

The Role of the Energy Agency of the Republic of Serbia in energy sector reform

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The objectives of the Energy Policy in Serbia are comprised in three main groups of goals:

Security of Supply

- Maintaining reliability and availability of existing infrastructure and ensuring new generation and network infrastructure adequacy to forecasted growing demand
- Capital intensive industry- massive investment needed

Efficiency

- Introducing competition for production and supply.
- Price regulation of natural monopolies- networks industries (technical and allocative efficiency)
- Enhancing energy efficiency

Environment and RES

Decreasing adverse impact to the environment

Incentives for RES

EU accession

- Legal framework in compliance with EU Acquis Communautaire (European Partnership, SAP and Energy Community Treaty)
- Implementation taking into consideration interests of Serbia

...and how to achieve them

- Legal framework
- Institutional framework
- Industry structure (restructuring)
- **Change management**

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LEGAL FRAMEWORK

• **Energy Law** (entered into force on 01. Aug.2004, enabling energy market development and arranging basic elements of energy sector organization and functioning):

• **Secondary legislation** (Energy Sector Development Strategy, Strategy Implementation Program, Licenses Decree, Regulation on Energy Permits, pricing regulation, market rules, grid codes, incentives for RES...).

INSTITUTIONAL FRAMEWORK

- New institutions- Energy Agency (AERS) and Energy Efficiency Agency (SEEA)
- Clear division of competences between the Parliament, Government, Ministry of Mining and Energy and AERS.

INDUSTRY STRUCTURE

- Corporatization (efficient corporate structure of PE)
- Unbundling of network industries

CHANGE MANAGEMENT

- Planning of reforms, implementation, monitoring and evaluation
- Coordination on horizontal (inter- ministerial) and vertical (Parliament- Government- Ministry- AERS) levels

Mission of AERS

*Protection of short- term and long-
term consumer's interest.*



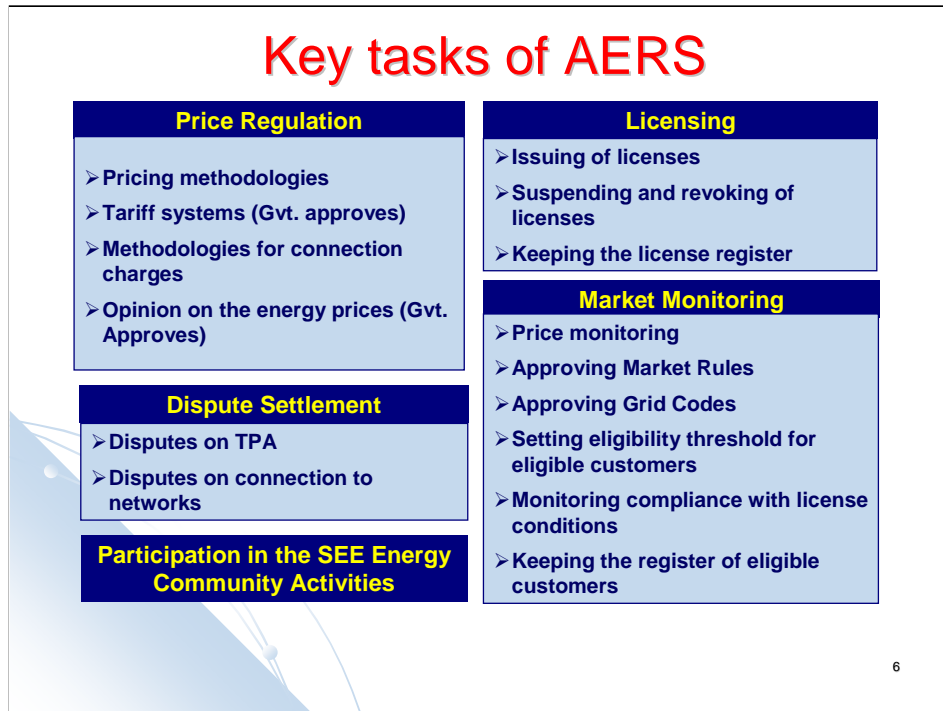
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The mission of AERS is to protect short- term and long- term interest of consumers.

Short term interests include justified prices of energy (preventing companies to abuse monopoly position) and reliable supply (enabling companies to earn revenues for maintaining existing capacity and ensuring compliance with technical, environmental and financial requirements)

Long term interests- covering customers future energy demand by enabling sustainable development (allowing companies to earn revenues to invest in new infrastructure)

Key tasks of AERS



Five main groups of activities to be performed by AERS are:

PRICE REGULATION

- Enacting pricing methodologies which set the way how to calculate allowed revenues of the regulated utilities, and allocate them in an economically efficient way to tariff elements (capacity, energy, ...) **Adopted by Council, published in OJ of the RoS**
- Developing tariff systems for regulated activities, further allocating the costs of providing energy and services to final prices (production, wholesale trade for tariff customers, transmission/ transport, distribution, supply for tariff customers). Tariff systems have to be approved by the Government. **Adopted by Council and Gvt., published in OJ of the RoS**
- Enacting methodologies for connection charges. **Adopted by Council, published in OJ of the RoS**
- Providing opinion on the regulated prices of energy and services calculated by the regulated companies according to the pricing methodologies, which will be submitted to the Government for approval. It should be noted that the companies are not obliged by the Energy Law to change the prices according to regulator's opinion.

MARKET MONITORING

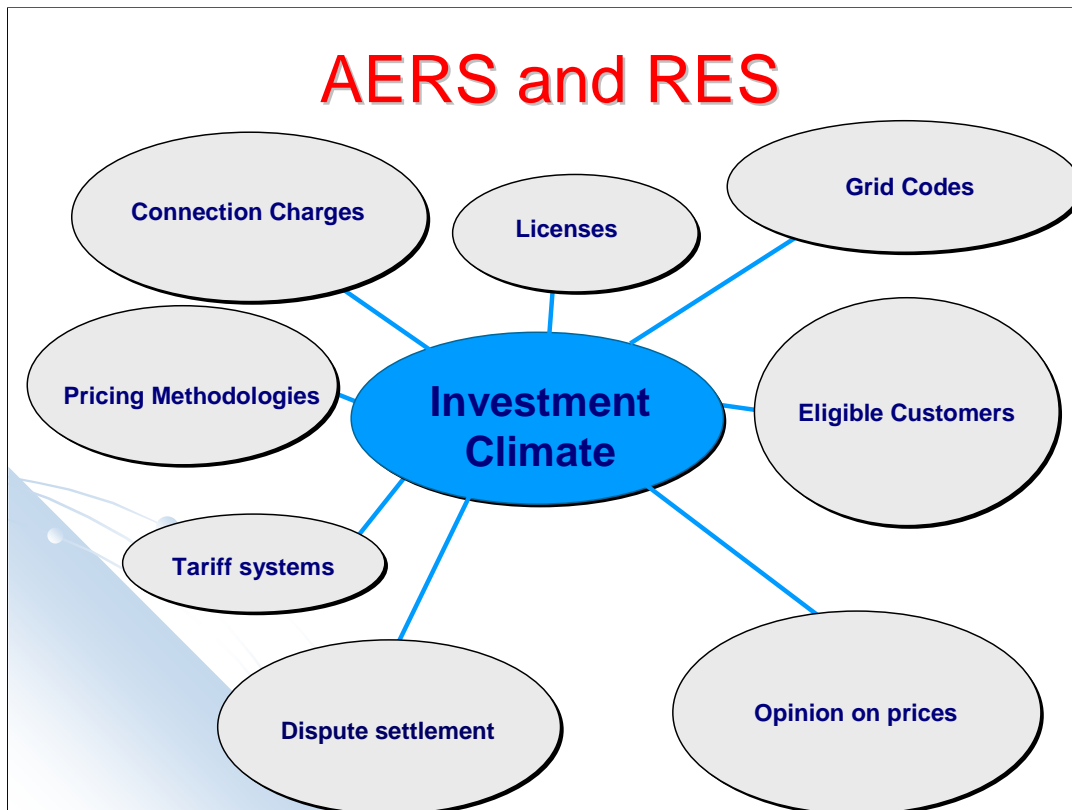
- PRICE MONITORING- Monitoring the application of the pricing methodologies and tariff systems
- Approving the Market Rules (according to the Energy Law, no right to request modification)
- Approving the transmission, transportation and distribution Grid Codes (according to the Energy Law, no right to request modification), **codes in drafting phase**
- Setting eligibility threshold for eligible customers
- Monitoring compliance with license conditions
- Keeping the register of eligible customers

DISPUTE SETTLEMENT

- DISPUTES ON TPA- Resolving appeals concerning the refusal or denial of open access to networks
- DISPUTES ON CONNECTION TO NETWORKS- Resolving appeals lodged against decisions of energy entities on refusal of connection to networks

LICENSING

Issuing, suspending, revoking the licenses, keeping the license register. **AERS received more than 600 applications. Processing is underway**



There is no direct jurisdiction of AERS in implementation of Government's policy in RES. However, there are interfaces btw. AERS scope of activities and investment climate for RES.

Existence, competences, independence, accountability and authority of the regulator is one of the main factors for decision taking and risk assessment also for investing in RES in Serbia.

Price regulation- some renewable energy technologies applicable to industry or agricultural enterprises would be financially viable simply by increase of electricity price to an economic level. For example, biogas generation may become feasible if retail prices reach app. 5 cents.

Connection charges- setting transparent and non- discriminatory methodology for calculation of charges for connection of RES to networks

Grid Codes- arranging technical conditions for connection to networks

Licenses- issuing licenses for generation of electricity from RES

Dispute Settlement- acting upon appeals on TPA or connection to networks

Eligible customers- envisaged decrease of the eligibility threshold enables wider market for RES generation

Conclusions

- **Quality of solutions proposed or adopted by AERS influences:**
 - Security of supply
 - Sector efficiency
 - Environment and RES
 - Investment climate
 - EU accession

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•**Security of supply** - cost reflective tariffs are essential to achieve short term security of supply (reliability of facilities achieved through regular maintenance) and long term security of supply (generation and networks adequacy to forecasted demand), but also for expansion of Serbian electric and machinery industry. Only if the prices cover justified costs, including rate of return necessary for new investments, the energy sector will not be a bottleneck, but an engine for economic growth of Serbia.

•**Sector efficiency**- by approving market rules and grid codes adopted to specific circumstances in Serbia, as well as preventing excessive returns due to market power of regulated companies by close monitoring of their allowed revenues. This is essential for protecting the interests of customers and contributes to the competitiveness of Serbian economy.

•**Environment and RES**- Costs needed for environmental upgrading of regulated company's infrastructure in optimal dynamics need to be covered by the regulated tariffs. Cost reflective tariffs for electricity, as well as stable regulatory framework, are preconditions for increasing the share of RES in energy mix of Serbia.

•**Investment climate**- existence, competences, independence, accountability and authority of the regulator is one of the main factors for decision taking for investing in Serbian energy sector by foreign investors

•**EU accession**- obligations of Serbia within the European Partnership and SaP include several issues related to the AERS.

Thank you for your attention!

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