



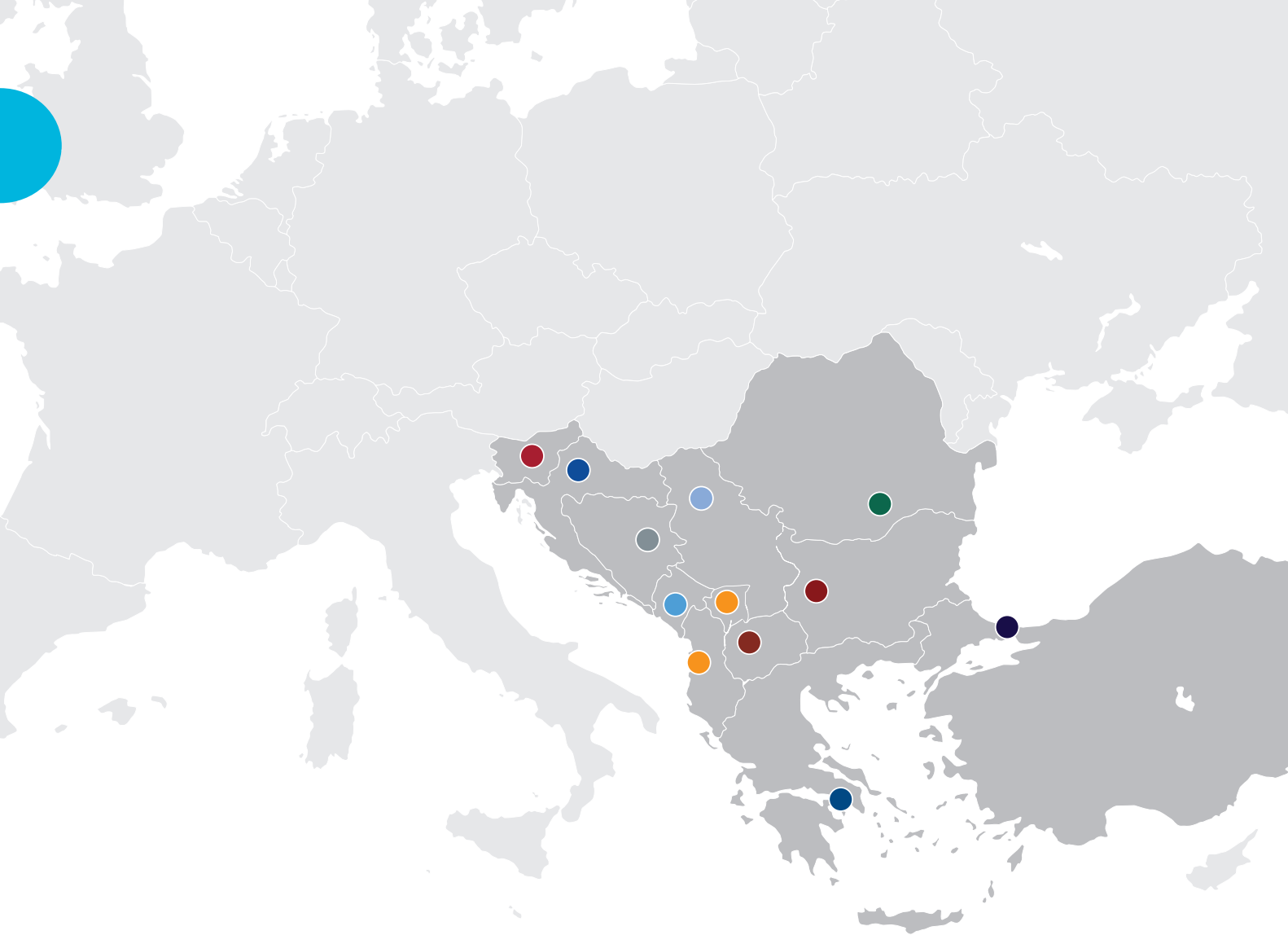
The Southeast Europe Energy Handbook 2015

An abstract graphic design featuring several overlapping, thick, curved lines in shades of orange, yellow, and blue. In the background, there is a faint, dotted map of Southeast Europe. A solid blue circle is positioned in the bottom left corner, containing the word "SERBIA" in white capital letters.

SERBIA

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PREFACE

Dear Partners and Friends of SEE Legal,

This is the 3rd edition of the South East Europe Energy Handbook, a product of the Energy-Infrastructure Practice Group functioning within the South East Europe Legal Group ("SEE Legal"). The warm reception of the previous editions in several conferences, road shows and legal events from in-house counsels, industry professionals and energy law practitioners led to the release of the South East Europe Energy Handbook 2015.

Much like the previous editions, we have aimed to highlight the major aspects in the energy sector, such as market structures, licensing, price regulations, access to the grid, etc., and to provide all the legislative updates which took place over the past year in our region.

We are confident that this edition will once again prove to be a helpful desk-book resource when dealing with complex and highly regulated energy related matters in the twelve jurisdictions of South East Europe in which our member firms operate. This handbook is not meant to be a treatise on any particular country's energy legislation and is not exhaustive to the point of eliminating the need of professional advice, but we are confident that it serves its main purpose - to raise readers' attention as to the energy legislation of each jurisdiction covered by SEE Legal and assist in identifying the issues that might influence investment and business development decisions.

Established in 2003, SEE Legal continues as the only regional organization of 10 leading independent national law firms covering twelve jurisdictions of South East Europe with a legal force of more than 450 lawyers and an impressive client base of multinational corporations, financial institutions and governmental bodies. Our duty of care to our clients remains at the highest level and we are proud that our achievements in client service continue to distinguish SEE Legal as the leading group of law firms in South East Europe. Our member firms continue to be instructed to work on major energy – infrastructure related investment transactions and are associated with most of the important and high profile energy deals in our region. All member firms enjoy the highest recognition from their peers and are constantly ranked every year as market champions.

The South East Europe Energy Handbook 2015 is part of the various initiatives undertaken by the Energy-Infrastructure Practice Group to promote our members' capacity and profile in the region in order to continue our strong presence in the legal market and is a statement of our continuing commitment to further assist you in your legal and business matters.

Sincerely,

Gus J. Papamichalopoulos

Head of Energy - Infrastructure Practice Group of SEE Legal



Borislav Boyanov

Co-Chair of SEE Legal



Disclaimer

This publication is intended to provide a general guide to the law and regulation in the individual jurisdictions described and to be used for reference purposes only. The information contained herein is based on the respective legislation as of April 2015. (unless otherwise indicated) and is not intended to be a comprehensive study nor to provide legal advice. Specific legal advice should always be sought before taking any action based on the information provided herein.



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SERBIA

1. INTRODUCTION TO THE ENERGY MARKET

The Serbian Parliament has adopted the new Law on Energy (Zakon o energetici, Official Gazette of Republic of Serbia, No. 145/2014), at the end of 2014. The main driver behind the overhaul of the regulatory framework is alignment with the third energy package and removal of barriers for development of renewable energy projects.

The energy markets are still dominated by the incumbent utilities: "Elektroprivreda Srbije" the state owned electricity utility runs the electricity market as the dominant producer, public supplier and distributor; "Srbijagas", the state-owned gas utility, holds the grip on the gas sector as the TSO, producer and supplier; the oil sector is dominated by "NIS", former state-owned oil utility now in majority ownership of Gazprom. While NIS has already undergone internal restructuring, the reorganization of Elektroprivreda Srbije and Srbijagas is pending.

2. ELECTRICITY

2.1 Market overview

The state-owned utility EPS with its 100 per cent subsidiaries is still virtually the only producer, distributor and supplier on the electricity market. Restructuring of EPS has started with the aim of having a holding company and three separate companies, one for each of production, distribution and supply. Currently, there are seven subsidiaries involved in production and five subsidiaries involved in distribution. Power transmission is separated from EPS and is handled by "Elektromreže Srbije", another 100 per cent state-owned entity.

There is a high degree of dependence on lignite which accounts for more than 60 per cent of the total installed electricity generation capacity in Serbia. Development of significant new generation facilities, although planned, is still years away.

2.2 Regulatory overview

The new Law on Energy covers all relevant energy sectors, i.e. electricity, district heating, oil and gas and deals with:

- the rights and obligations of the relevant stakeholders in the energy sector;
- the issuance of authorisations for performance of energy activities;
- the issuance of licences for the construction of energy facilities (energy licence – "energetska dozvola");
- regulated prices;
- renewable energy;
- specific rules for the electricity, gas, oil and district heating sectors;
- access to the energy system, i.e. transmission and distribution systems;
- supply of energy.

The key stakeholders in the Serbian electricity market are:

- The Ministry of Mining and Energy ("**Ministry**") – responsible for preparing the most important strategic and action documents for adoption by the Government of Serbia, enacting various implementing regulations and technical standards and overseeing the overall implementation of the Law;
- The Agency for Energy of the Republic of Serbia ("**AERS**") – an independent, regulatory body established pursuant to the Law on Energy. Its primary tasks are to develop and enhance the electricity and gas market based on the principles of nondiscrimination and effective competition by creating a stable regulatory framework;
- Transmission system operator – "Elektromreže Srbije" ("**EMS**") – a state-owned public company in charge of the development, safe and reliable functioning of the transmission system, enforcement of non-discriminatory and economical access to the transmission system.

2.3 Regulated electricity market activities

The Law on Energy prescribes the following energy activities in the electricity sector:

- The production of electricity;
- The combined production of electricity and heating energy;

- (c) The transmission of electricity and management of the transmission system;
- (d) The distribution of electricity and management of the distribution system;
- (e) The distribution of electricity and management of the closed distribution system;
- (f) The supply of electric energy (i.e. including sale to the end consumers);
- (g) Bulk supply of electric energy (i.e. excluding sale to the end consumers);
- (h) Electricity market operation.

The performance of each of these activities is subject to the granting of a licence by the AERS. Furthermore, with the exception of the activities under (c) and (d), all other activities in the electricity sector are considered activities of general interest and, therefore, may be performed either by public, state-owned companies or by privately owned companies expressly authorized by the Government of Serbia to perform a specific activity of general interest pursuant to the Law on Public Companies (Zakon o javnim preduzećima, Official Gazette of Republic of Serbia, No. 119/2012, 116/2013) or the Law on Public Private Partnerships and Concessions (Zakon o javno-privatnom partnerstvu i koncesijama, Official Gazette of Republic of Serbia, No. 88/2011).

2.4 Generation

The development of generation capacities is reliant on the granting of numerous permits by various state authorities. A licence for the production of electricity is granted only at the end of the entire development process and follows after the issuance of the operational permit for the power plant. The following section describes only the most important steps which are part of the development of generation capacity.

First of all, the construction of any electricity generation facility with the installed power of more than 1MW or small hydropower plants has to be first approved by the Ministry of Mining and Energy by the issuance of an energy permit (energetska dozvola). The energy permit is not transferable. The energy permit is not required in the case of a concession awarded for the development of a generation facility. Secondly, the construction of any larger power plant requires the preparation of adequate planning documents which set out conditions for the construction of such a power plant. Furthermore, the design of the power plant is subject to an assessment of the environmental impact pursuant

to the Law on Assessment of the Environmental Impact (Zakon o proceni uticaja na zivotnu sredinu, Official Gazette of Republic of Serbia, No. 135/2004). Hydro-power plants with an installed capacity of up to 2 MW and wind farms with an installed capacity of up to 10 MW are exempt from this obligation.

Moreover, power plants with a capacity of less than 50 MW must prepare an environmental impact assessment only if the municipal authority responsible for environmental protection decides that this is necessary. Thirdly, when the production of electricity in a power plant is based on natural resources (e.g. coal) or public goods (e.g. water), the prospective producer of electricity must acquire the right to use such a natural resource or public good, either by obtaining a concession in a competitive tender procedure pursuant to the Law on Public Private Partnerships and Concessions (Zakon o javnoprivatnom partnerstvu i koncesijama, Official Gazette of Republic of Serbia, No. 88/2011) or through obtaining sector-specific permits pursuant to the Law on Mining and Geological Explorations (Zakon o rudarstvu i geološkim istraživanjima, Official Gazette of Republic of Serbia, No. 88/2011) or the Law on Waters (Zakon o vodama, Official Gazette of Republic of Serbia, No. 30/2010, 93/2012).

Finally, the Law on Planning and Construction provides for various permits, approvals and other documents to be issued before and during the course of the construction of a power plant. The most important of these are the construction permit and the operational permit. The operational permit is issued only upon a successful technical inspection and a trial operation of the power plant.

2.5 Trading and supply of electricity

The Law on Energy distinguishes between the regular market activity of supply and the activity of bulk supply of electricity. The differentiating factor is that the bulk supply excludes supply of the end consumers. Given that this is slightly different from the solution contained in the previous Law on Energy, all energy suppliers will have to apply for new licences within six months upon adoption of the new decree on licences. The deadline for its adoption, prescribed under the Law on Energy, expires at the end of June.

The Serbian energy market is now fully open. The Law on Energy prescribes that all electricity consumers have the right to freely choose their supplier. The Rules on Changing the Supplier specify the procedure for changing the supplier of electricity, deadlines and conditions. However, "EPS Snabdevanje", which is a part of the

state-owned EPS, is practically still the only reliable supplier on the Serbian market having around 97 per cent of the market share. Gen-i, the second and practically the only other relevant supplier holds around 3 per cent of the market share.

The new Law on Energy introduces the concept of default supplier, in charge of guaranteed supply of households and small consumers. The default supplier is to be selected by the Government pursuant to a public tender, for a period of up to five years. However, this process will be launched only after AERS determines that there is no need for further control of the price of electricity for households and small consumers. Until then, EPS will perform the duties of the default supplier.

The Law on Energy also introduces the concept of the supplier of last resort. The supplier of last resort should also be selected by the Government on the public tender. Until then, EPS will perform the duties of the supplier of last resort. The Energy Agency of the Republic of Serbia, as an independent regulator, is in charge of approving the price of access to the transmission and distribution systems as well as the price of electricity for guaranteed supply of electricity. The Law on Energy divides the electricity market into a bilateral electricity market; a balance electricity market; and an organized electricity market.

A bilateral electricity market is based on bilateral power purchase agreements. A balance electricity market enables the transmission system operator to secure proper operation of the transmission system by selling and purchasing the required quantities of electricity. It is managed by the transmission system operator. An organised electricity market comprises day-ahead and intra-day trading and is supposed to be managed by the market operator. EMS holds licences for both transmission system operator and market operator. The Market Rules prepared by EMS and approved by AERS are in force as of 2012. The Market Rules govern the balance electricity market and there are yet no specific rules to govern the organized electricity market (i.e. power exchange). EMS is in the process of forming the power exchange.

2.6 Transmission and grid access

Pursuant to Article 117 of the Law on Energy, EMS must allow third party access to the transmission system on a non-discriminatory basis, under regulated prices and through transparent procedure. Access may not be denied on grounds of possible future congestion in the transmission capacities or on ground of additional costs arising from necessity of increase in capacities in the vicinity of the connection point.

A precondition for connection of the producer and/or consumer of electricity to the transmission system is obtaining a connection approval from EMS. The request for issuing the connection approval may be submitted upon issuance of the construction permit for the facility being connected to the transmission system. The deadline for the granting of a connection approval is 60 days for electricity producers and 30 days for consumers. AERS is responsible for deciding on any appeal submitted against a decision issued by EMS. The decision of AERS is final in administrative proceedings but may be challenged before the Administrative Court of Serbia in administrative accountancy proceedings.

EMS will grant the connection approval if the equipment and installations of the power plant/ facility are determined to be in accordance with the opinion issued by EMS and the relevant technical rules and regulations. The connection approval granted by EMS specifically determines the connection point, technical conditions for connection, place and manner of measuring electricity, deadline for establishing connection and the cost of connection.

Upon issuance of the connection approval EMS will be obliged to connect the facility to the transmission system if:

- the conditions from the connection approval are fulfilled;
- operational permit or trial permit has been obtained for the facility and for the connection line;
- supply agreement is in place;
- balancing responsibility and access to the system have been determined for the delivery point.

The costs of connection are borne by the applicant and are determined by EMS in accordance with the methodology developed by AERS. Temporary structures, construction sites and structures in trial operation may also be connected to the grid temporarily during the validity of the temporary permit, construction period or trial period, as the case may be.

3. RENEWABLE ENERGY

3.1 Market overview

Serbian power generation is dominated by the large hydropower plants with a total installed power of 2,832 MW which amounts to approximately 34 per cent of the total installed power generation capacity in Serbia. In the last couple of years, several small hydro-

power plant ("HPP") projects were completed and commenced commercial operation. During 2013, the Ministry launched two rounds of public invitations for the potential investors interested in development of small HPP's on 459 locations throughout Serbia. Two years later, not a single location has been developed under this scheme.

Even though the Ministry has, during the past couple of years, issued a number of energy permits for wind power plant projects with total envisaged installed power of around 1,300 MW, not a single wind power plant has been put into operation. Several projects are under construction whereas some developers are looking for early exit. Given the caps introduced by the governmental decrees not all of the envisaged power plants will be able to obtain the status of privileged power producer (see Section 3.2(b)).

The use of biomass, geothermal and solar energy is negligible at the moment. The mandatory renewable energy target by 2020 amounts to 27 per cent. In order to achieve this target Serbia intends to develop renewable power plants with additional 1092 MW.

3.2 Support schemes

(a) General

Support for renewable energy generation has been one of the key focus points of the Ministry in the last couple of years. The incentives prescribed by the Law on Energy are: mandatory purchase of renewable energy by the public supplier, feed-in tariff, balancing responsibility of the public supplier, priority dispatching.

The new Law on Energy distinguishes between the temporary privileged producer, privileged producer, and the renewable energy producer.

The status of temporary privileged producer may be obtained by the decision of the Ministry, upon the issuance of a construction permit for a relevant renewables project and posting a deposit or a bank guarantee in the amount of 2 per cent of the investment. The temporary status lasts up to three years (one year for solar plants) with the possibility of a one-year extension in case the power plant has already been constructed. The temporary privileged producer has the right to enter into power purchase agreement with the guaranteed supplier whereby the condition precedent for coming into force of such power purchase agreement is acquiring the status of privileged producer. The

temporary privileged producer is entitled to the set of incentives existing at the moment of acquiring such status.

The status of privileged producer is obtained by the decision of the Ministry for a relevant renewables project subject to fulfillment of the following pre-conditions: operational permit has been issued, a separate measurement point has been procured, the installed production capacity of the wind /solar power plant is within the quotas prescribed by the Government decree, the production facility is newly constructed or reconstructed with unused equipment installed and the licence for production of electricity is issued by AERS.

The concept of a renewable energy producer has been introduced with the new Law on Energy without specifying the types of incentives – it is expected that the Government decree will regulate this matter in greater detail.

The existing feed-in tariff has been adopted under the previous Law on Energy and should remain in place until the end of 2015. The Law on Energy also introduced the system of certificates of origin to be set up and managed by the Serbian transmission system operator. In early 2014, the Government adopted the Rulebook on Guarantees of Origin (Pravilnik o garanciji porekla električne energije proizvedene iz obnovljivih izvora energije, Official Gazette of Republic of Serbia, No. 24/2014) further regulating the procedure of issuance of certificates of origin.

(b) Feed-in tariffs

Currently valid feed-in tariff regime for renewable energy is prescribed by the Decree on Incentives for Privileged Power Producers (Uredba o merama podsticaja za povlašćene proizvođače električne energije, Official Gazette of Republic of Serbia, No. 8/2013) ("Decree"). The maximum overall installed power of solar power plants eligible for feed-in tariffs is limited up to 10 MW, whereas the maximum for wind farms amounts to 300 MW until 2015 and 500 MW until 2020. In order to be eligible, renewable power plants must be certified by the Minister of Mining and Energy pursuant to the Decree on Conditions for Acquiring the Status of Privileged Status and Criteria for Evaluation of these Conditions (Uredba o uslovima i postupku sticanja statusa povlašćenog proizvođača električne energije, Official Gazette of Republic of Serbia, No. 8/2013).

Amounts

The guaranteed tariffs applicable to renewable energy produced by privileged producers are as follows:

- 5.9 to 12.40 cEUR/kWh for small HPPs;
- 8.22 to 13.26 cEUR/kWh for biomass plants;
- 12.31 to 15.66 cEUR/kWh for biogas plants;
- 9.2 cEUR/kWh for wind farms;
- 6.91 cEUR/kWh for waste and landfill gas power plants;
- 6.92 to 9.67 cEUR/kWh for geothermal power plants;
- 8.04 cEUR for coal combined cycle power plants;
- 8.89 cEUR for gas combined cycle power plants;
- 8.57 cEUR/kWh for waste-fired power plants;
- 16.25-20.66 cEUR/kWh for solar energy power plants.

The guaranteed prices are subject to annual indexation each February for the annual inflation in the Euro zone as published by Eurostat.

Duration

The above feed-in tariffs are valid until 31 December 2015. "EPS Snabdevanje" as the public supplier is obliged to purchase eligible renewable energy from certified privileged producers based on a standard power purchase agreement ("PPA") prepared in accordance with the standard templates enacted by the Ministry in the Rulebook on Standard Models of Agreements and Pre-Agreements for the Purchase of Entire Power Output (Pravilnik o utvrđivanju standardnih modela ugovora i predugovora o otkupu ukupnog iznosa električne energije, Official Gazette of Republic of Serbia, No. 62/2013 and 10/2014). PPAs are concluded for a period of 12 years, i.e. for the duration of the status of privileged producer. The Government is supposed to adopt a new rulebook regulating the details of the PPA.

Funding

The funding for the feed-in tariff and other incentives for renewable electricity sources is obtained through a special fee paid by the end-consumers as part of the monthly bill. The Government determines the amount of this special fee annually.

(c) Certificates of origin

The certificates of origin are transferable instruments issued by the transmission system operator for the energy produced in a renewable power plant at the request of the producer. The request may be submitted for a past period of up to one year. The certificates of origin are issued within 10 days if the request is submitted for the past period or, for requests

submitted for the upcoming period, monthly by the 20th day in a month for previous month. The certificates of origin are issued per 1 MWh of produced electricity and are valid for a period of one year starting from the end of the production period to which that certificate of origin relates.

4. NATURAL GAS

4.1 Market overview

The Serbian natural gas market significantly depends on imported natural gas, i.e. approximately 82 per cent of consumption is imported. Serbia imports gas from Gazprom Neft, i.e. it is entirely dependent on gas supplies from Russia. Currently, there are two companies engaged in gas transportation, 34 companies engaged in the distribution of natural gas, and 49 companies are registered for gas supply. The gas storage facility Banatski Dvor, a joint venture between "Srbijagas" and "Gazprom Germania GmbH" (Srbijagas holds 49 per cent share in the joint venture), with a capacity of around 450 million m³ has been operational since 2011 and has significantly improved the security of supply on the Serbian gas market.

4.2 Regulatory overview

Legal framework

The gas sector in Serbia is governed by the Law on Energy and bylaws elaborating it as main pieces of gas legislation. The following important laws (and supporting bylaws) are also applied to the gas sector:

- (a) Law on Pipeline Transportation of Gas and Liquid Hydrocarbons and Distribution of Gas Hydrocarbons (Zakon o cevovodnom transportu gasovitih i tečnih ugljovodonika i distribuciji gasovitih ugljovodonika, Official Gazette of Republic of Serbia, No. 104/09);
- (b) Law on Public Enterprises (Zakon o javnim preduzećima, Official Gazette of Republic of Serbia, No. 119/2012, 116/2013, 44/2014);
- (c) Law on Public Private Partnerships and Concessions (Zakon o javno-privatnom partnerstvu i koncesijama, Official Gazette of Republic of Serbia, No. 88/2011);
- (d) Law on Planning and Construction (Zakon o planiranju i izgradnji, Official Gazette of Republic of Serbia, No. 72/2009, 81/2009, 64/2010, 24/2011, 121/2012, 42/2013, 50/2013, 98/2013, 132/2014 and 145/2014);

- (e) Law on Mining and Geological Explorations (Zakon o rudarstvu i geološkim istraživanjima, Official Gazette of Republic of Serbia, No. 88/2011);

The new Law on Energy opened the natural gas market so that now all end customers have the right to choose their gas supplier freely. Similarly to the electricity sector, the Rules on Changing the Supplier specify the procedure for changing the supplier of electricity, deadlines and conditions; in 2012, "Srbijagas" accounted for 69 per cent of total natural gas sales.

The circle of customers entitled to purchase gas from the public supplier under regulated prices is gradually shrinking: under the new Law on Energy, regulated prices apply only to households and small consumers (i.e. whose consumption is up to 100,000m³ and connection to the distribution system).

The restructuring of Srbijagas, the state-owned vertically integrated gas system operator and supplier is underway. The restructuring plan, adopted by the Government and agreed to by the Secretariat of the Energy Community, envisages that transport and supply will be divided into legally and functionally separate and independent entities owned by a holding company. The restructuring should be completed by the end of June 2015.

4.3 Regulated natural gas market activities

The Law on Energy provides for the following natural gas related activities:

- (a) gas transportation and operation of the gas transport system;
- (b) gas storage and operation of the gas storage facilities;
- (c) gas distribution and operation of the gas distribution system;
- (d) gas supply;
- (e) public supply of gas.

The performance of any of these activities is subject to the issuance of an energy licence by AERS as a principle regulatory body in the gas sector. Licences are issued within 30 days of the proper application, provided that all conditions are met. The validity period of the licences for the activities in the gas sector is 10 years and they are renewable upon the request of the energy undertaking, provided that the request is filed no later than 30 days prior to the expiry date.

Licences are not transferable. AERS is entitled to suspend the licence temporarily, should the energy undertaking fail to:

- (a) comply with the requirements of the Law on Energy;
- (b) maintain energy facilities in accordance with the regulations;
- (c) comply with the obligations imposed by the licence;
- (d) keep separate accounting for each energy activity;
- (e) determine the prices according to the methodologies rendered by AERS.

If the energy undertaking does not remedy the breach within a given deadline not shorter than 30 days and not longer than 90 days, the licence may be permanently revoked. An appeal to the decision of AERS may be filed with the Ministry of Mining and Energy. It should be noted that apart from the activity of supply, all other gas activities are declared as activities of general interest and may be performed either by public, state-owned companies or by privately owned companies which are specifically authorised by the Government of Serbia to perform a specific activity of general interest pursuant to the Law on Public Companies or the Law on Public Private Partnerships and Concessions.

4.4 Exploration and production

(a) Exploration

Exploration for natural gas in Serbia is regulated by the Law on Mining and Geological Explorations (Zakon o rudarstvu i geološkim istraživanjima, Official Gazette of Republic of Serbia, No. 88/2011), while the principle regulatory body in this domain is the Ministry. The law distinguishes between fundamental and specific explorations. Fundamental explorations are performed by the Geological Survey Institute, now a part of the Ministry, whereas specific explorations may be performed by companies registered in the respective commercial registry for the activity of geological explorations and employing an adequate number of geological professionals. Prior to commencement of geological explorations, the appropriate geological project and exploration elaborates must be prepared, both of which are, generally, subject to mandatory technical review, and Exploration Approval must be obtained from the Ministry. The Exploration Approval determines, inter alia, the minimum amount of exploration works, validity period, deadline for commencement with the exploration works, reporting obligation, termination grounds.

(b) Production

The production of natural gas is also within the regulatory scope of the Ministry. Natural gas production (i.e. exploitation) is performed by the companies registered with

the competent commercial registry for mining activities. Gas production is based on permits issued by the Ministry.

Namely, the following permits are required:

- Exploitation Approval (for the purpose of natural gas exploitation and its refinement);
- Approval for Performance of Mining Works (for the purpose of drilling gas wells and gas wells operation);
- Approval for Operation of the Mining Facilities (for the purpose of development of the gas wells).

An exploitation fee of the natural gas, in the amount of 7 per cent of the income earned from exploitation of the natural gas, shall be paid to the Republic of Serbia. Further increases of the exploitation fee are expected with the upcoming amendments to the Law on Mining and Geological Explorations. All gas fields in Serbia are located in Vojvodina and are exploited by the dominant market player "NIS" a.d. Novi Sad (majority owned by Gazprom Neft) with more than 60 gas wells in Banat, Elemir, Kikinda and Plandište.

4.5 Transmission and access to the system

(a) General

The Serbian Gas Transmission System ("GTS") is comprised of gas pipelines with a total length of 2,230.00 km and a pressure from 16 up to 50 bars. Serbia has two Gas Transmission System Operators: the public company "Srbijagas" and "Yugorosgaz - Transport" (the "GTSO"). GTS Rules have been adopted by "Srbijagas" and "Yugorosgaz - Transport" and approved by AERS in 2013 and 2015, respectively.

In addition to GTS operations, the GTSO is also, among other duties, responsible for the organisation and management of the gas market, system balancing, purchasing of gas for balancing and adoption of the decision on access prices.

(b) Access to the GTS

According to the Law on Energy, access to the GTS is granted by the GTSO via connection approval. The connection approval especially contains the connection point, technical conditions for connection, approved capacity, place and manner of measurement, connection deadline and connection costs. The connection approval is issued as part of the procedure for issuance of construction permit for the facility. The GTSO and the interested party enter in an

access agreement which regulates the rights and obligations of the parties with respect to access to the GTS. The GTSO is obliged to connect the facility to the GTS within 8 days upon fulfillment of the conditions from the connection approval provided that the construction permit for the facility has been obtained and the balancing responsibility regulated. Connection of the producer to the GTSO under the same conditions except that instead of the construction permit the production facility must have the operational permit issued.

The access to the GTS is granted to all customers under regulated prices based on the principles of transparency and non-discrimination (obligation to provide access).

The right to utilise the transport capacities of the GTS is regulated by the gas transportation agreement entered into between the GTSO and the customer. This agreement may be a long-term (over one year) or short-term agreement (less than one year) and the agreed capacity may be a cut-off or constant capacity.

Access prices are regulated prices determined by the GTSO and approved by AERS. The methodologies for determining access prices are prescribed and adopted by AERS. GTSO is entitled to reject access to the system for the following technical reasons: (i) transportation under-capacity, (ii) if access would endanger the stability of gas supply or (iii) severe economic and financial difficulties caused due to the take or pay obligations (upon the request of the supplier that has entered into the take or pay gas supply agreement).

(c) Exemption from the obligation to provide access

Major new gas infrastructure, interconnectors and storage facilities, may, upon request, be exempted, from the obligation to provide access under the following conditions:

- The investment must enhance competition in gas supply and enhance security of supply;
- The level of risk attached to the investment must be such that the investment would not take place unless an exemption was granted;
- The infrastructure must be owned by a natural or legal person, independent of the system operators in whose systems that infrastructure will be built;

- Charges must be levied on users of that infrastructure; and
- The exemption must not be detrimental to competition or the effective functioning of the internal market in natural gas, or the efficient functioning of the regulated system to which the infrastructure is connected.

Exemption is granted by a resolution of AERS upon obtaining opinion of the Ministry of Mining and Energy. Additionally, the supplier of natural gas is also entitled to request from the Ministry to exempt the GTSO from the obligation to grant access to the system in the event that it envisages severe financial and economic difficulties due to undertaken take or pay obligations.

4.6 Trading and supply

The trading and supply of natural gas is performed on the free gas market. As mentioned above, as of 1 January 2015 only the households and small gas consumers are entitled to public supply under regulated prices.

Gas is supplied and traded on the market based on gas purchase agreements. The amount of natural gas contracted under the gas purchase agreement may be pre-agreed for a specific period or determined based on consumer consumption, in the event of gas purchase agreements with full supply. The new Law on Energy also prescribes for “take or pay” gas purchase agreements.

According to the Law on Energy, participants to the free natural gas market may be: (i) natural gas producer, (ii) supplier, (iii) public supplier (i.e. Srbijagas), (iv) end consumers and (v) GTSO, storage operator and gas distribution system operator (but only for the purpose of its own consumption and balancing due until the unbundling principle is introduced). All participants are obliged to regulate their balance responsibility by entering into balancing services agreements with the GTSO.

4.7 Storage

Natural gas storage and operation of storage facilities may be performed by an entity holding a licence for gas storage and operation of storage facilities issued by AERS. So far, only one licence has been issued for this activity to Underground Gas Storage “Banatski Dvor” doo, the operator of the Banatski Dvor underground gas storage facility. This storage facility has been operational since 2012 and in that year it accounted for 6 per cent of the total gas consumption in Serbia. However, the operator has not yet adopted the gas storage access rules.

5. UPSTREAM OIL MARKET

5.1 Market overview

One of the sectors which make up the energy economy of Serbia is the oil sector. There is exploitation of domestic oil reserves, as well as the import, transport and processing of crude oil and oil derivatives, and distribution and sales/ export of oil derivatives.

5.2 Regulatory overview

Oil-related activities in Serbia are governed by the Law on Energy and the Law on Mining and Geological Explorations. The principle regulatory body in this domain is the Ministry and the AERS which issues licences for carrying out the energy activities in the sector. In addition, AERS keeps a register of issued and revoked licences.

5.3 Exploration and production

(a) Exploration

Exploration of oil may be performed by companies registered in the respective commercial registry for the activity of geological explorations and which employ a sufficient number of geological professionals. Prior to commencement of geological explorations, the main geological design and exploration elaborates must be prepared. These documents are subject to mandatory technical review, whereupon Exploration Approval must be obtained from the Ministry Mining and Energy. The Exploration Approval determines the validity period and the deadline for commencement with the exploration works. The licensee is obliged to regularly update the Ministry on the exploration findings.

(b) Production

The production of oil is also within the regulatory scope of the Ministry of Mining and Energy. Oil production is based on a licence issued by the Ministry in the course of regular administrative procedure. The fee for exploitation of oil paid to the Republic of Serbia amounts to 7 per cent of the income earned from the exploitation of oil. Note that a significant increase in the exploitation fee (until 2011 the fee was 3 per cent) did not bring an expected increase in revenues for the state since all significant oil fields in Serbia are exploited by the dominant market player “NIS” a.d. Novi Sad, majority owned by Gazprom Neft and protected from

increases in the exploitation fees by the Russia Serbia Intergovernmental Treaty on Cooperation in Gas and Oil Industry (Zakon o potvrđivanju sporazuma između vlade Republike Srbije i vlade Ruske Federacije o saradnji u oblasti naftne i gasne privrede, Official Gazette of Republic of Serbia – International Treaties, No. 83/2008)

5.4 Other oil-related activities

For the performance of other oil-related activities a licence issued by AERS is a prerequisite. The procedure for the issuance of these licences is identical to the procedure for the issuance of licences in the electricity sector. Energy companies (legal entity or entrepreneur registered to perform one or more energy activities) can apply for a licence to perform the following activities:

- (a) The production of oil derivatives;
- (b) Oil transport by oil pipelines;
- (c) The transportation of oil derivatives;
- (d) The storage of oil and oil derivatives;
- (e) Trade with oil and oil derivatives;
- (f) Retail of oil derivatives (fuel supply stations for motor vehicles).



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