

Serbian Energy Market Harmonization, preparations for Community rules of engagement, interview with Mr. Slavtcho Neykov, Director, Energy Community

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Serbia's first EU harmonization step was initiated in the Energy Sector which demonstrates the importance of energy security for both parties. Entering the Energy Community Treaty for South East Europe, Serbia has accepted the set of rules and standards to be implemented as preparation for integration into Community Energy Market. Energy Community being the partner of Serbia is bringing important quality into the reform process.

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Interview with Mr. Slavtcho Neykov, Director, Energy Community Director, conducted by Vladimir Markovic, Msc APR Serbia Energy Business Magazine

Mr. Slavtcho Neykov, Director, Energy Community Director

Serbia has experienced some progress in the reform process and is further progressing with regards the present generation efficiency improvement, but, it has to do much more in order to bring the overall sector into sustainable path. The gas sector reform in Serbia is particularly needed because it was more inertial in comparison to the electricity sector. Serbia shall continue developing tailor made strategic approach to RES , which energy potential to incetivise more and up to which level. EPS sets standards for environment awareness within Serbia - the other companies are most welcome to follow. The need for clear and friendly investment environment - not only the energy laws, but also construction laws, law on concessions and all relevant other laws need to be investment oriented.

Serbia-energy.com: Energy Community for South East Europe (EC) is the first EU harmonization step and process started in Serbia. Energy sector in Serbia, after the decades of poor investment and lack of EU standards started its reforms with signing of Athens Process. Can you tell us more about the process and goals of EC, realized progress and importance for Serbia?

The main idea behind the Energy Community is to extend the EU internal energy market to South-East Europe and beyond. The Energy Community was created by the [Treaty establishing the Energy Community](#), signed in October 2005 in Athens and entered into force on 1 July 2006.

The general objective of the Energy Community is to create a regulatory and market framework which is able to attract investments for a stable and continuous energy supply, to create an integrated energy market allowing for cross-border energy trade and integration with the EU market, to enhance security of supply and competition, and to improve the environmental situation. The Treaty covers network energy, which currently includes electricity, gas and oil.

The means to achieve the objectives underlying the Energy Community Treaty is integration by law being based on EU rules and principles. The Contracting Parties committed themselves to implementing selected parts of the [acquis communautaire](#) on electricity, gas, renewables, energy efficiency, competition, environment and security of supply. Thus EU rules are being implemented in non-EU member area on the ground of international treaty obligations.

The Energy Community Treaty integrates national energy markets. Being a Community under the rule of law, it is through the harmonization of laws that the Energy Community achieves its goals and links the markets of the Contracting Parties with each other and with the internal market of the European Union.

To what extent the Contracting Parties live up to their commitments by implementing the [acquis communautaire](#) is thus of the greatest importance for the progress of the Energy Community. In this respect, one needs to remember that the Contracting Parties have come a long way from the state of their energy sectors in the 1990's to endorsing the European model based on competition, sustainability and security of supply.

Parallel to it, the Energy Community experienced an enlargement by welcoming Moldova and Ukraine as new Contracting parties in 2010 and 2011.

Thus, the Energy Community model and the efforts of the Parties – among them Serbia – invest in implementing and developing it, continue to matter for the modernization of the energy sectors to the benefit of its economies, societies and citizens.

Serbia-energy.com: Serbia has taken an important step in the implementation of EC policies and standards, subsectors of electricity and power generation seem to have the highest importance for the region economic development, can you tell us your impressions on the achieved level of power generation facilities efficiency improvement and liberalization of electricity trade?

The energy sectors constitute the backbone of our economies and societies. Availability and affordability of energy are key issues not only on the European and global political agendas, but they are also crucial for our everyday life. Energy concerns everybody and is of everybody's concern. In Europe, this is nowhere more truly than in the Contracting Parties to the Energy Community.

On this ground, Serbia should continue to implement the European acquis, and as you put it nicely, policies and standards through the Energy Community legal framework. Nevertheless, the process as such is not easy one – each party has many obstacles which have constantly been faced with. Of course, you need political will to start the reforms, economical and financial stability; further social agreement on some basic level is necessary (e.g. the role of clean energy vs. its price; clarity on who bears the costs of the reforms etc)? I need not say that this ideal conditions can never been met.

Let me clarify one more thing. The main focus of our work – further to the support in achieving the Community objectives – is to monitor the proper implementation of the Treaty requirements, which means the legislative and regulatory framework of our Contracting Parties. Thus, a major task is to achieve the efficient and effective level of each energy activity which would be then benchmarked against the other Contracting Parties, but also with other European countries.

And to answer directly your question – Serbia has experienced some progress in the reform process and is further progressing with regards the present generation efficiency improvement, but, it has to do much more in order to bring the overall sector into sustainable path. Serbia's legislative framework has not only to be completed in compliance with the Treaty requirements (some deadlines had already passed years ago), but to use next period to adopt its sector with the coming requirements. The national electricity market in Serbia is still being developed, at slower pace than we should like to see, but the trend is certainly positive.

Serbia-energy.com: Liberalization of the gas trade subsector is still on the long track, what are they key policy recommendations from Energy Community for Serbia?

I would refer to my previous answer. The gas sector reform in Serbia is particularly needed

because it was more inertial in comparison to the electricity sector. Gas has to become commodity that customers could purchase at the free market on transparent manner.

We notice space for much stronger progress since the Treaty was signed (2005) – thus, there's a lot to be achieved. However, at least the tariff structures were established and parts of Serbia had been additionally gasified though it seems that this process has been significantly slowed down recently. I would remind you than among original Contracting parties, Serbia and Croatia were the most gasified ones. Compare Serbia's with Croatia's gas sector development since 2005 and the difference is substantial.

>Serbia-energy.com: Oil subsector and liberalization of trade, different standards and custom duties that were implemented by Government of Serbia, did Serbia forgot in one moment about its obligation from contract with EU, policy view of EC on this subject?

We were following very closely the ongoing situation in Serbia regarding the amendment on Excise Law last year. However, I understand now the case is progressing after detailed and fruitful discussions with the European Commission and that Serbia committed to abolish all non compliance issues.

But the main message is clear – the Energy Community (that is to say, particularly the Secretariat) should always be consulted prior the relevant energy acts are to be officially submitted to the government for endorsement – this will save time, energy and spare all of us from unnecessary anxiety.

Serbia-energy.com: The European policy 20/20/2020, how do you evaluate Serbian efforts for harmonization in this process? The use of Renewable energy sources, incentive feed tariffs and new Energy law that is in the procedure of public hearings?

The European Union adopted ambitious energy and climate change objectives for 2020 – to reduce greenhouse gas emissions by 20%, (rising to 30% if the conditions are right), to increase the share of renewable energy to 20% and to make a 20% improvement in energy efficiency. We expect Serbia and all Contracting parties to have similar level of the ambition. Now, whilst Kyoto Protocol is the legal framework for CO2 emissions, the RES targets might be set in the framework of the Energy Community. Serbia should, again, continue developing tailor made strategic approach to RES – answering the questions I already mentioned – which energy potential to incentivise more and up to which level, the allocation of the costs for this etc- but this is a sovereign Serbia's decision. The important thing is to remain within the binding commitments of the Treaty and potential new extension of the RES acquis under the Treaty. We have provided the comments to the draft Law and - as I said before - are expecting the request from Serbia's Government to assist in bringing it in line with the acquis.

Serbia-energy.com: Following EU directives and recommendations, Serbia has separated power generation assets from Network distribution. How do you evaluate the level of realized modernization in the area of power generation facilities (power plants) and its efficiency increase? Does Serbia lacks additional investments in new power generation facilities

We trust that Serbia, with unbundling completely transmission from the other activities, saved already much time and energy – because the incoming third energy internal market package is very strict on particularly unbundling requirements. However, the process of unbundling should further continue as to meet the requirements.

In spite of huge progress which Serbia has reached in rehabilitation, this is the partial step in reaching sustainable power production; Serbia will be facing a need for additional energy sources for sure. Moreover, it will need additional investments and most probably from abroad. The investors, very picky at this time, will invest only into countries with clear, transparent, efficient and understandable legal, regulatory and economy framework. The sooner Serbia has it, the better. Again, we are here to assist that the one is in place.

Serbia-energy.com: Network grid systems are in the constant process of modernization, Serbia is starting the implementation of Smart Grids also. How do you evaluate the current status of Serbian Grid Network when it comes to efficiency and effectiveness?

I have emphasized before the main focus of our work; I would add that one should not forget the best evaluators above all are the customers – that is to say, network users, including traders, are the ones to be satisfied with the service that reflects tariffs applied. Of course, the regulators contribute highly to this accomplishment through annual reports on market and, for example, the statements on security of supply that we are provided by the Contracting Parties (also by Serbia), particularly take on board those indicators.

However, the Secretariat implicitly assists to the increased efficiency also with advocating to the investors or Donors' Community for the priority projects which have this important component – and it is always present – primarily in the context of regional connection. The Energy Community process itself sets this grand goal of securing friendly investment environment.

Serbia-energy.com: Environmental protection projects are of great importance for Serbian Power Generation Sector, how do you evaluate the current status of reached standards when it comes to Environmental standards in all subsectors of Serbian energy stakeholder groups?

This is very important part also of the Energy Community Treaty – the deadlines for the implementation of the environment acquis, thus speaking formally, are getting closer – end of 2017 for such projects is almost tomorrow. Of course, I do not have to elaborate now the importance of the environment protection per se – let us concentrate on obligations.

Serbia is on good track with environment acquis in place and especially encouraging is that the company EPS (one of the main contributors as I understand of the gas emissions in Serbia), has strategic approach – or I should say a vision – to this problem. First of all, it has identified the problem, published Green book two years ago – as a kind of Action plan to tackle the problem, and the most important, raising finance has been undertaken.

Thus, EPS sets standards for environment awareness within Serbia – the other companies are most welcome to follow.

Serbia-energy.com: New power plants, project of strategic partnership that was started by Electric Power of Serbia, delayed for different reasons among them the status of Kolubara coal mines field extension & investment. Do you see the link, and how do you evaluate this initiative?

I am not quite sure to which particular link or initiative with regards the strategic partnership you meant in concrete terms, but the problems of investment delaying in the region is the issue we all should address and analyze fairly. Is it only the global crisis to be blamed or consequently the drop of the consumption? Yes, it is true that the financing environment is getting tougher, the final demand for energy was weakening and the currency flows were falling. Whatever the reasons may be, in my view new investments are a must for several reasons. I will pick the recent ones:

The study on Climate Change Combating in Power Generation in the Energy Community has concluded that the large majority of the thermal power plants operating in the Energy Community is close to, or has already passed their retirement date. Hence, in the absence of urgent and important investments in both power generation and transmission, the adverse effects for energy security, climate change and energy poverty are going to be significant in the Energy Community - this is also the case for Serbia.

The postponed energy related investments will only affect capacity to supply consumers with a time lag that amounts to several years. This means that once the region's economy recovers, there will be an even greater lack of capacity that will unavoidably lead to increased energy prices.

To conclude, any day of delay in reaching the investment decision is a day lost. That is why I emphasized the need for clear and friendly investment environment - not only the energy laws, but also construction laws, law on concessions and all relevant other laws, sub-laws and market rules need to be investment oriented.

Serbia-energy.com: Serbian Electric Power of Serbia (EPS) and our Ministry of Energy are Energy Community partners in implementation of EU policies and standards, do you find this experience important for EPS future restructuring process and an example of good practice that may serve as example to other Serbian Public Companies in the energy Sector? Would privatized EPS be more efficient and profit oriented company once it achieves the expected standards?

Absolutely, as you said we are the partners. We have always had very open and fruitful communication with Serbia's officials on highest governmental and regulatory level, as well as with the companies, where EPS is the best example.

I believe we definitely understand and trust each other. And this is very good starting position to build further our mutual confidence. We have many ideas and are eager to assist in bringing the new legal framework in Serbia. I wish this would be example for cooperation with all other energy companies.

The last, but not the least - with regards the ownership of the companies, the European

acquis is silent. The most important is the compliance of the activities with the Energy Community acquis. And - although with some delays - we are happy to note intensified work within Serbia in this direction, which we shall continue to actively support.

Source serbia-energy.com