GLI GLOBAL LEGAL INSIGHTS

Energy

2023

11th Edition

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glg global legal group

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North Macedonia

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

The Republic of North Macedonia, being a candidate country for EU membership, is facing the challenge of following European energy policy and transposing and implementing EU energy directives and regulations. North Macedonia is a signatory to the Energy Charter Treaty and Energy Community Treaty, which further harmonise its energy legislation with the EU *acquis communautaire* with regard to the energy sector, environment, and renewable sources of energy, energy efficiency and oil reserves.

Since its independence in 1991, North Macedonia has signed and ratified major international energy sector documents such as the Energy Charter Treaty, the Energy Community Treaty, and the United Nations Framework Convention on Climate Change and Kyoto Protocol, which led to important changes in the legal regime governing the energy market. The changes aimed at achieving further harmonisation with the Energy Community Treaty, with the ultimate goal of further liberalisation of the energy market and providing for a sustainable energy sector. The Energy Law has achieved high compliance with EU directives in the energy sector and has managed to partially delegate secondary regulations to the system operators (with the grid rules). The law also deals with issues that will apply once full EU membership is achieved. To that end, the Government of the Republic of North Macedonia, through the Ministry of Economy, has enacted the long-term Energy Development Strategy 2040 (Energy Development Strategy), which defines the most favourable long-term development of the country's energy sector in order to provide for the safe and quality supply of energy to consumers.

Electricity

The electricity market in North Macedonia consists of the following:

- **Electricity producers** – various types of electrical power plants where a certain fuel or energy (coal, natural gas, water, sun, wind, etc.) is converted into electricity that is sold both in the country and abroad. The largest domestic producer of electricity is Elektrani na Severna Makedonija (ESM), followed by cogeneration producer TE-TO, the hydroelectric plants of EVN Elektrani and several other smaller producers of electricity.
- **Preferential electricity producers** produce electricity from renewable sources, which is then purchased by the market operator at preferential prices (higher than market prices). This electricity is proportionately distributed to the active suppliers and sold to the final consumers through them. This is carried out in order to encourage production of so-called "clean" or "green" energy.
- **The electricity transmission system**, managed by the Macedonian Electricity Transmission System Operator (MEPSO), is the main bloodstream of the electricity

system. Through it, high-voltage electricity is transmitted from/to large producers, as well as from/to neighbouring systems (import/export), and delivered to transformer stations that transform it into medium-voltage electricity.

- **The electricity distribution system operator**, Elektrodistribuja, takes this energy from the transmission operator, through the electricity distribution system, which is branched throughout the country, and delivers it to the final consumers.
- **The electricity market operator**, MEMO, takes care of the organisation, efficient functioning and development of the markets with bilateral contracts and balance energy and performs the tasks related to the organised electricity market in the country.
- **Consumers who meet the conditions for independent participation in the electricity market** have a balance responsibility agreement with the electricity transmission system operator and are registered as participants in the electricity market. These consumers, in addition to suppliers, may also purchase electricity from traders or electricity producers.
- **Electricity traders** are the key entities through which electricity is bought and sold on the wholesale market. As of 31 December 2021, there are 57 licensed electricity traders with valid licences issued by the Electricity Regulatory Commission (ERC).
- **Electricity suppliers** perform the same buying and selling activities as traders, but unlike them, they have the additional right to supply households and small consumers, that is, their sales activities are aimed primarily at the retail market with electricity. As of 4 July 2022, there are 43 licensed electricity suppliers with valid licences issued by the ERC.

Power plants

Coal-fired thermal power plants and hydroelectric power plants are the main production facilities in North Macedonia. According to the Energy Development Strategy, the total installed capacity for electricity production in North Macedonia is 2,06 GW with ~48% thermal power plants, ~34% large and small hydroelectric power plants, ~15% combined natural gas plants and ~3% other renewable energy sources. The main actor in North Macedonia for electricity production is state-owned enterprise ESM, with ~70% of the total installed capacity. ESM is the owner of two large coal-fired thermal power plants, Bitola and Oslomej. In recent years, coal-fired power generation has been gradually decreasing and had reduced to ~60% in 2017. On the other hand, the total capacity of renewable energy sources has been increasing over the years and contributed 37% of the total installed capacity in 2017, which led to an increase in electricity production from renewable energy sources to 25% of total production in 2017.

Imports

North Macedonia has a relatively high dependence on electricity imports in the region. Electricity consumption in North Macedonia decreased from 2010 to 2016 with an average annual rate of 3.7%, mostly as a result of consumption in the industry. Despite the decrease in consumption, the average share of imports in the considered period is ~30% of total electricity consumption. Compared to other countries in the region, North Macedonia, together with Croatia and Slovakia, has one of the highest shares of electricity imports in total electricity needs.

Suvodol and Brod-Gneotino are the largest mines (~98% of the total coal produced for energy transformation). Considering that the electricity produced in coal-fired power plants constitutes ~60% of total domestic production, a sufficient and continuous supply of coal is needed. The production of coal used for energy transformation decreased at an average annual rate of 3.8% from 2010 to 2017. The most significant coal mine, in terms of the quantity produced, is the Suvodol mine, which produces 68–88% of the total coal produced

for energy transformation depending on the year. It consists of a surface mine that has been in operation since 1979 and was expected to close in 2020, and the Podinska coal seam (PJS) from a lower layer, the exploitation of which has begun. The second most important mine is Brod-Gneotino, which is located near the Suvodol mine and produces 10–30% of the total coal for energy transformation. The Oslomej mine currently produces less than 2% of the total coal for energy transformation.

In the medium term, coal resources for TPP Bitola are approaching depletion. Suvodol and Brod-Gneotino mines are used to supply TPP Bitola. Considering the estimated reserves of usable coal in 2014 and the annual production capacity, the new PJS is estimated to have a remaining production capacity of ~16 years, and Brod-Gneotino ~11.5 years. The Suvodol surface mine is also approaching depletion. Considering the projected average annual coal consumption of TPP Bitola of ~5 Mt, it is estimated that the remaining reserves in the area will be sufficient for another ~15.4 years. According to the five-year investment plan of ESM 2018–2022, the commissioning of the new Živojno mine could increase the coal supply of TPP Bitola for another ~10.6 years.

TPP Oslomej also faces challenges for reliable coal supply. TPP Oslomej is supplied exclusively from the Oslomej mine, which is almost depleted and produces less than 300 kt of coal per year. Due to the low supply of coal, TPP Oslomej operates with limited capacity. According to the investment plan, no new reserves are expected to be put into operation near TPP Oslomej due to socio-ecological reasons. Therefore, possibilities for other sources of supply are being considered, such as the import of high-calorie coal, the use of domestic resources from other mines, or the transition to other energy sources.

Transmission network

North Macedonia has a well-developed transmission network with five interconnection points and a total length of 577 km at 440 kV and 1,601 km at 110 kV. MEPSO, as the operator of the electric transmission system (OEPS), manages 2,122 km. The 400 kV transmission lines form a ring and connect the largest electricity producer, TPP Bitola, direct consumers and North Macedonia with neighbouring countries. North Macedonia has interconnections with Serbia, Kosovo and Bulgaria and two with Greece. The transmission network at 110 kV voltage level is well developed and connects the large hydroelectric power plants, TPP Negotino and other producers with all urban and industrial areas. North Macedonia and other contracting parties are already above the threshold for the level of interconnection for 2020 (10%) and 2030 (15%).

The interconnecting transmission line with Albania will contribute to regional integration, while the existing outdated transmission network will need to be revitalised and reconstructed or a new one built. The realisation of the new interconnection between Bitola (MK) and Elbasan (AL) is of great importance and is the last segment of the realisation of Corridor 8 for electricity transmission between Bulgaria, North Macedonia, Albania and Italy. This project is of regional importance and is listed as a Project of Energy Community Interest.

Cross-border exchange

North Macedonia has an active role in the cross-border exchange of electricity. In the period from 2010 to 2015, North Macedonia achieved a positive net import balance, which increased significantly in 2014. North Macedonia primarily imports from Kosovo and Bulgaria in the amount of 4–5.6 TWh, while exports to Greece amount to 1.5–3.9 TWh. In addition, in 2016, North Macedonia became a founding partner of SEE CAO (Joint Coordinated Office in South East Europe). SEE CAO facilitates cross-border trade in electricity by harmonising the technical, financial and legal prerequisites between

participants, which enables a simpler and more economical trading process. Since 2016, electricity trade on the MK-GR border has been organised by SEE CAO. For other borders that are not part of the SEE CAO agreement, MEPSO has appropriate Auction Rules for the allocation of cross-border transmission capacities.

Connecting the day-ahead market with Bulgaria is the next initiative for regional integration, with the possibility of forming an organised market in North Macedonia. With the signed Memorandum of Understanding between North Macedonia and Bulgaria in 2018, North Macedonia is taking operational steps to implement the initiative.

Natural gas

North Macedonia is connected to only one main gas pipeline with Bulgaria and is 100% dependent on imports, as it does not have its own natural gas deposits. Natural gas accounted for only 7% of primary energy consumption in 2017, but with the development of the natural gas network, this share has great potential to increase in the future. To ensure security of supply, North Macedonia also supports initiatives to connect to other main gas pipelines.

The interconnection with Greece is a key project that will diversify the supply until the end of 2022. The company for performing energy activities, Macedonian Energy Resources, responsible for the development of the transmission system, is included in the Central and South-Eastern Gas Connection Initiative, which, according to the Memorandum of Understanding signed in Dubrovnik in 2015, included the interconnection projects between North Macedonia, Greece and Bulgaria. One of the key supply routes is the interconnection between North Macedonia and Greece, which is currently on the list of projects of mutual interest of the Energy Community and is expected to be completed by 2022. Through this interconnection, North Macedonia will be connected to the Trans-Adriatic gas pipeline, which carries natural gas from the Caspian region to Europe. There is potential for five interconnections with Serbia, Albania, Kosovo, Bulgaria and Greece (connection with Bitola).

North Macedonia has an ambitious plan for gasification of the entire country. The gasification is planned in three stages, which will enable bringing natural gas to the entire territory of North Macedonia. According to the Energy Development Strategy, projects that are part of phase 1 were expected to be completed by 2020, phase 2 projects by 2022 and phase 3 projects after 2022. The ERC has issued 15 licences for natural gas trade, two for natural gas supply, and one for natural gas supply as a last resort.

GA-MA AD Skopje performs the transmission and management of the natural gas transmission system and is obliged to ensure reliable and safe operation of the system by planning, construction and maintenance of the gas pipeline, measuring and regulating stations and other equipment, as well as with careful management and supervision of the transmission network and control of all activities in the protective belt of the gas pipeline.

In the Republic of North Macedonia, there are currently three smaller systems for the distribution of natural gas, namely the Directorate for Technological Industrial Development Zones (TIDZ) and public enterprises Kumanovo Gas and Strumica Gas. These companies hold licences for performing energy activities, distributing natural gas, and supplying natural gas to consumers connected to the natural gas distribution system and are obliged to ensure the development, maintenance, and reliable and safe operation of the distribution system for reliable, high-quality and safe delivery of natural gas to users. The following natural gas distribution systems have been built in the Republic of North Macedonia:

- TIDZ Skopje 1 and Skopje 2 near the village Bunardzik with a distribution network length of 5.6 km.
- Municipality of Kumanovo with a distribution network length of 16 km.
- Municipality of Strumica with a built distribution network length of 34 km.

Oil and petroleum products

North Macedonia has no oil deposits and since 2013, all petroleum products are imported. Furthermore, the OKTA refinery has not produced petroleum products since 2013, making North Macedonia 100% dependent on import. Petroleum products are imported from the surrounding countries, which guarantees security of supply.

Storage infrastructure exists, but the condition and purpose can be improved. North Macedonia has facilities through private entities that could be used to store mandatory oil reserves. The total capacity is estimated at 543,500 m^3, but a large part of this capacity still has an unresolved status, and therefore the capacity for which a storage licence has been issued is 310,155 m^3. The largest storage facilities are located in the OKTA refinery, which are currently used to store the majority of petroleum products. The main problem is the state of the storage facilities and their applicability to the mandatory oil reserves. Certain parts of these capacities are used by petroleum product traders for their operational reserves as provided by the Energy Law.

The Vardax pipeline could provide significant supply in the future. The crude oil pipeline was commissioned in 2002 between Thessaloniki, Greece and the OKTA refinery and has a capacity of ~2.5 Mt per year, but since the OKTA refinery stopped processing crude oil in 2013, the pipeline is no longer operational. The technical characteristics of the oil pipeline have changed to allow the potential transportation of oil products.

Central heating

Central heating systems are used only in Skopje by 8.33% of households, while 61.59% use firewood, 28.60% use electricity, and the remaining 1.48% use other types of fuels. The analyses conducted as part of the second Biennial Report on Climate Change show that, in Skopje, 24.8% of households are connected to the central heating system. There are three central heating systems in Skopje, but Balkan Energy Group has covered the largest part of the market in Skopje in recent years.

Renewable energy sources

The portfolio of electricity producers from renewable energy sources in the Republic of North Macedonia consists of large hydroelectric power plants with an installed capacity of over 10 MW, small hydroelectric power plants whose installed power is less than 10 MW, wind power plants, photovoltaic power plants, biogas thermal power plants and biomass thermal power plants. According to publicly available data for 2021, 344 of the 352 domestic producers of electricity use renewable energy sources, of which 202 use a preferential tariff, seven use a premium, while 135 power plants do not use support measures for electricity production. In 2021, 49 new power plants using renewable energy sources started operating (one hydroelectric power plant and 48 photovoltaic power plants), while two power plants had their electricity production licence revoked (one hydroelectric power plant and one photovoltaic power plant). The total electricity produced by wind power plant WPP Bogdanci, and biogas thermal power plants, is purchased by the electricity market operator at preferential rates. Out of the total number of small hydropower plants, 96 sell the generated electricity at preferential tariffs, while the remaining 11 sell the generated electricity on the electricity market. Considering that large hydropower plants do not meet the requirement to have an installed capacity of less than 10 MW to acquire the status of a preferential producer, they place all their production on the electricity market. For the first time, photovoltaic power plants dominate the number of power plants that sell the produced electricity on the electricity market. Namely, 101 photovoltaic power plants use a preferential tariff, while the remaining 121 sell the produced electricity on the electricity market.

Despite the fact that 98% (344 out of 352) of the total number of power plants for electricity production use renewable energy sources, their percentage share in the total installed power is 38%. The share of renewable energy in the total electricity produced by domestic producers is even lower at 31%. The participation of preferential producers that use preferential tariffs in the total installed capacity from renewable energy sources is 19%, while the total installed capacity in the Republic of North Macedonia is 7%. Preferential producers who use preferential tariffs participate ~8% in the electricity produced by domestic producers, while for production from renewable sources it is 25%. Excluding large hydropower plants from the portfolio of renewable energy sources, in 2021, 514 GWh were produced from renewable energy sources, while 406 GWh were produced by preferential producers.

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

The consequences of the COVID-19 pandemic and its influence on the global energy markets, along with the ongoing Russia-Ukraine war, have had a major influence on the energy situation in North Macedonia as an import-dependent country. Electricity prices on the global markets have increased significantly, forcing the authorities in North Macedonia to consider increased production from coal-fired thermal power plants in order to avoid importing electricity at enormous prices. On the other hand, reduced electricity production and increased energy consumption have resulted in North Macedonia facing shortages of energy that, at the end of 2021, could not be satisfied even by importing electricity. In such cases, energy was taken from the European network and so far the country has done this four times without notice and received four warnings from the centre in Switzerland where the calculations are made.

Due to the worsening circumstances, the Government of the Republic of North Macedonia has declared a state of crisis in the energy sector on numerous occasions at the end of 2021 and throughout 2022, which has enabled budget funding to be injected into energy companies to increase their liquidity and intervene with the import of electricity, and to further mitigate the consequences of the crisis as far as possible.

Developments in government policy/strategy/approach

The Energy Development Strategy provides possible directions for the development of energy in North Macedonia until 2040, taking into account the changes in energy policies across the world and European frameworks, especially within the framework of the Energy Community. Energy trends emphasise a more ambitious transition to a low-carbon economy, whereby renewable energy sources and energy efficiency are among the most important factors enabling the transition. The strategy follows the best practices of the EU's renewable energy source and energy efficiency policies, as well as decarbonisation, taking into account goals and trajectories with real dynamics that are adapted to the domestic specifics and priorities of the Government of the Republic of North Macedonia.

The ongoing Russia-Ukraine war, and its major influence on the energy situation in Europe, greatly impacts the energy situation in North Macedonia. This has shifted the focus of the authorities to the major faults and necessities of the country as an import-dependent country. The Government has also adopted several measures for saving electricity that should be in force until 31 March 2023, such as turning off decorative lighting on the facades of public buildings and cultural monuments, turning off lights when there is enough daylight, cooling with air conditioners at no less than 27 degrees and heating at a maximum of 20 degrees,

turning off computers after finishing work, changing heating unit and air conditioner filters regularly, sealing only the necessary materials, and replacing windows with energy efficient ones. These are just some of the obligations that state institutions must implement.

Recommendations for the business sector are similar to the above and also include using daylight for internal rooms, halls and offices where possible, replacing old light bulbs with compact fluorescent ones, installing a heat pump as a highly efficient system for heating, cooling and for the preparation of hot water during construction of new buildings or reconstruction of old ones, and application of new technologies for better energy performance of industrial plants. Households are recommended to turn on water heaters only when needed and preferably on cheap electricity, using washing machines and dishwashers only when they are full, reasonable use of heating devices, maximum use of daylight and heat from the sun, turning off lights when the room is not in use, cooking in smaller pans appropriate to the size of the hotplate, short and intense ventilation of rooms, etc.

Additionally, the Government has decided to encourage investments in renewable energy sources, adopting changes in the Rulebook on renewable energy sources. The changes were adopted by the Ministry of Economy and published in the Official Gazette of the Republic of North Macedonia on 16 June 2022. With these changes, it is possible for a consumer-producer to set up a production plant with a higher installed capacity in order to fully satisfy its consumption and also to place the surplus amount back into the network, which makes the whole concept more attractive for certain categories of entities. Therefore, instead of the current 4 kW, it is proposed that installed production plant power is no greater than 6 kW for households, and 40 kW instead of the current 20 kW for small consumers, budget users and individual users. With these amendments, it is possible for every household, small consumer and budget user to enter into a contract for the supply and delivery of the surplus of produced electricity with any electricity supplier, including the universal supplier, whereby the surplus of contracted electricity in the calculation period is the average purchase price of the electricity that the universal supplier procures for supplying households and small consumers.

Developments in legislation or regulation

In general, the existing Energy Law provides an adequate legal framework for the energy efficiency policy of North Macedonia. Due to changing circumstances in the country's energy sector, however, there has been a need to adopt certain bylaws and make amendments to existing bylaws.

Towards the end of October, the Government adopted a decree on the manner of declaring a state of crisis in cases of electricity shortages (*Decree on the Criteria and Conditions for Declaring a State of Crisis in Cases of Natural Disasters, Accidents and Disruptions of Electricity Markets, Manner of Electricity Supply in Crisis and Condition and Obligations of the Holders of Licenses for Performing Electricity Activities (246/2021)*), in order to align legislation with the Energy Law adopted in 2018. The Decree more concisely defines the procedure, measures, and criteria for declaring a state of crisis. There is a new responsibility added for licensed entities performing energy activities, who will now have to bear the financial burden for implementing the measures provided in the Decree. Certain criteria considered when determining whether a state of crisis should be declared include, among others, the production, transmission and distribution capacities of the system in North Macedonia, the status of the regional and international energy markets and their influence on the domestic market, as well as the available quantities from domestic production and the import of electricity.

The following significant changes in legislation or regulations have been published in the Official Gazette in the past 12 months:

- Amendments to the rules for balancing of the electricity system, published on 22 December 2021.
- Amendments to the rules for the electricity market, published on 31 December 2021 and adopted by the ERC.
- Amendments to the network rules for heat energy transmission, published on 3 January 2022.
- The new network rules for electricity transmission, published on 10 January 2022.
- Amendments to the rules for delivery of heat energy, published on 21 February 2022.

Furthermore, in June 2022, the ERC adopted the new tariff system of the universal supplier of electricity (EVN).

The price of electricity increased several times in 2021–2022 by the decision of the ERC, due to the rise in prices on global stock markets. Also, the daily cheap tariff was abolished due to the energy crisis, but the night cheap tariff and the Sunday cheap tariff remain. The price of central heating services also increased between December 2021 and July 2022 due to the increased price of natural gas on the global markets.

Due to these increased prices, at the end of 2021, the Government adopted a programme for the protection of vulnerable energy consumers for 2022. This programme defines the consumers who fall into this category, the protection measures that are taken, the ways of implementing the measures, the measures taken by the energy distribution system operators, the measures taken by the suppliers with the obligation to provide a public service, that is, a universal service in the supply of energy, and the necessary means and sources of financing. The following measures are foreseen for the protection of vulnerable consumers:

- Direct financial support to vulnerable energy consumers as a monetary allowance to cover part of the costs of energy consumption in the household from October to March.
- Financial support for people with low incomes if their regular monthly income does not exceed the net income, namely: up to MKD 15,194 for a single person; up to MKD 18,000 for a household with two members; up to MKD 21,000 for a household with three members; up to MKD 25,000 for a household with four members; and up to MKD 30,000 for a household with five or more members. These persons will exercise their right through a public notice published by the Ministry of Economy.

Financial support will be paid for 12 months with the right to reduce the monthly bill for consumed electricity by MKD 600 per month, counted from the day of submission of the request. The funds for this programme are provided by the Budget of North Macedonia.

Judicial decisions, court judgments, results of public enquiries

In general, there have been no crucial judicial decisions or judgments in the energy sector. However, in June 2022, the ERC decided to annul the licences for production, delivery and distribution of heating of the three major regulated companies on the market, Balkan Energy DOOEL Skopje (heat production), Balkan Energy DOOEL Skopje (heat distribution) and Balkan Energy DOOEL Skopje (heat supply). In turn, in July 2022, the Government adopted a decision that obliges AD ESM Skopje to establish three commercial companies with limited liability that will produce, distribute and supply heat energy for the city of Skopje.

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Dragan is a member of the Macedonian Bar Association, the Association of Mediators, the International Union of Lawyers (UIA), and the International Bar Association (IBA).

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