


Renewables Sector Challenges and the Future Expectations

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Authors: Jelena Gazivoda, Senior Partner
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RENEWABLES SECTOR – CHALLENGES AND THE FUTURE EXPECTATIONS

The renewables sector in the Republic of Serbia has been growing for a while with a focus on wind energy, solar energy, biomass, and biogas and as recently on agrivoltaics.

According to the Republic of Serbia's firm policy orientation towards renewables reflected in the draft of the Integrated National Energy and Climate Plan (NECP), it is expected that the Republic of Serbia should generate 40% of its overall energy generation from renewable resources in 2030. This represents a significant rise in comparison to 27% which is figurate as a set threshold today.

In April 2021, the Republic of Serbia adopted four energy laws, including the Law on the Use of Renewable Energy Sources.

The enactment of the said laws together with the accompanying secondary legislation such as the Feed-in Premium Decree and the Decree on Prosumers, represents a significantly improved and modernized legal and regulatory framework for transitioning to auctions to award Contracts for Difference for utility-scale projects and FITs coupled with PPAs for small-scale projects.

In August 2021, the Republic of Serbia adopted a decree on “prosumers” that, together with the Law on Use of Renewable Energy Sources, creates a comprehensive framework for net metering that was later backed by a rebate program for rooftop PV.

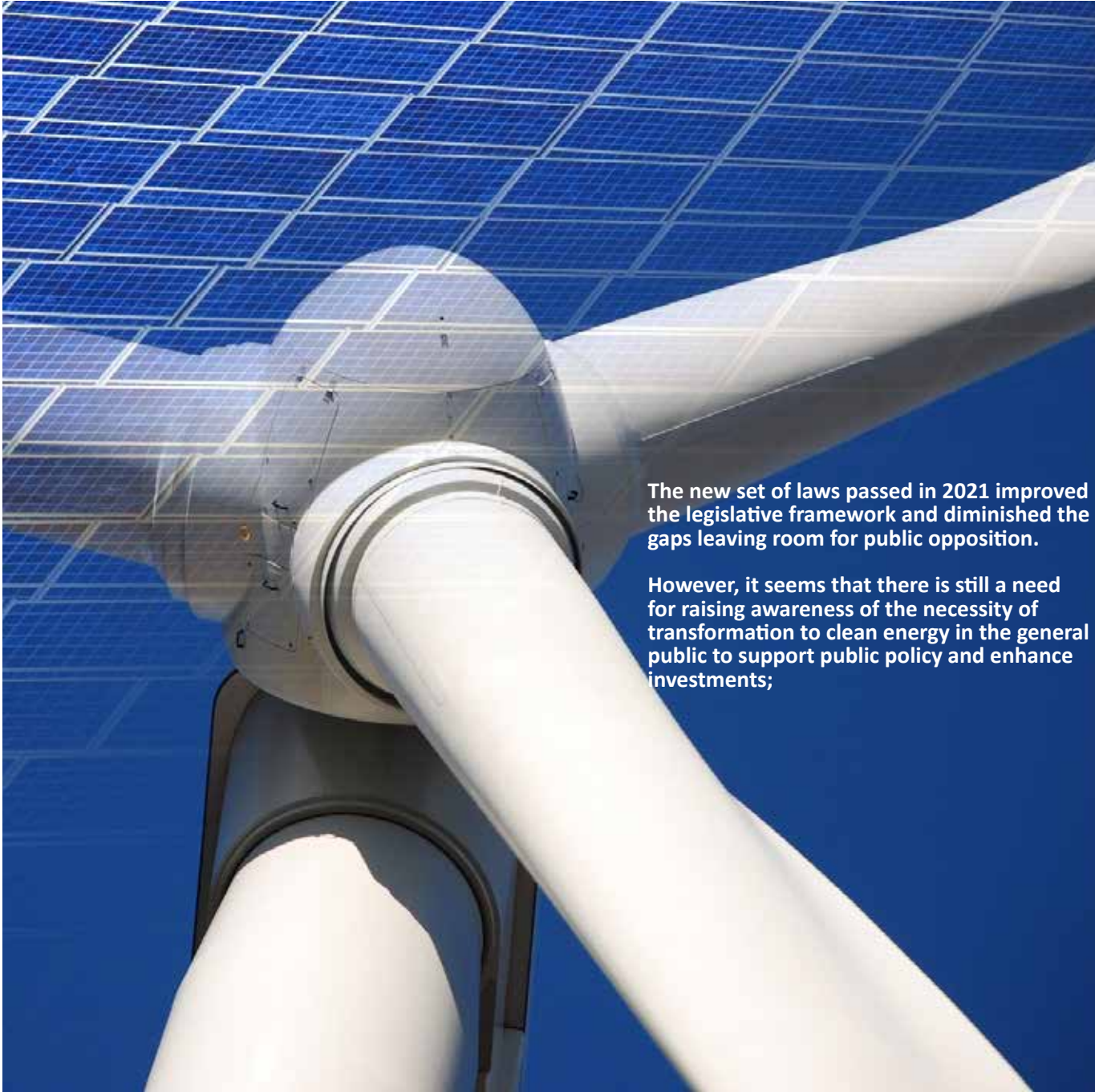
The decree defines the criteria, conditions, and billing methods for different types of prosumers, such as single-family households, residential buildings, companies, and power suppliers.

The first auction for 400 MW of wind power capacity was planned for late 2022 with technical assistance from the EBRD, whereby it is still delayed due to a lack of secondary legislation which is expected to be enacted in the first quarter of 2023.

The auctions for market premium cannot be organized before the enactment of the Decree on taking on balance responsibility and the criteria for determining the liquidity of the organized intraday market with a model of the agreement on taking on balance responsibility.

The outstanding decrees to be enacted to complete the legislative framework for renewables are:

- i. the Decree on a model of the agreement on the Feed-In Tariff;
- ii. the Decree on the producer of electrical energy from renewable energy sources and an origin guarantee;
- iii. the Decree on the compensation for the incentive for preferred producers; and
- iv. the Decree on incentive measures for reaching the share of renewable energy sources in traffic.



The new set of laws passed in 2021 improved the legislative framework and diminished the gaps leaving room for public opposition.

However, it seems that there is still a need for raising awareness of the necessity of transformation to clean energy in the general public to support public policy and enhance investments;

In addition to the above legislative improvements and decrees to be adopted, it is expected that the Serbian energy regulator (Energy Agency of the Republic of Serbia) will carefully observe the changes in the market from the date of the enactment of the Methodology for determination of maximum purchase price for the electric energy adopted last December and to reflect them into the Methodology to be adopted by the end of December 2022 for the next year.

Currently, the renewable energy development in Serbia shows three parallel streams which are not followed by the same dynamics of implementation but go in the same direction of reaching the above-set threshold by 2030.

The first stream represents a robust initiative of a fan of private investors who are developing principally wind power plants and solar power plants, all together exceeding 15 GW, which is a significant step forward for a small country like Serbia, followed by the developments in biomass and biogas domain.

This dynamic group gathers international and local players who have determined the further course of the renewables sector development due to the successfully completed projects and many of those in the pipeline, building long-term trust in clean energy and promoting the viability and sustainability of renewable projects in the Republic of Serbia.

The second stream represents an ambitious but still postponed in time project of the state-controlled power utility Elektroprivreda Srbija (EPS).

EPS is shifting its operations to the renewables and construction of a 75 MW Kostolac wind farm with an installed capacity of 300 MW and well it envisages the construction of two pumped storage hydropower plants – Bistrica and Đerdap 3 for some time in 2025 for which year it also envisages the start of construction of its first solar power plant.

The construction of wind and solar power plants is aimed to be implemented in former open-pit coal mines.

The current global energy crisis has additionally emphasized the importance of the security of supply and reliance on energy resources on our own territory or in very close vicinity. Secondly, renewable energy technologies by their nature are more resilient to different external factors than conventional energy technologies, which is extremely relevant in times of global energy crisis of conventional energy sources and risks associated with conventional energy systems.

Thirdly, the renewable energy projects are expected to be commercially efficient as the full lifetime costs of construction and maintenance are expected to be well covered by the electricity generation price plus the power plants using renewable energy sources will have additional revenue by selling certificates of guarantee of origin on the domestic or regional market.

Fourthly, there is an improved legislative framework and firm orientation of the stakeholders to the Green Agenda and clean energy as well as long-term support of the international financial institutions, especially EBRD, WB, and EIB. Fifthly, there is a strong renewable energy community enhanced by the incorporation of the Association Renewable Energy Sources

of Serbia (RES Serbia), a business association founded in March 2021 and aimed at improving the business environment in the renewables sector and promoting the generation and use of electric power from renewable energy sources. Sixthly, there is a track record of successful renewable energy projects in the Republic of Serbia already generating electric power from renewable energy resources, constructed in line with the best international standards and finances by international financial institutions.

The role of EBRD as the leading institutional investor in Serbia should be emphasized as well. Apart from providing support to the state institutions in creating a stimulating environment for investments and a significantly improved legislative framework, it has made an immense contribution by fostering the introduction of an auction system for renewable energy sources.

Additionally, it is cooperating with several local self-governments in the Republic of Serbia on feasibility studies related to the implementation of renewable sources in remote heating systems.



Together with the Government of Austria, it has formed the Renewable District Energy in the Western Balkans (ReDEWeB) Program, which was also supported by the Swiss State Secretariat for Economic Affairs (SECO), whereby capital grants and support in project realization and improvement of regulations were secured.

These funds are dedicated to the preparation of studies that test the possibilities of implementing new technologies, such as solar-thermal facilities and heating pumps, but also the possibility of energy rehabilitation of facilities connected to the remote heating system.

The studies are being prepared for the cities of Novi Sad, Pančevo, Šabac, Bor, Zrenjanin, Kraljevo, and Valjevo. The EBRD and other financial institutions in Serbia are providing designed credit lines dedicated to citizens and commercial entities to finance energy-efficient technologies in their homes and their premises/facilities.

Apart from the EBRD, the Republic of Serbian has been granted great support in the promotion and development of the renewable sector by the IFC, KfW Development Bank, EIB, GIZ, UNDP, USAID, etc.

On the other hand, there are still respective deterrents to more investments in renewables in Serbia such as:

- i. slow speed in project implementation there is a recognized trend of slow speed implementation of renewable energy projects in the past years. This has predominantly been caused by delayed enactment of the adequate legislative framework supporting the implementation of renewable energy projects in compliance with international standards and it is continuing due to the delayed enactment of the relevant secondary legislation enabling the implementation of the incentive novelties introduced by the recent changes of relevant laws;
- ii. low tariffs for fossil-based energy - there is still a trend of subsidized energy tariffs for fossil fuel-based energy which represents a huge deterrent to the long-term success of renewable energy projects as they are directly affecting the level of competitiveness of renewable energy projects. To enter the greater room for renewables the public policy should be such that the conventional energy tariffs should be at a similar cost level as renewables;
- iii. competition with other energy sources - In times of a need for additional capacity to match the growing energy

demand, nowadays dictated by the global energy crisis, different states are trying to urgently resolve the issue of increased demand in conditions of global energy instability. The Republic of Serbia is planning additional power capacities, especially coal plants but it is not even excluding the consideration of nuclear power as an alternative to decarbonizing the power sector;

- iv. protestor's actions and public opposition - even though the Republic of Serbia is developing renewable energy projects for some time, there is still significant public opposition mainly around small hydropower plants (currently under moratorium). This problem could be mitigated by improved environmental, social, and sustainability assessments supported by improved legislation and public policy support. The new set of laws passed in 2021 improved the legislative framework and diminished the gaps leaving room for public opposition. However, it seems that there is still a need for raising awareness of the necessity of transformation to clean energy in the general public to support public policy and enhance investments;

- v. investment risks and uncertainties – the risks of the investments have increased with Covid 19 as well as with the current global instability which significantly affects the supply chains and causes long construction delays, especially in this sector which is highly dependent on technology import. These risks are today additionally complicated by the combined risk of inflation and associated local currency risks. On the other hand, renewable energy projects assume long-term financial planning supported by the proper policy ensuring the long-term sustainability of the project. The moment of transition from feed-in tariffs to feed-in premiums is also a very important factor associated with the investment risk as it tackles the issue of the real maturity of the market and its capacity to smooth the transition;



vi. non-existence of a proper balancing of generation and consumption which is crucial for energy security – it is very important to ensure the balance of variable supply with the demand over various time frames. In times when variable energy is scarce it should be balanced by other energy sources or stored for future use on a seasonal basis. The existing wind power plants in Serbia are concentrated in a relatively small area, therefore spatial dispersion of renewables, both wind power, and photovoltaic plants is very important for reducing the balancing deviation. This introduces another “hot” topic of further investments into so-called hybrid projects that incorporate hydropower capacities and/or energy storage technologies. The hybrid projects are not commercially attractive as they assume significantly higher capital costs and extended payback periods and their implementation could not sustain without

state support. There are currently two commercially viable technologies for electrical energy storage: pumped-accumulation power plants and energy battery systems. In the next decade, hydrogen and ammonia storage is expected to become a commercially justified technology. In addition, load management and demand response, as well as the so-called “electrification” of the transport and heating sectors, can be effective ways to achieve a balance between production and consumption; (vii) lack of strong domestic technology supply chain – having in mind that renewable energy production is associated with relatively smart technologies, the deployment of renewables is usually based on import what increases the overall costs and creates less economic value. Investing in the domestic technology supply chain would be one of the crucial instigators of the future development of the renewable sector.

JPM Jankovic Popovic Mitic

8a Vladimira Popovića,

DELTA HOUSE, V Floor

11070 Belgrade, Serbia

T: +381/11/207-6850

E: office@jpm.law

www.jpm.law