

Energy

Third Edition

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Macedonia

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Overview of the current energy mix, and the place in the market of different energy sources

The Republic of Macedonia is a young and small country situated in the Western Balkans. Since its independence in 1991, Macedonia has signed and ratified major international energy sector documents such as the Agreement of the Energy Charter, the Energy Community Agreement, and the United Nations Framework Convention on Climate Change and Kyoto Protocol. Macedonia has aspirations to become a member of the European Union which, together with the major energy sector agreements signed above, present the country with challenges for the efficient implementation of serious reform in the energy sector. For that purpose the Macedonian Government, through the Ministry of Economy, has enacted a long-term Energy Strategy 2020 envisaging the fulfilment of all obligations undertaken with the above major international energy sector documents, while at the same time securing the interest of the state and its citizens.

Macedonia is strongly dependent on energy imports. It does not have any sources of crude oil or natural gas, and in recent years it has faced ever-increasing electricity imports. Increasing fuel imports and increasing fuel prices on the global market have greatly contributed to the growth of the trade deficit of the Republic of Macedonia.

The energy infrastructure of the Republic of Macedonia enables the exploitation of domestic primary energy, the import and export of primary energy, the processing of primary energy and the production of final energy, its transport and distribution. The energy infrastructure of the Republic of Macedonia comprises coal, oil and petroleum products and natural gas sectors, as well as the electricity sector and the heat production sector.

Coal sector

Regarding fossil fuels, the Republic of Macedonia has available only low-calorie coal – of the type lignite. All other types of fossil fuels (oil, natural gas and other types of coal) are provided from imports.

According to their purpose, the existing sites can be subdivided into two groups: mines for the production of lignite for the purposes of state-owned thermal power plants mainly operated by AD ELEM of Macedonia (surface mines Suvodol and Oslovej); and mines for the production of lignite for wide consumption (surface mines BRIK Berovo and Drimkol – lignites) which are exploited by concessionaires, which are privately owned shareholding companies. The surface mine Brod-Gneotino is currently being opened and prepared for exploitation for the purposes of TPP Bitola. Another potential mine that could be opened and exploited for the purposes of TPP Bitola is the surface mine Suvodol, in particular its underlying seams. Other major coal sites that could be used for electricity are Zhivojno, Mariovo, Popovjani and Negotino.

The surface mine Suvodol is the most important coal mine in the Republic of Macedonia, which, since 1982, has supplied lignite type coal continuously to TPP Bitola. According to the Energy Strategy 2020 of the Ministry of Economy, the annual production of coal in the Suvodol mine ranges between 6 and 7 million tons. The total remaining exploitation reserves of the surface

mine Suvodol – main coal seam – are about 36 million tons (as of 30th June 2008).

The coal demand of TPP Oslomej is satisfied by the exploitation of the surface mine Oslomej – West. According to the energy balance of the Republic of Macedonia, during the period from 1996 to 2007, annual coal production from SM Oslomej – East and SM Oslomej – West (after 2002/2003), ranged from 530,000 to 1.07 million tons of coal. The remaining total exploitation reserves of coal from SM Oslomej – West are estimated at approximately 11 million tons of coal.

The surface mine BRIK Berovo is located in close proximity to the city of Berovo. The total exploitation reserves are estimated at approximately 1 million tons. The annual exploitation is a function of the mine's improvement and now ranges from 35,000 to 70,000 tons annually. The lignite is crushed and separated and used for industrial purposes and enjoys wide consumption.

The surface mine Drimkol – Ligniti is located in the west and close to the dam on the Globochica reservoir. Annual exploitation is almost identical to that of BRIK Berovo and ranges from 40,000 to 70,000 tons of coal. The coal is lignite with a significantly higher carbonification level in comparison to the other lignite types in the Republic of Macedonia, which brings it closer to brown coals. The total quantities of coal extracted are crushed and separated into separate classes, which are used for industrial purposes and general consumption.

Oil and petroleum products sector

This sector involves the import and export of crude oil and petroleum products, processing of crude oil, production of bio-fuels, distribution and sale of petroleum products. From the data provided by Macedonia Energy Report by ENERDATA, since 2012 Macedonia imports more oil products than crude oil. Since 2011 oil products have been free from custom duties, leading to a 147% surge in 2012, followed by doubled diesel imports in 2012.

The only existing oil refinery OKTA is owned by Hellenic Petroleum Greece (which owns an 81.51% stake in the refinery) and it produces more than 90% of the country's total refined products. OKTA Refinery has a designed capacity of 2.5 million tons per year. OKTA Refinery produces most of the petroleum products in Macedonia, including the bulk of its gasoline and diesel, and almost all of its heavy fuel oil. The total capacity of the oil and petroleum products reservoirs is 382,000m³. The company invested €120m in the construction of the 212km long oil pipeline (Thessaloniki – Skopje), which came on-stream in 2002 and has a capacity of 2.5 million tons of oil per year. The control and monitoring of the work of the oil pipeline is realised using a SCADA monitoring system. The oil pipeline is jointly operated by the Macedonian – Greek company VARDAX whose main office is in Thessaloniki with branch offices in OKTA. The capacities of the OKTA refinery and the oil pipeline OKTA – Thessaloniki port fully satisfy the demand for petroleum products in Macedonia, however the refinery needs to be modernised, primarily for the purposes of providing better environmental protection and improving its operational efficiency.

According to the data that can be found in the Energy Strategy 2020 of the Ministry of Economy, in Macedonia there are currently about 260 petrol pumping stations. In spite of the fact that today the ownership structure of the retail sector is significantly diverse, still Makpetrol dominates both by the number of petrol stations (116), as well as by the scope of sales of those petrol stations (44%). It is followed by OKTA Brend with 36 petrol stations and 14% of sales, and Lukoil Makedonija with 10 petrol stations and 4% of sales. The remaining 99 petrol stations with 38% of the sales are privately owned by multiple domestic small companies. In comparison to neighbouring countries, Macedonia has only a small number of petrol stations which are unevenly distributed throughout its territory. Most of them are concentrated in Skopje and in the major cities like Tetovo and Kumanovo. It is worth noting that the companies that own petrol stations, in addition to their core activity to sell fuel at their pumping stations, also play the part of wholesale traders, i.e. they sell part of the liquid fuels they procure, directly to final users rather than through their petrol stations. The main companies that participate in the wholesale trade of petroleum products are the OKTA Oil Refinery AD Skopje, the company Makpetrol and the company Lukoil Macedonia.

Macedonia has available a refinery for production of bio-diesel fuel with a capacity of 30,000 tons per year, owned by the company Makpetrol AD. The production of bio-diesel fuel started in 2007 and uses unrefined beet oil. At this stage the unrefined oil is imported.

The storage reservoir capacities of the Republic of Macedonia are sufficient to sustain 90 days of current average consumption of all types of petroleum products. These capacities comprise: the storage reservoir area of OKTA Refinery; the storage reservoir area of the Makpetrol company; the storage reservoir area of the company Lukoil Macedonia; the storage reservoir area of the state commodity reserves of the Republic of Macedonia; and the storage reservoir area of smaller private and state-owned companies. The formation, storage, renewal and utilisation of the mandatory oil and petroleum products reserves is regulated by the Law on Mandatory Reserves of Oil and Petroleum products and the EU directives. The formation, storage, renewal and utilisation refer to crude oil, all types of engine and avionic fuels, all types of diesel fuels and kerosene, EL-household oil, LPG and heavy fuel oil.

Natural gas sector

This sector performs transmission, distribution and sale of natural gas. Macedonia does not have any gas sites and is connected only with one main gas pipeline. There are no domestic sources for production of natural gas and the supply of natural gas comes from imports. The entire quantity of natural gas is imported from Russia through the international corridor 8 that passes through Ukraine, Moldavia, Romania and Bulgaria. The main gas pipeline enters Macedonia at Deve Bair on the border with Bulgaria and runs over Kriva Palanka, Kratovo and Kumanovo to Skopje with a total length of 98km. The main gas pipeline has a capacity of 800 million Nm³ per year with the possibility to increase to 1200 million Nm³ per year after the construction of a compression station at the beginning of the main gas pipeline. This would certainly mean additional costs for the transport of gas. The maximal permeability of the main gas pipeline is 145,000 Nm³/h. There are five main measuring and control stations constructed on the main gas pipeline. In addition, connecting points for distribution gas pipelines to Veles, South Serbia, Romanovce and Gostivar are constructed on the main gas pipeline. In addition to the main gas pipeline there are six distribution branches (Kriva Palanka, Ginovce, Kratovo, Kumanovo, Skopje – South and Skopje – North) with a total length of 25km. In this stage of development of the gasification of the Republic of Macedonia, parts of city distribution networks have been constructed in Skopje, Kumanovo, Kratovo and Kriva Palanka. Most of the gas infrastructure in the country was built in the period between 1993 and 1997. The utilisation of natural gas began in the Republic of Macedonia in October 1997. As per data set in the Energy Strategy by the Ministry of Economy, the gas pipeline in the past 11 years has used less than 10% of its capacity, and in 2008 the level of transport reached 15% of full capacity. The largest percentage of gas is used by industrial customers directly connected to the transmission system and for district heat generation, and in a smaller percentage by industrial customers connected to the distribution system.

Currently the transmission network is operated by AD GAMA, according to a licence issued by the Energy Regulatory Commission (ERC). AD GAMA is a shareholding company with two shareholders, each having 50% of the shares. One of the shareholders is the state, and the other is AD Makpetro. The company GAMA AD Skopje is licence holder for performing the energy activities of natural gas transmission and operation of the transmission system; and the companies Direction for Technological Industrial Development Zones – Skopje (DTIDZ), Public company Kumanovo Gas – Kumanovo and Public company Strumica Gas – Strumica are licence holders for performing the energy activities of natural gas distribution, operation of the distribution system and supply with natural gas for tariff customers connected to the natural gas distribution system. In this stage of development of the gasification in the Republic of Macedonia, there practically are no distribution networks; only a certain number of direct consumers are connected directly to the transmission network. According to the ERC, total consumption of natural gas in 2013 was approximately 158 Nm³, all imported and used by direct consumers.

Electricity sector

The core function of the electrical and power system (EPS) of Macedonia is the production, transmission and distribution of electricity. The structure of the EPS of Macedonia comprises:

- hydropower plants with total installed power of 580 MW;
- lignite and heavy fuel oil-fired thermal power plants with total installed power of 1010 MW; and
- the electricity transmission and distribution system.

The EPS of Macedonia is operated by four entities, namely: AD ELEM – Skopje (Power Plants of Macedonia), a state-owned shareholding company for the production and supply of electricity; AD MEPSO – Skopje (Macedonia Electricity Transmission System Operator), a state-owned shareholding company for the transmission of electricity and management with the electricity and power system of Macedonia; the distribution company EVN Macedonia AD, a privately owned shareholding company for the distribution of electricity; and AD TPP Negotino, a state-owned shareholding company for the production of electricity.

The shareholding company for electricity production and supply, Power Plants of Macedonia, AD ELEM Skopje, includes the production and supply via large hydropower plants in Macedonia and lignite thermal power plants. AD ELEM owns most of the generation in Macedonia and provides 96% of domestic electricity production, which, in turn, supplies 65% of total supply in the country. The Macedonian Electricity Transmission System AD MEPSO is a shareholding company for transmission and management of the EPS, including the dispatching system. The transmission grid of Macedonia, which is managed, maintained, planned and constructed by AD MEPSO, comprises power lines with voltage levels of 400 kV (594 km), 220 kV (103 km) and 110 kV (1480 km). Macedonia is connected to the transmission lines of Greece, Bulgaria and Kosovo through 400 kV power lines. AD MEPSO is also the electricity market operator on the territory of the Republic of Macedonia. EVN Macedonia AD is a company for electricity distribution, management of the distribution system and supply to tariff customers connected to its distribution network on the territory of the Republic of Macedonia. EVN Macedonia AD also owns 11 small hydropower plants with 25 production units with a total power of 45 MW. The distribution network in Macedonia is privately owned by EVN Macedonia AD. This company owns 150km of the distribution network at a voltage level of 110 kV; 1,000km at 35 kV; 720 km at 20 kV; 8,900 km at 10 kV; and 11,600 km at 0.4 kV. EVN Macedonia AD supplies a total of 720,000 consumers with electricity. Recently EVN made a new reorganisation whereby the distribution consumers were divided into 19 Electricity User Centers. The only heavy fuel oil-fired TPP in Macedonia, Negotino, functions as a separate entity within the EPS of Macedonia. This production capacity uses heavy fuel oil, for which there is a transport railway infrastructure. The installed power of this capacity is 210 MW and it has the possibility to work either with one or two boilers: in the range from 70 MW to 105 MW it works with one boiler; and in the range from 140 MW to 210 MW it works with two boilers. TPP Negotino was used very little in the past period, due to the fact that it requires reconstruction which would provide for greater flexibility. No changes to the legal status of the AD TPP Negotino are envisaged in the Energy Strategy, nor will the fuel used by this power plant change.

According to the World Bank, thermo power plants represent approximately 66% of Macedonia's power generation, while hydro power plants account for the remaining 34%. According to the ERC, total consumption of electricity in 2013 was approximately 7,000 GWh, of which approximately 30% was imported, making the country dependent on electricity imports. According to the Macedonian Energy Report by ENERDATA, primary consumption since 1992 has remained rather stable, around 3 Mtoe, where in 2012 lignite accounts for 48% of consumption, oil for 31%, hydroelectricity for 11%, biomass for 6% and gas for 4%. In 2012 the country's energy consumption *per capita* was 1.5 toe, including 3,500 kWh.

Currently, there are 58 registered electricity traders and six electricity suppliers with valid licences issued by the ERC. According to the Energy Law, households shall be tariff customers

by 31st December 2014, and they shall be supplied by the electricity supplier for tariff customers at regulated prices approved by the ERC. From 1st January 2015, households may supply their needs by choosing from:

- on the electricity market with unregulated bilateral agreements, from electricity suppliers at mutually negotiated (unregulated) prices; or
- on the electricity market with regulated bilateral agreements, from the electricity supplier of last resort.

Heat sector

According to the Energy Strategy of the Ministry of Economy, in 2006 heat was produced by: heating plants (55%); individual boiler plants producing heat for their own purposes (37%); and combined heat and power plants generating heat and electricity for their own needs (8%). The fuel used included petroleum products (71%), natural gas (19%), coal (8%) and biomass (2%). A large proportion of boiler plants are obsolete with a low efficiency coefficient. In the past years two newly built plants have changed the above picture: TE-TO AD Skopje shareholding, privately owned company is holder of the licence for performing combined generation of electricity and heat; and KOGEL AD Skopje shareholding, privately owned company is also holder of a licence for the combined generation of electricity and heat.

Central heating systems

The total heating consumption connected to central heating systems in the Republic of Macedonia and delivered to end users is about 630 MW. The biggest central heating system is the system operated by Toplifikacija AD, which supplies about 550 MW. Several smaller systems, two of which are out of Skopje, connect about 80 MW. Considering this level of connectivity, we can say that about 10% of users in the country are connected to central heating systems. The central heating system of the city of Skopje during recent years has been expanded and satisfies the heating demand of more than 40% of the city. The heat produced in heating plants is realised using boilers that use mostly natural gas or heavy fuel oil. The heating service is paid for on the basis of the measured delivered energy at the entry point of the building. The regulation and metering of the delivered energy to every building are performed by a central dispatching system. From the point of view of ownership structure of the central heating systems, it is important to mention that in most cases, these capacities are privatised, with Toplifikacija AD controlling more than 90% of the central heating systems in the country.

According the Energy Strategy of the Ministry of Economy, the total constructed length of the central heating distribution network (length of channel distribution including supply and return pipelines), which is owned by the Republic of Macedonia is about 185km (as of 1st Jan 2008). The total installed heat consumption connected to the network is about 650 MW. There is a total of almost 3,000 buildings connected with a total heated surface of about 4.5 million m². The total active heat consumption connected to the network is about 550 MW.

Renewable energy sources

Regarding renewable energy sources Macedonia uses primarily hydro-power, biomass, geothermal energy, wind and solar energy.

Hydropower

Depending on hydrological conditions in the year, 15 to 18% of the annual electricity production in Macedonia comes from hydro power plants. Macedonia has a significant potential for construction of small hydro-power plants (with installed capacity of less than 5 MW in size) located at roughly 400 sites throughout the country which have been already identified, and which may meet over 10% of the country's current electricity needs. An estimated 1088 GWh could be generated annually from this resource, 17.5% of the total theoretical potential of the country's hydro resource.

Geothermal energy

Geothermal energy accounts for 2.4% of total production in the heat production sector. There are

possibilities for increasing the exploitation of existing and new geothermal sources. Macedonia is quite rich in geothermal sources suitable for different uses except for the production of electricity. Proven thermal potential is estimated to be 220 MWt. The Macedonian Geothermal Association has identified eight existing geothermal projects for expansion and rehabilitation, mainly those used for geothermal heat in greenhouses, and for space heating.

Solar energy

Solar energy is being used at a symbolic level for domestic water heating. But the geographical position and climate in Macedonia offer a very good prospect to intensify the use of solar collectors, with the country having one of the most favourable solar regimes in Europe. The annual average for daily solar radiation varies between 3.4 kWh/m² in the Northern part of the country (Skopje) and 4.2 kWh/m² in the South Western part (Bitola). The first private photovoltaic plant in Macedonia opened in 2009, a 10.2 kW installation near Skopje.

Biomass energy

There is relatively high potential in the country for utilising biogas from animal manure for energy generation purposes, as well as growing crops for the production of biofuel. There is also a significant potential for wood pellet use in the residential heating sector over firewood. An estimated 180,000 cubic metres of wood waste are produced annually, a potential which is entirely unutilised.

Wind energy

According to the Preliminary Atlas of the Winds in Republic of Macedonia, 15 possible locations with sufficient energy potential for the construction of wind power plants with foreseen installed capacity of 25 MW to 33 MW were identified. Average wind speeds of 6.5–8.5 m/s at 80m have been recorded in mountainous regions, with an average of 7 m/s in the south-eastern regions of Macedonia. On the basis of the Atlas, a Monitoring Programme of the Wind Potential in the Republic of Macedonia has been in implementation from 2006, with a grant from the Norwegian Government.

Changes in the energy situation in the last 12 months which are likely to have an impact on future direction or policy

There have been no changes in the energy situation in the last 12 months that might have an impact on future direction or policy. The Energy Strategy 2020 of the Ministry of Economy is still a valid document upon which the Republic of Macedonia is undertaking actions in the energy sector. The Strategy envisages two scenarios for development of the energy sector in Macedonia, with and without construction of a nuclear plant. For the realisation of the Strategy, Macedonia will have to provide €4bn for the scenario without the nuclear plant, and €5bn for a scenario with the nuclear plant. Of those, up to 2020 €3bn should be realised.

According to the Energy Balance 2014-2018 published by the Energy Agency, the consumption of energy in 2014 should increase by 4.4%. Increasing consumption is foreseen in all types of energy, with the highest increase expected in natural gas consumption (38.8%) and geothermal energy (17.5%), and consumption of other energy types increasing by less than 5%. Of the total energy needs, 57.5% will be generated by domestic resources and 42.5% will be imported. It is expected in the coming years that there will be a stable and continuous supply to consumers of all types of energy.

Developments in government policy/strategy/approach

Government policy has been constant in recent years. The energy sector has a strong influence on all economic sectors and represents a pillar of the sustainable development of Macedonia. In this context, the Government is promoting an efficient, competitive and financially stable energy sector as a prerequisite for the reliable, high-quality, stable and economically acceptable supply of all types of energy for all energy consumers, at the same time paying attention to the transparency and competitiveness of the energy sector, especially considering the liberalisation

of both the production and supply of all types of energy.

In this regard, the Government has declared itself committed to fulfilling EU standards and regulations in the field of energy, establishing competitive national markets and active participation in the regional energy market, as well as liberalising the markets in electricity, natural gas and thermal energy. The overarching aim of the reforms for establishing a consistent energy system upon EU recommendation is harmonisation with the energy community of South Eastern Europe, with the final purpose of integration into the energy market of the EU. The development of the energy sector will be based on the following principles and priorities:

- market liberalisation;
- energy security;
- increase in energy production;
- diversification of energy resources;
- progressing relations with other countries in the region and the international transport corridor;
- efficiency growth in the energy sector; and
- growth of the energy capacities of renewable sources.

Developments in legislation or regulation

The existing Energy Law provides an adequate legal framework for the energy efficiency policy of Macedonia. There are on-going efforts for developing and adopting the secondary legislation and technical regulations.

The ERC issued the Action Plan for liberalisation of the electricity market in the Republic of Macedonia, in which 1st April 2014 is the start date for the liberalisation of the electricity market for all electricity consumers except households, and 1st January 2015 is the start date for the liberalisation of the electricity market for all consumers, including households.

The ERC is monitoring the implementation of the Action Plan and the fulfilment of the obligations of electricity market participants.

The Grid Codes for Distribution of Natural Gas, submitted by the distribution system operators of natural gas, shall be approved by the ERC within 2014.

The Project, “Capacity building of the Energy Regulatory Commission for implementation of the new energy law”, financed by the Norwegian Ministry of Foreign Affairs, officially started on 1st Jan 2012 and will end on 31st Dec 2014. The main goal of this project is to ensure conditions for the functioning of competitive, transparent and non-discriminatory energy markets.

Also, the ERC participates in the meetings of working groups established within the framework of the IPA project, “Strengthening the administrative capacity of the Energy Department at the Ministry of Economy and the Energy Agency of the Republic of Macedonia” for the implementation of the Third package of EU legislation on internal energy markets. Within this project a new Energy Law will be issued, implementing the Third package of EU legislation on the internal energy market in the Republic of Macedonia.

The ERC joined the Council of European Energy Regulators (CEER) as an observer. By joining in CEER, the ERC aims to gain experience in the implementation of the EU Third Energy Package, and the challenges that EU Member States are facing and in this way contribute to the creation of a single, competitive, efficient and sustainable EU internal energy market.

Judicial decisions, court judgments, results of public enquiries

In general there have been no crucial decisions or judgments in the energy sector.

There is only one decision from the Competition Committee of Republic of Macedonia, against EVN Macedonia for abuse of dominant position on the relevant market, which has been confirmed by the Supreme Court of Macedonia.

Major events or developments

The major event and development that took place this year was the liberalisation of the electricity, natural gas and heat markets.

According to the Energy Law, households shall be tariff customers by 31st December 2014 and they shall be supplied by the electricity supplier for tariff customers at regulated prices approved by the ERC. From 1st January 2015, households may supply their needs by choosing from:

- on the electricity market with unregulated bilateral agreements, from electricity suppliers at mutually negotiated (unregulated) prices; or
- on the electricity market with regulated bilateral agreements, from the electricity supplier of last resort.

All the bylaws necessary for further liberalisation of the electricity market are issued by the ERC, by which the provisions from Directive 2003/54/EC and the obligations deriving from the energy Community Treaty were transposed.

The electricity market operator (AD MEPSO) published the list of the 222 customers that will participate in the electricity market from 1st April 2014 (customers that have more than 50 employees and total annual income or total assets more than €10m in MKD counter value). These customers are obliged to conclude an agreement for purchase of electricity and to supply their needs on the electricity market from the electricity traders or electricity suppliers at freely negotiated prices, and they shall not have the right to be supplied from the electricity supplier of last resort *and* from the electricity supplier for tariff customers.

The process of deregulation and liberalisation of the markets in electricity, natural gas and heat is directly conditioned upon the clear distinction of production, supply, transmission and distribution, and the possibility of supply from different directions and different sources. Except in the electricity sector, the natural gas and heat sectors are still not developed in terms of the required distinction between supply, transmission and distribution, as well as (with natural gas) diversity in supply from different sources and from different directions, as a precondition for deregulation and liberalisation of the markets. The supply and transmission remain regulated by the ERC, while distribution of natural gas and heat are regulated by Grid Codes and available only for the eligible consumers.

Proposals for changes in laws or regulations

There are no substantial changes in law or regulations foreseen for the next period. The constant improvement of the laws and regulations is an on-going process. The main legislation challenge in the next period will be the implementation of the Third package of EU legislation on the internal energy market. Within this project a new Energy Law shall be issued implementing the Third package of EU legislation on internal energy market in the Republic of Macedonia.

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