slovenia does not have its own sources of natural gas, storage of natural gas or LNG terminals, the wholesale natural gas market is limited by imports. However, the Slovenian electricity and natural gas markets are transparent and well-integrated in the wholesale energy markets.

As a Member State of the European Union (EU), Slovenia has committed itself to promoting the use of renewable sources for energy consumption, and especially for electricity generation. The EU Renewable Energy Directive 2009/28/EC sets a mandatory national target for each Member State (for Slovenia: 25%), stating the overall share of gross energy consumption that must come from renewable energy sources by 2020. In 2017, 21.8% of estimated gross energy consumption in Slovenia came from renewable energy sources.

### 2. Legal Framework

**Energy Act** (Official Gazette of the Republic of Slovenia, no. 17/14) is the main act governing the principles of energy policy, energy market operation rules, manners and forms of providing public services in the energy sector, principles and measures for achieving a secure energy supply, for increasing energy efficiency and energy saving and for increasing the use of energy generated from renewable energy sources, and lays down the conditions for the operation of energy installations, regulates the responsibilities, organization and tasks of the Energy Agency and the competences of other authorities operating under this act.

The Energy Act has transposed several EU directives into Slovenian legislation in the fields of electricity and natural gas markets, energy efficiency and renewable energy sources.

---

<sup>4</sup> Statistical data from the Report on the situation in the field of energy in Slovenia for 2017 by Energy Agency.

Number of other acts were also adopted to implement the Energy Act, among the most important are following:

- Rules Amending the Rules on the balancing of the electricity market (Official Gazette of the Republic of Slovenia, no. 28/17) governing organization, membership and participation on the balancing market, reports and notifications and financial settlements of the transactions on the balancing market,
- Decree establishing the infrastructure for alternative transport fuels (Official Gazette of the Republic of Slovenia, no. 41/17) governing alternative transport fuels and the provision of infrastructure for alternative transport fuels,
- Decree on self-supply of electricity from the renewable energy sources (Official Gazette of the Republic of Slovenia, no. 17/19),
- Legal Act on the methodology for determining the regulatory framework and network charges for the electricity distribution system (Official Gazette of the Republic of Slovenia, no. 66/15),
- Legal Act on the methodology for determining the regulatory framework of the natural gas transmission system operator (Official Gazette of the Republic of Slovenia, no. 21/18),
- Legal Act on the methodology for determining network charges for the natural gas transmission system (Official Gazette of the Republic of Slovenia, no. 20/19).

Other acts which impact the energy sector are, namely:

- Environmental Protection Act (Official Gazette of the Republic of Slovenia, no. 39/06),
- Public-Private Partnership Act (Official Gazette of the Republic of Slovenia, no. 127/06),
- Public Procurement Act (Official Gazette of the Republic of Slovenia, no. 91/15),
- Building Act (Official Gazette of the Republic of Slovenia, no. 61/17),
- Information Security Act (Official Gazette of the Republic of Slovenia, no. 30/18).

### 3. The Market

#### 3.1 Involved Authorities

The **Energy Agency** is the national regulatory authority of the Republic of Slovenia. It directs and supervises electricity and gas energy operators and carries out tasks regulating energy operators' activities in the field of heating and other energy gases. Energy Agency's task is also providing the circumstances for development of competitiveness and ensuring its operation by taking into account the requirements for sustainable, reliable and high-quality supply. In order to act in the interest of all market participants, the Energy Agency must be politically and financially independent and therefore not financed from the state budget, but from the network charges.

The **Energy Directorate** within the Ministry of Infrastructure performs tasks relating to the efficient use of energy and to the provision of renewable sources of energy, energy supply, sources of energy and mining.

Supervision of the stated provisions in the Energy Act is carried out by the competent **inspectorate**.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

### 3.2 Liberalized and Regulated Activities

The functions of the generation and supply of electricity shall be carried out freely in the market, in which participants shall freely agree on the price and quantity of electricity to be supplied, final consumers shall have the right to choose and switch the supplier from which they purchase electricity, and producers shall have the right to choose and switch the supplier to which they sell electricity. Further, the functions of an electricity TSO (Transmission System Operator), electricity DSO (Distribution System Operator) and electricity market operator shall be obligatory state services of general economic interest according to Energy Act.

Electricity goods are subject to the law of supply and demand, since the contract on the supply of electricity regulates the relationships between consumers and suppliers of electricity.

In modern economic environments, such as the energy market in Slovenia, where open access to the market and competition is ensured, prices of individual products or services are affected by market signals. All electricity consumers are enabled to regularly monitor current prices through the online application for comparison of electricity costs.

On the basis of published offers, electricity consumers choose the one supplier that is most favorable for them or replace the supplier. When choosing, is recommended to think carefully about contract terms and binding period, which may cause them additional costs or limit the freedom to change the supplier in the future.

Price for electricity for households is 0.16 EUR/kWh and price for natural gas for households is 0.06 EUR/kWh.<sup>5</sup>

### 3.3 Market Structure

Electricity market participants in Slovenia are producers, traders and suppliers that supply electricity to consumers. Electricity is transferred from power plants to consumers via transmission and distribution networks, for which network operators are responsible. A transmission electricity network serves to transfer electricity from large generation facilities to concentration areas, where the distribution network is connected to the transmission network through distribution-transformation stations.

The tasks of the system operator of the transmission network are performed by the public company ELES d.o.o. The high-voltage network enables reliable and high-quality power supply to larger consumers and distribution companies.

Distribution networks are managed by distribution system operator with electricity SODO d.o.o.

Electricity is produced by power plants using various renewable (water, wind, sun) and non-renewable (coal, oil, gas, nuclear fuel) energy sources. The opening of the market allows consumers to choose the electricity according to the mode of generation or according to the energy source used.

---

<sup>5</sup> Last data available for period: 4th quarter 2018 by Statistical Office RS. The stated prices include all taxes for Slovenia.

With the full opening of the electricity market (1 July 2007), electricity became a commodity. The market is fully open in Slovenia, which means that all consumers can freely choose their electricity supplier.

The Slovenian organized electricity market is basically divided into the wholesale and retail market. The wholesale electricity market participates (traders and suppliers) that conclude closed contracts among themselves. A closed contract is a contract where the quantity of electricity delivered is predetermined for each time interval. This means that such a contract is independent of the actual quantity of electricity supplied.

On the retail market there are suppliers and consumers who enter into open contracts where the quantities of energy delivered and the timing of delivery are not predetermined. Consumers pay the delivered energy on the basis of the actual amount of electricity consumed, measured by the appropriate meters. The organizer of the Slovenian electricity market, the company Borzen d.o.o., the electricity market organizer, is obliged under the Energy Act to record all contracts concluded on a regulated market.

There are quite few suppliers of energy present on the retail market in Slovenia, namely:

- ADRIAPLIN d.o.o.
- E3 d.o.o.
- ECE d.o.o.
- ELEKTRO ENERGIJA d.o.o.
- ENERGIJA PLUS d.o.o.
- ENERGIA GAS AND POWER d.o.o.
- GEN-I d.o.o.
- HEP ENERGIJA d.o.o.
- INVOLTA d.o.o.
- JAVNO PODJETJE ENERGETIKA LJUBLJANA d.o.o.
- PETROL, SLOVENSKA ENERGETSKA DRUŽBA, d.d.
- RWE LJUBLJANA d.o.o.
- TELEKOM SLOVENIJE, d.d.

The supply mix of the energy available on the retail market is, namely: electricity, natural gas, heat and other energy gases and also renewable energy.

Net exports from Slovenia in 2017 amounted to 6,576 GWh, while imports amounted to 9,133 GWh of electricity.<sup>6</sup>

Latest statistical data by Statistical Office RS for 2017:

<b>Indigenous generation of energy</b>	<b>Total final consumption</b>	<b>Energy dependency</b>	<b>Share of energy from renewable sources in gross final energy</b>	<b>Household energy consumption</b>	<b>Household electricity consumption</b>

<sup>6</sup> Report on the situation in the field of energy in Slovenia for 2017 by Energy Agency.

- WWW.GRIMALDILEX.COM
- INFO@GRIMALDIALLIANCE.COM

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA

			consumption		
3,664 toe	4,922 toe	47.5%	21.55%	46,908 TJ	3,327 GWh

#### 4. Renewable Energy Investments / Incentives

##### 4.1 Investments in Renewable Energy

Renewable energy sources (RES) are renewable non-fossil energy sources (wind, solar, aerothermal, hydrothermal and geothermal energy, ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases) according to definition stated in the Energy Act.

The most important RES in Slovenia are wood biomass, followed by hydropower, and in recent years, development has been the most dynamic in the exploitation of solar energy and biogas. In addition to the mentioned sources of energy, the increased use of renewable energy sources will additionally contribute to the potential of wind energy and geothermal energy.

More environmentally friendly and more efficient technologies for the use of RES attract investments for the renewal of obsolete technologies for energy generation.

The planned investments in hydropower plants provide an increase in production electricity from renewable sources and the exploitation of water potentials on the rivers Sava, Mura and Drava, while respecting the requirements for environmental protection, regulating traffic, communal and water infrastructure and flood risks.

The planned investments are following:

- Hydropower plant Mokrice on the lower river Sava (EUR 289.4 million EUR with VAT):  
Beginning of the construction is postponed for indefinite time;
- Hydropower plant Renke, Hydropower plant Trbovlje and Hydropower plant Suhadol on the middle river Sava (EUR 376 million – only energy part) and remaining 7 hydropower plants on the middle river Sava (EUR 931 million - only the energy part):  
**Projects are potentially interesting for foreign investors;**

Holding of the Slovenian power plant (HSE – Holding slovenske elektrarne d.o.o.) is a concessionaire for the energy use of the river Sava. In 2018 they have again strengthened activities in harmonizing the concession contract. With the construction of all ten hydropower plants in the middle river Sava, the installed power of hydropower plants would be increased by 300 MW and it would gain 1 TWh of electricity from renewable energy sources, which currently represents almost 10% of all electricity produced in Slovenia.

- Hydropower plants on river Mura (EUR 100 million):

The investment in Hrastje - Mota hydropower plant, the first of the two foreseen hydropower plants in the Slovenian part of river Mura, is estimated at EUR 100 million. The concession for the construction of the hydropower plants on the river Mura was already granted in 2016 by the government.

Currently, the construction of hydropower plants is in a dead-end street. The Biosphere Reserve of the river Mura is included in UNESCO Man and Biosphere Program.

#### **4.2 Available Support**

State aid scheme (i.e. support scheme) to promote the generation of electricity from renewable sources and in the cogeneration of high-efficiency electricity and heat in recent years represents one of the most important measures of climate and energy policy in Slovenia and other EU countries. It was enforced by amending the Energy Act in the year 2009. Later the support scheme was significantly changed by the new Energy Act in 2014. For the purpose of coordinating the rules and conditions of the support scheme with the European Commission the new support scheme did not come to life until the end of 2016.

For operation, organizational structure of the support scheme and responsibilities and tasks are responsible the Energy Agency and the Center for Support, which operates within company Borzen, d.o.o., the organizer of the Slovenian electricity market.

The support can be obtained for:

- electric energy produced in generating plants on renewable energy sources, which do not exceed 10 MW of rated electrical power, except for the generating plant for the use of wind energy, where this limit is 50 MW, and
- in high-efficiency cogeneration plants that do not exceed 20 MW of rated electrical power.

Support for electricity is provided as a guaranteed purchase of electricity at a predetermined fixed price or as operational support for current business.

Until now the Energy Agency carried out two public invitations to apply for entry into the described support scheme under the amended 2014 support scheme. The first one was announced at the end of 2016 and completed in June 2017, the second was announced in September 2017, and the selection of projects submitted to this tender was carried out in early January 2018.

### ***4.3 Financial Incentives***

The Investment Promotion Act (Official Gazette of the Republic of Slovenia, no. 13/18) determines the forms of investment incentives, conditions, criteria and procedure for allocating investment incentives and activities for stimulating investment and internationalization of companies. According to applicable provisions the investment incentives are not granted for investments in several activities and among them is generation and distribution of energy and energy infrastructure.

Despite the above stated, in order to achieve the target share of Renewable Energy Directive 2009/28/EC by 2020 (25% for Slovenia), in the context of the implementation of the European cohesion policy, smaller investment incentives are also planned for the construction of new smaller facilities for the generation of less utilized technological potentials of electricity from RES (wind, solar, biomass and small hydropower plants up to 10 MW ) as stated on the website of the Ministry of Infrastructure.

## **5. Investment Permits / Protection**

### ***5.1 Investment Permits***

The Slovenian legislation does not provide for any specific foreign investment permit. Foreign investments are treated no less favorably than those granted to domestic investors. Therefore, foreign investors are generally free to invest in the energy sector, subject to the same regulatory requirements and sector permits applicable to domestic investors as required in Energy Act and other applicable acts.

Regarding the investment in energy infrastructure the procedures for obtaining all necessary permits for the construction of energy infrastructure became simplified with adoption of the Energy Act. The latter shall lower the investments.

For example, according to Energy Act before starting the construction the investor must have a final energy permit issued by the minister competent for energy for the construction of electricity generation facilities with a nominal electrical power greater than 1 MW connected to the public network. Moreover, in the case of construction of previously referred facilities for which a building permit must be obtained according to the Building Act, the investor may request the issuance of a building permit after the acquisition of the final energy permit.

### ***5.2 Investment Protection Laws***

There is no explicit domestic regulation governing the protection of foreign investments. Foreign investors are equalized with domestic ones. Individual protection provisions are regulated by sector-specific acts and other applicable regulations, which apply for both domestic and foreign investors depending on the sector.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA



For example, the Building Act, which entered into force 2018, shall bring many solutions for investors that will facilitate the implementation of business plans. The purpose of the act is also encouraging foreign investments in Slovenia as has been emphasized in public, but there is not enough practice yet to say for sure that the provisions of the act are or will be successful.

### 5.3 Treaties

Slovenia is a party to the Energy Charter Treaty (ECT) which was signed on 17 December 1994. The foreign investments in the Slovenian energy sector enjoy protection under the terms of the ECT, which are explicitly stated therein.

Slovenia is also a party to the Statute of the International Renewable Energy Agency (IRENA) drawn up on 26 January 2009 with which the International Renewable Energy Agency was established. The established Agency shall promote the widespread and increased adoption and the sustainable use of all forms of renewable energy. One of many activities of the Agency stated in the Statute is also to analyze, monitor, and without obligations on Members' policies, systematize current renewable energy practices, including policy instruments, incentives, investment mechanisms, best practices, available technologies, integrated systems, equipment and success-failure factors.

### 5.4 BiTs

Slovenia has entered into a Bilateral Investment Treaties (BiTs) with many countries, but currently there is not any concluded between Slovenia and Italy. The one signed in 2000 was terminated in 2009.

## 6. Final Considerations

Much effort is invested in promotion of foreign investments in Slovenia by InvestSlovenia Team (**SPIRIT Slovenia - Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology**) to attract foreign investments. According to asked foreign investors<sup>7</sup>, who highlighted some obstacles in the Slovene business environment, the main ones are, namely long and extensive administrative procedures, too many regulations, slow construction of infrastructure and also long-term obtaining various permits. Nevertheless, data show that companies with foreign capital are growing faster than the Slovenian average both by volume of sales and the number of employees, as well as the added value per employee and export.

---

<sup>7</sup> Research carried out in 2017 by the **Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology**.

- [WWW.GRIMALDILEX.COM](http://WWW.GRIMALDILEX.COM)
- [INFO@GRIMALDIALLIANCE.COM](mailto:INFO@GRIMALDIALLIANCE.COM)

- ALBANIA
- BOSNIA & HERZEGOVINA
- BULGARIA
- CROATIA
- MONTENEGRO
- NORTH MACEDONIA
- SERBIA
- SLOVENIA
- SPAGNA