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The decision on reducing incentives for the production of electricity from wind energy without any consultation with us, along with the deterioration of all other conditions, cannot be called a fair treatment, say investors. We are working hard to meet the interests of the investors, but the state's interest must come first, says the Minister of Energy. It ain't over till it's over! This is not surprising in Serbia when it comes to investments. The only difference is that the energy sector is "in the dock" this time, namely SEWEA, the group of investors that are preparing to invest more than one billion euros in the construction of wind power plants.

Things get "heated" a few days ago when the Serbian Ministry of Energy proposed the new incentives for the purchase of electricity produced from renewable energy sources. Well, those incentives have been reduced for the electricity produced from wind and solar energy, so that they actually cannot be considered as right incentives. However, the proposed incentive period (period in which the incentives or the so-called feed-in tariffs will be applied) remains the same - 12 years.

Feed-in tariff is the price determined by the Government, at which the electricity generated from the renewable resources is purchased within a certain time frame. It's the only way of ensuring profitability of the investments in renewable energy sources, whose exploitation is much more expensive than that of conventional energy sources.

Besides the reduction in feed-in tariffs, investors are also concerned about a few more issues.

It is uncertain, for instance, whether the Serbian Government will propose that the tariff should be adjusted to reflect the changes in inflation in Eurozone, which, truth to be told, was not defined either by the previous decision according to which the incentive price amounted to 9,5 euro cents. Investors warn that without such an adjustment, over a 12-year period the price at which owners of wind farms sell electricity could turn out to be worthless.

Investors might encounter an additional problem if the Government abolishes the state guarantees for the mandatory purchase of electricity produced from wind, without which, according to the Serbian Wind Energy Association (SEWEA), it is impossible to get bank loans for investment.

Finally, the investors also warn that there are announcements that the quotas that the state is ready to purchase at incentive prices would be insufficient to satisfy the planned capacity of all investors - about 600 megawatts. According to estimates of foreign experts, there is a potential for quotas of about 1,000 MW in Serbia, while the rumors say that the state could offer a half of that amount to the market, which again may be reduced to only 250 MW by the end of 2015. This practically means that only the first investors that obtain the so-called "preferential treatment", i.e. the green light from the Ministry to start the construction of

wind farms, could benefit from the feed-in tariff. As soon as the permits are issued for the investments that “fill the quota” (for examples, the construction of wind farms with the capacity larger than 150 MW is expected in Serbia), the remaining investors will not be able to join the “privileged group”.

Kurt Derieuw, the CEO of the Belgian investor Electrawinds, says that the investors have not discussed a possible change in action plan with the representatives of the Ministry. “If the Ministry really intends to do something – it must adopt a fairer system of incentive measures. Let’s not deceive ourselves, there are no other projects in renewable sources that are closer to obtaining building permits and which can provide investments in amount of 500 million euros only in the next year and start with implementation, as the wind farms can. It is only by establishing fair feed-in tariffs that Serbia will be able to create positive business environment and ensure investments in wind energy,” said Kurt Derieuw, adding that reducing tariffs without previously consulting investors, along with deterioration of all other conditions, cannot be defined as a fair relationship.

Anyway, during the last meeting of the Ministry’ representatives and investors, in which they were discussing the new proposal of the Government, investors pointed out that their projects were put in question under new conditions. Also, representatives of the IFC stressed that they did not agree with the decisions on wind energy, made by the Ministry of Energy. According to information of the “Novi magazin”, foreign consultants even suggested an increase in incentive tariff from 9,5 euro cents per kWh.

“If this proposal is going to be accepted in its present form, Serbia would lose one billion euros in foreign direct investments that are waiting, and, at the same time, would violate the previously signed agreements with the Energy Community,” it is said in SEWEA.

On the other hand, Zorana Mihajlović, the Minister of Energy, believes that the Ministry should make an effort to meet interests of investors, but that “the state’s interest must come first.”

She said earlier that the Ministry had engaged EBRD and IFC “precisely in order to gain insight into the true state of affairs and to avoid any comments on how we have changed something due to some party policy or so on,” as well as that the objective of the state is to meet investors expectations and create conditions in which they can really capitalize on their planned investments, but that the state’s interest should be also taken into account because “making decision to allow high feed-in tariffs is not easy at all.”

A new electric power facility has not been built in Serbia for a quarter of a century, mainly because the electricity, due to the wrong policy in place during the past decades, has been translated from economic into social category. A current price (if EPS manages to collect payments from end consumers) accounting for slightly above 5 euro cents, pushes EPS into loss that is to be covered by taxes collected from citizens.

Feed-in tariff which EPS would have to pay to the producers of electricity from wind is

almost twice as high as the price at which it could later sell that electricity. However, if the state decides to apply the economic logic and leave the electricity price formation to the market, the exploitation of energy from renewable resources would be far more realistic and at the same time less cumbersome for EPS and the state's treasury.

Danilo Drndarski, the executive of Dutch-Belgian investor Wind Vision, which is also a member of SEWEA, says that, as far as he knew, the models proposed by the International Finance Corporation (IFC), hired as an expert consultant by the Ministry of Energy, are somewhat different.

"Their model supposes increasing feed-in tariffs, which are index-linked to inflation in Eurozone, providing the state guarantees for the purchase of electricity from renewable sources, establishing international arbitration and raising quotas for the production of energy from wind. This model, by fulfilling absolute minimum requirements, enables further investment. However, the Ministry has rejected the IFC's proposal related to wind energy, drastically reducing incentives without providing any explanation why it happened and what were the motives for such decision. We have to highlight that nobody from the SEWEA has seen the entire text of the regulatory acts aimed at regulating the field of renewable energy use, so that, except for the information on the model, everything else we can say regarding this issue are just our speculations and interpretations," said Drndarski, adding that these are exactly the reasons why it is so important for them to meet with representatives of the Ministry as soon as possible.

Investors are particularly surprised by the attitude of the state towards the electricity generated from wind energy, given that its largest portion is produced during the winter, when the country usually lacks electricity, which is then imported at much higher prices than incentive price for wind energy. In other words, if wind power plants operated with full capacity, the need to import expensive energy would be significantly lesser. This could reflect on the final price of electricity as well.

It has not yet been explained in which manner the Ministry determined the incentive price of 9.2 euro cents. Experts say that many input factors determine profitability of a project -amount of investment, total number of hours the wind blows at full capacity (about 2,500 hour per year in Serbia), expected return on investment, loan terms and conditions, operational costs...

CO2 emissions

Investment in 1,000 MW of installed capacity matches the overall reduction of CO2 emissions by 2.5 million tonnes, which is more than 10% of total emissions of thermo power plants that amount to 24.9 million tonnes per 4,000 MW of installed capacity of these facilities.

Investments in progress

Two companies have made significant progress in investments. The company "Energowind",

whose representative is Goran Novaković, a former minister in the government led by Zoran Đinđić, and “NIS” signed an agreement on the construction of the first wind power plant in Serbia with installed capacity of 102 MW that will annually produce at least 212 GWh of electricity. Both partners will have an equal 50% stake in this company.

Given that the company already has all the required building permits, it might be seeking the status of privileged producer. Accordingly, the current feed-in tariffs of 9.5 euro cents, without annual adjustment for inflation in Eurozone, will be applied in the next 12 years.

The greatest progress has been achieved in Zaječar, where the Ministry granted temporary status of privileged producer to the project “Vrška Čuka”. However, it is interesting to notice that the building permits for the project, which is not a part of SEWEA, were given by the municipal administration, although such projects fall within the competence of the Ministry of civil engineering and urban planning. In addition, permits were obtained expeditiously. In that way, 35.45 MW of the quotas determined for the construction of wind farms have been already reserved.

#### Quotas

European Bank for Reconstruction and Development (EBRD) several times pointed out that, according to their analyses, without large investments in wind farms Serbia could not meet its target of 27% energy consumption from renewable sources by 2020. The study from 2010, commissioned by “Elektromreža Srbije (EMS)”, has shown that the system could accept, without any problems, up to 1,000 MW generated from wind power.

*Source Serbia Energy Magazine*