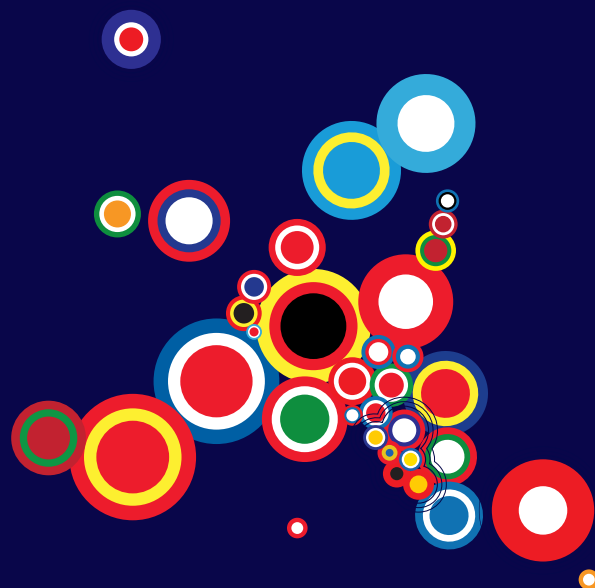




**INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)  
2014-2020**

**SERBIA**

**Support to the Energy  
sector**



***Action Summary***

*Harmonisation of national legislation with the EU Energy acquis, in particular a more efficient and effective policy implementation in regard to the third energy package, energy efficiency and renewable energy sources are important elements of the energy policy of the Republic of Serbia and emphasised in relevant EU and National overarching and sector specific strategic documents. In this regard and in line with the EU 2020 strategy and Energy Community Treaty obligations, Serbia is committed to meet the defined national targets of 27% of renewable energy resources until 2020 and 9% of energy savings until 2018. Action 1 of this Action Document is aimed to support those efforts.*

*Action 2 is dedicated to add to the development and upgrading of strategically relevant energy infrastructure which will enable cleaner energy production. The Activity is focused on one Project from the Single Project Pipeline which is assessed as being ready for the tendering procedure.*

<b>Action Identification</b>	
<b>Action Programme Title</b>	Annual Action Programme for Serbia (2014)
<b>Action Title</b>	Support to the Energy sector
<b>Action Reference</b>	2014/032-79.06/Serbia/Support to the Energy sector
<b>Sector Information</b>	
<b>IPA II Sectors</b>	<i>Energy</i>
<b>DAC Sector</b>	23010, 23020, 23030
<b>Budget</b>	
<b>Total cost</b> (VAT excluded) <sup>1</sup>	EUR 15 170000
<b>EU contribution</b>	EUR 12 650 000
<b>Management and Implementation</b>	
<b>Method of implementation</b>	Indirect management
<b>Responsible Unit or National Authority/Implementing Agency</b>	Central Finance and Contracting Unit (CFCU) - Ministry of Finance, Department for Contracting and Financing of EU Funded Projects
<b>Implementation responsibilities</b>	Result 1.1; 1.2 and 2.1 – Senior Programme Officer at the Ministry in charge of energy
<b>Location</b>	
<b>Zone benefiting from the action</b>	Republic of Serbia
<b>Specific implementation area(s)</b>	<i>n/a</i>
<b>Timeline</b>	
<b>Deadline for conclusion of the Financing Agreement</b>	31 December 2015
<b>Contracting deadline</b>	3 years after the signature of the Financing Agreement
<b>End of operational implementation period</b>	6 years after the signature of the Financing Agreement

<sup>1</sup> The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

## 1. RATIONALE

The selected complex action consisting of two coherent sets of activities grouped around two specific objectives in the proposed Action Document 2014 for the Energy sector will contribute directly or indirectly to Government priorities in this sector, at the same time ensuring further alignment with EU priorities and integration process.

### PROBLEM AND STAKEHOLDER ANALYSIS

#### Alignment of Serbia's legislation to the EU Acquis

Some progress has been made in recent years in developing the legal framework so as to align with the EU energy Acquis. The overarching energy legislation will need further amendments, particularly in transposing the prioritised EU Acquis in accordance with Energy Community Treaty (ECT) obligations, in particular the **third energy package** provisions.

Serbian energy sector is lagging behind in terms of technological development. Social policy implementation has been associated with prices not covering the costs of energy production and delivery. Serbian energy entities did not commercially operate for decades. In addition, still complicated procedures effectively pose barriers to entry for the new market entrants. Technological upgrade needs to be achieved simultaneously with the requirements posed by the process of EU integration and commercialisation and corporatisation of utility operations. Strengthened policy, institutional and legislative framework is needed to enable achievement of these goals. In conclusion, the improvement of the legislative corpus in the energy sector in Serbia is evident, yet continuous support is needed for developing secondary legislation, instruments and stimulating mechanisms that will enable an effective implementation and monitoring of the recently adopted framework laws.

#### Enforcement and monitoring of the energy efficiency policy implementation

As stated in the Indicative Strategy Paper 2014-2020 for Serbia (the Strategy Paper) poor energy efficiency is one of the main challenges in this sector. Serbia's economy is highly energy-intensive consuming 2.7 times more energy per unit of output than an average OECD country. Some progress has been made following Serbia's commitments under the Energy Community Treaty to implement the Directive on energy end-use efficiency, energy services and Energy Labelling Directive. Serbia has adopted the new Law on Efficient Use of Energy in 2013, the implementing legislation being under way, with full implementation expected from 2015 onwards. Serbia also adopted two National Energy Efficiency Action Plans with the goal to achieve 9% of savings in the final energy consumption in 2018 as compared to 2008. Also, the use of renewable energy must be increased in order to meet the Energy Community Treaty target of 27% of gross final energy consumption by 2020. A step forward in this area is the adoption of the National renewable energy action plan in June 2013 but more efforts are needed in order to establish an attractive investment climate for renewable energy sources. Particular attention needs to be paid to the promotion of energy efficiency and renewable energy in public sector as well as in transport, heating and cooling systems.

The Annual Implementation Report prepared by the Energy Community Secretariat (p. 158, September, 2013) concludes that Serbia made significant steps forward in the completion of the renewable energy legislation and regulations to promote energy from renewable sources. However several issues need immediate attention. In particular, the regulatory framework for renewable energy needs to be completed and new renewable energy projects to become operational to put Serbia on track to meet the interim trajectory before 2020. The legal framework for renewable energy in the transport sector has still to be established, including measures already described by Directive 2003/30/EC such as monitoring, promotion and reporting requirements. One more priority is the introduction of sustainability criteria and a certification system for liquid biofuels.

There is a strong intention in starting a more effective implementation and monitoring of the concrete policy for sustainable energy in all uses. This is evidenced by the recently established **Budgetary Fund** for the Improvement of Energy Efficiency which became effective as from 2014. For 2014, working principles and implementation mechanisms of the **Budgetary Fund** are defined in the adopted Rulebook on conditions for distribution and use of the Budget Fund and the criteria for exemption from the obligation of performing the energy audit.

## Energy market and security of supply

With regard to security of supply, while Serbia's electricity system is relatively well connected with its neighbouring countries, better integration is still needed in order to facilitate the smooth functioning of a regional and pan-European electricity market. The recent severe flooding (mid May 2014) showed how fragile the security of supply is affecting some key thermo-power plants in Serbia, one of them being subject to support in this Action Document.

Serbia is focused on **securing a reliable, safe and sustainable energy supply** for power, as electric generation infrastructure is particularly old and obsolete: the situation of generation is still dominated by **lignite-fired power units** (64%), where “measures for emissions control do not fully comply with current legislation, although improvements have been achieved with recent investments”<sup>2</sup>. The recent SIDA-SEIO evaluation<sup>3</sup> addresses the huge need of investment yet evidencing the constraints of the limited national budget and the difficulty in using concessional loan finance as the investments are in general not viable enough to serve the debt, until energy tariffs are increased. The Serbian security of supply and energy market integration requires a regional interconnection with other Western Balkan and EU countries, both for electricity and gas interconnections, so that the supply of energy from other neighbouring countries can be easier, at competitive prices, and able to counteract emergency situations of energy shortage.

Concerning electricity, the trans-European energy networks (TEN-E) - for Serbia – consist of the Trans Balkan Corridor, a complex system of electric connections driving electricity from the eastern/northern part of the South East Europe and from Moldova and Ukraine (area with lower electricity prices) to the south-west and further to Western Europe (Italy and the rest of the Europe with much higher electricity prices) through all Balkan countries. The Trans Balkan Corridor will interconnect Serbia with Bosnia and Herzegovina, Montenegro, Romania and Bulgaria, whereas another possible interconnection regards Hungary.

## Infrastructure investments for sustainable energy development

IPA support within the Action Document 2014 is needed for the **investment** addressing the reduction of the environmental impact of energy generation.

The selected **DeNOx Activity (by utilisation primary measures)** aims at improving the environmental quality of existing power generation process/large combustion plants by reducing harmful emission to the air, using sound and demonstrated technologies for flue gas cleaning.

In Serbia, thermal power plants located in the Kolubara and Kostolac Lignite Basins represent large polluters. Electric Power Industry of Serbia thermal power plants emit large amounts of dust, sulphur dioxide and nitrogen oxides.

From 2004 to date, Electric Power Industry of Serbia thermal power plants have been undergoing reconstruction. This also included the replacement of the existing electrostatic precipitators targeting dust emission reduction. Simultaneously, from 2006 Electric Power Industry of Serbia implemented studies and projects aimed at reducing sulphur oxides emissions from the Kostolac B, Nikola Tesla A and Nikola Tesla B TPPs in preparation for the construction of the flue gas desulphurisation plants. With regard to nitrogen oxide emissions from Electric Power Industry of Serbia thermal power plants and the legislation relating to the limitation of emissions from large combustion plants, as part of the Action Document 2014 the focus will be on measures to reduce nitrogen oxides emissions. In particular, following TPP Nikola Tesla Unit A4.unit will be targeted.

In line with a set of environmental laws which came into force in December 2004, Electric Power Industry of Serbia is committed to align the operation of its facilities with their provisions. This means that according to the national regulations, aligned with the EU regulations, new facilities and facilities undergoing revitalisation need to have protection measures in accordance with the best available techniques (BAT) implemented.

In addition, according to the Treaty establishing the SE Europe Energy Community, Serbia is obliged to implement the Large Combustion Plants Directive until 31/12/2017. In October 2013 two

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<sup>2</sup> ECORYS: IPA interim evaluation and meta- evaluation of IPA assistance - Country Report Serbia, March 2013

<sup>3</sup> SIDA: Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia per sector

Decisions were adopted at the 11th Ministerial Council of the Energy Community: Decision D/2013/05/MC-EnC on LCP Directive implementing rules and Decision D/2013/06/MC-EnC on the Introduction of the Industrial Emissions Directive. With the Decision D/2013/05/MC-EnC, it is provided to the Contracting Parties the possibility to use, until 31 December 2027, the option of national emission reduction plans (NERPs). Another instrument that was also adapted for the Energy Community needs is the “opt-out” (limited lifetime derogation) possibility. The Ministerial Council agreed that the opt-out would be applicable between 1 Jan 2018 and 31 Dec 2023, for a total number of 20 000 operational hours. Through the adoption of the Decision D/2013/06/MC-EnC the Ministerial Council agreed that in the case of new plants, Contracting Parties have to implement the provisions of the Industrial Emissions Directive as of 1 Jan 2018. The Action 2 of this document directly contributes to its achievements.

“Republic of Serbia is currently in the process of preparation of National Emission Reduction Plan (NERP) that has to be submitted to the Energy Community Secretariat by the end of 2015. By the same date Republic of Serbia should also inform the Secretariat about the LCPs that will use opt out mechanism.

The proposed Action 2 in this document addresses investment for the improvement of security of supply, and cleaner energy production. Investments for energy efficiency/RES have not been included into the Action Document 2014 for several reasons; biomass and district heating projects were approved and financed by major bilateral donor with soft loans and technical assistance scheme; some of them have been delayed and demonstrated insufficient implementation capacity at local level. Once the results from already on-going projects are analysed and demand is articulated and the mechanism for the budgetary support developed, i.e. support to the EE fund defined, targeted investments in energy efficiency/RES may be included in subsequent Action Documents.

### **Stakeholder analysis**

The **sector lead institution (SLI)** for the energy sector is **the Ministry in charge of energy**. It has the main responsibility of leading the relevant sector institutions in the process of elaborating, implementing, monitoring /reporting on sector policies.

Apart from the Ministry in charge for energy, who is the beneficiary for a set of activities, other IPA II beneficiaries include:

- The Energy Agency of the Republic of Serbia is an independent regulatory body with competences covering electricity, natural gas and, to some extent (licensing), oil and oil derivatives sub-sectors. The Agency contributes to creation of a stable regulatory framework for the development of an efficient and sustainable energy sector. The Agency is a legal entity that is functionally independent of any state body, energy entity or user of its products and services, and of any other legal or physical entity. The Agency carries out the following main groups of tasks: price regulation; licensing of energy entities to conduct energy activities; deciding upon appeals; energy market supervision and international agreement implementation. The Action foreseen will affect merchants, consumers, transporters and gas distributors etc.
- The Public Enterprise “Electric Power Industry of Serbia” (PE EPS) is vertically integrated company having defined its main aim to meet all the electric power requirements of the economy and inhabitants including the following activities: electric power generation; electric power distribution and distribution system management; electric power trade; coal production, processing and transport; steam and hot water production in combined heating processes; water power utilisation and services in river and lake traffic; wholesale trade in fuel and similar products; research and development; design, construction and maintenance of energy and mining plants; design, construction and operation of telecommunication facilities; engineering. The Action proposed by EPS directly impacts the Municipalities of Obrenovac, Surcin, Vladimirci, and Pecinci, (153 525 inhabitants).

### **RELEVANCE WITH THE IPA II INDICATIVE STRATEGY PAPER AND OTHER KEY REFERENCES**

#### **Strategy Paper priorities**

The focus of IPA II assistance in the energy sector, as stated in the Strategy Paper will be on further harmonisation of the Serbian energy legislation to meet the Energy Community Treaty and the *acquis*

obligations. The emphasis is on strengthening institutional capacities for effective implementation, on strengthening monitoring and reporting mechanisms as well as on improving strategic planning. To improve household energy efficiency, support is foreseen for analysis of available heat production alternatives and operationalisation of selected options. Priority investments from the national single project pipeline will be supported, especially in areas such as gas transport and electricity interconnection, renewable energies (with a focus on biomass) and energy efficient technologies.

The Action Document 2014 directly corresponds to those priorities and contributes to achieving the expected results defined in the Strategy Paper:

- **Full implementation of the second national energy efficiency action plan**

This target will be tackled through **Activity 1.2.1**. Technical assistance to the Ministry in charge for Energy and relevant public entities for implementation and analysis of its implementation of the new Energy law, National Energy Efficiency Action Plan (NEEAP) and RES Directive.

- **Full liberalisation of the energy market;**

This target is addressed by the **Activity 1.1.1** with the expected result: Regulatory policies, mechanisms and operational practices implemented in compliance with the applicable provisions of the Energy Community law comprising EU 3<sup>rd</sup> Energy Package of legislation, applicable Network Codes and best regulatory practice.

- **Increased use of renewable energy to 27% by 2020 in line with the Energy Community Treaty obligations**

Given the combined EE/RES approach, this target is approached by **Activity 1.2.1**. Technical assistance to the Ministry in charge for Energy and relevant public entities for implementation of the new Energy law, NEEAP and RES Directive.

- **Improved security of supply in electricity generation, transmission and gas transport enabling regional market integration, including compliance with the Oil stocks Directive**

**Activity 2.1.1 NO<sub>x</sub> emission reduction** targeting thermal power plant **Nikola Tesla A4** is among most mature projects from the National Project Pipeline that will contribute to a more sustainable electricity generation. Support for preparatory activities related to future compliance with the oil stocks Directive are agreed to be considered in Action Documents 2015/2016.

### **Serbia 2014 EU Progress Report**

As recommended in the Serbia 2014 EU Progress Report, Serbia should redouble its efforts to align with the EU *acquis* including third Energy Package with particular attention to the effective implementation of adopted legislation. In particular, intensified efforts towards alignment in the fields of market opening, unbundling and cost reflective tariffs in the energy sector are expected. Building upon past and ongoing IPA assistance where support has been provided for developing the legal framework and strategic action documents, the focus of the Action Document 2014 is predominantly on the more effective implementation of the energy policy.

The implementation of the Energy Law and alignment with the third package of the EU energy *acquis* will require an increase in the Energy Agency of Republic of Serbia (AERS)' staff as well as further capacity building and strengthening of independence (p. 33). Activity 1.1.1 with AERS as the beneficiary will address exactly those areas. Serbia should increase its efforts to meet its renewable energy targets, adopt implementing legislation of Law on Energy Efficiency as well as strengthen administrative capacity in this area. Activity 1.2.1 is dedicated to a more efficient and effective implementation of National Renewable Energy Action Plan (NREAP) and National Energy Efficiency Action Plan (NEEAP).

### **Europe 2020 Strategy**

"**Resource efficient Europe**" is one of the seven flagship initiatives as part of the Europe 2020 Strategy aiming to deliver smart, inclusive and sustainable growth. It aims "to help decouple economic growth from the use of resources" by supporting the shift towards a low carbon economy, increasing the use of renewable energy sources, reducing CO<sub>2</sub> emissions and promoting energy

efficiency and Chapter 21. Trans-European networks (TEN-E Energy networks). Actions and activities proposed in this Action Document are fully in line with those priorities.

### **SEE 2020 Strategy**

Among key Strategy actions in the sector of ‘Energy’ addressed by this Action Document are:

- Develop and implement measures to increase efficient use of energy by achieving a minimum 9% energy saving target by 2018, in line with its commitments to the Energy Community, through the adoption of Energy Services Directive, in 2009.
- Put in place measures to achieve national share of renewable energy in gross final energy consumption by 2020, in line with the targets adopted in 2012, through the Renewable Energy Directive.
- Develop instruments to create an investment friendly climate and stimulate energy infrastructure development.
- Create a well-functioning SEE energy market that would provide affordable but cost reflective and reliable supplies; remove energy subsidies and replace these with safety nets for vulnerable consumers.
- Complement the ongoing regional energy cooperation

### **Energy Strategy of the Energy Community**

The priorities of the Regional Energy Community Strategy are:

- To create a **stable regulatory and market framework** capable of attracting investment in gas networks, power generation, and transmission and distribution networks, so that all Parties have access to the stable and continuous energy supply that is essential for economic development and social stability;
- To create a **single regulatory space** for trade in Network Energy that is necessary to match the geographic extent of the concerned product markets;
- To enhance **the security of supply of the single regulatory space** by providing a stable investment climate in which connections to Caspian, North African and Middle East gas reserves can be developed, and indigenous sources of energy such as natural gas, coal and hydropower can be exploited;
- To improve the **environmental situation** in relation to Network Energy and related energy efficiency, foster the use of **renewable energy**, and set out the conditions for **energy trade** in the single regulatory space.

**Action 1** as well as **Action 2** of this Action Document addresses all the above objectives.

### **Links with “National priorities for international assistance 2014-2017 with projections until 2020” (NAD)**

The Action Document’s overall objective – **To contribute to the security of supply, more competitive energy market and sustainable energy development** - is linked to respective measures defined in the strategic national programming document “National Priorities for International Assistance for the period 2014-2017, with projections until 2020” (NAD) ensuring the overall consistency and coherence with the national/sector specific and EU strategic framework.

In specific, Action 1 reflects the NAD Measure 1.1: Supporting the enforcement of national legislation in energy sector and improving monitoring and reporting mechanisms for policy implementation and law enforcement at central and local level and Measure 1.2: Further supporting Serbian energy market aimed to enhance its internal and regional competitiveness.

Action 2 addresses the NAD Measure 3.1 Decreasing pollution from the energy sector impacting air, water and soil quality.

### **Links with National Plan for the Adoption of the Acquis (NPAA)**

Legislation relevant to Action Document considered to be adopted during as defined in NPAA for the period 2014-2018 include number of acts aiming to harmonise with Directive 2009/28/EC such as:

- Decree on Incentives for the privileged power producers

- Regulation on the conditions and procedure for acquiring the status of privileged power producers
- Rulebook on the guarantee of origin of electricity produced from renewable energy sources
- Regulation on the method of calculation and the method of distribution of funds collected from incentive fees of privileged power producers
- Regulation on the sustainability criteria for biofuels
- Regulation on mandatory share of biofuels on the market (in transport sector)
- Regulation of the amount of special fees for incentives in 2015, 2016, 2017 and 2018
- Development, approval and submission of report on the implementation of the National Action Plan for the use of renewable energy sources

In addition the following legislative acts are anticipated to be adopted in the period 2014-2018:

- Regulation on incentives for biofuels production (Compliance with Directive 2009/28 / EC)
- Regulation on terms of delivery and supply of electricity which will be harmonised with Directive 2009/72/EC and 2005/89
- Rulebook on detailed conditions and the content of the request for issuance, amendment and revocation of licenses for carrying energy activities and on the manner of keeping the register of issued and revoked licenses – to be harmonised with Directive 2009/72/EC and 2009/73/EC
- Rulebook on detailed conditions for energy permit application its contents and manner of issuance of an energy license and conditions for granting approval for energy facilities not required issuance of energy permit (harmonisation with Directive 2009/72/EC and 2009/73/EC)

In 2016, the **Ministry of Mining and Energy** plans to develop Third Energy Efficiency Action Plan for the period 2016-2018. In the period 2015–2018 the **Energy Agency of Republic of Serbia** will continue further activities on harmonisation with EU legislation (more specifically, the 3<sup>rd</sup> Package of EU Internal Energy Market legislation) in accordance with deadlines which will be prescribed in new Energy law when adopted.

#### **SECTOR APPROACH ASSESSMENT**

The current Energy policy framework consists of the **Energy Sector Development Strategy for the period 2005-2015<sup>4</sup>, Programme of its implementation and the Energy balance** produced annually.

The existing Strategy will be replaced with the new **Energy Development Strategy of the Republic of Serbia to 2025, with projections to 2030<sup>5</sup>** which passed the Government and is currently expecting adoption in the Parliamentary procedure. It provides the framework for energy, economic, and energy related environment and social policy which would lead to a sustainable energy system, more efficient economy and better social prosperity with sustainable balances of natural resources and pollution at lowest possible levels. Following the parliamentary approval of the Strategy, a **Strategy implementation programme** is planned until end of 2014 (the previous one expired in 2012). The priorities contained in the proposal of the strategy document relate to three key topics: energy security, energy market and sustainable energy:

**Energy market:**

- Competitiveness on electricity market based on non-discrimination, publicity and transparency;
- Protection of energy and energy products customers;
- Development of electricity and natural gas market and their connection with the single EU energy market;

The Action Document, through the foreseen Action 1 directly relates to the above priority with the Activity 1.1.1 Technical assistance to AERS – approximation of NRA tasks to the energy third package, thus aiming at an open and competitive energy market.

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<sup>4</sup> Official Gazette of the Republic of Serbia, No. 44/05

<sup>5</sup> Draft 2 of June 2013.



**Sustainable energy:** Provision of conditions for energy efficiency improvement in energy activities and energy consumption;

Creating economic and financial conditions for increase of share from renewable energy sources, as well as for combined production of electric and heat energy;

Creating institutional, financial and technical assumptions for using new energy sources;

Promotion of condition and environmental protection system in all fields of energy activities;

Establishing more favourable legal, institutional and logistic conditions for more dynamic investment into energy sector.

Action 1 and in specific the activity 1.2.1: Technical assistance to the Ministry in charge for Energy and relevant public entities for implementation and implementation analysis of the new Energy law, NEEAP and RES Directive directly target the above priority addressing the implementation of the NEEAP and NREAP, thus contributing to meeting the interim energy savings and RES targets.

**Energy security:** Reliable, safe, efficient and quality supply of energy and energy products;

Setting up conditions for reliable and safe operation and sustainable development of energy systems and energy sector in general;

The Action Document 2014, through the Action 2: Energy infrastructure contributing to market opening, regional competitiveness and sustainable energy development addresses to the above priority.

**NEEAP:** The 2<sup>nd</sup> National Energy Efficiency Action Plan was approved in 2013 for the period 2013-2015. The document addresses energy efficiency in the following sectors: 1) Residential, commercial and public services sectors, 2) Industry and 3) Transport. It also sets the national indicative energy savings target for the period 2013-2015 at 3,5% and the target of not less than 9% of the final inland energy consumption for the period from 2010 to 2018 (1% annually on average), which means that the country should ensure energy savings amounting to 0.752Mtoe.

The Action Document 2014 will focus on the implementation of selected measures of NEEAP, whereas the full implementation is envisaged to be achieved by subsequent Action Documents within IPA II and adequate national efforts.

**NREAP:** The 1<sup>st</sup> National Renewable Energy Action Plan was adopted by the Government in June 2013. It foresees as possible use of renewable energies in buildings the production of hot water by solar thermal technology, the heating by heat pumps, biomass and geothermal energy. It also set targets broken down by sectors: the share of renewable energy sources in the electricity sector will amount to 37 %, in the heating and cooling sector it will amount to 36,6 % and in the transport sector to 10 %, in 2020. All these individual goals will enable meeting the joint target of 27 % in GFEC.

The Action Document 2014 will focus on the implementation and analysis of implementation of selected measures of the NREAP, whereas the full implementation is envisaged to be achieved by subsequent ADs within IPA II and adequate national efforts.

### **Stakeholders**

The Ministry in charge of energy as the Sector Lead Institution (SLI) guides and manages activities within the sector and **has the authority to make decisions, plans and controls resources and coordinates all participating institutions** in providing inputs to achieve planned medium to long term impacts within the sector. The Ministry is in charge of EU negotiation preparations **for Chapter 15 (Energy), Chapter 21 Trans-European networks (TEN-E Energy networks) and Chapter 27 (Environment)** through the framework of the Energy Community Treaty, and covers the certain parts of the *Acquis* covering industrial emissions, air quality, waste water, and climate change.

The SLI coordinates activities of all relevant institutions within the sector regarding preparation, implementation and supervision of support programme for the Energy sector. In relation to

international assistance (including EU funds), the Ministry takes overall management responsibility for the planning, programming, implementation and monitoring of assistance funded sector priorities and measures and for coordinating the inputs of sector institutions in this regard. The Ministry in charge of energy has a wide scope of competences which are managed through its internal organisation departments, and are encompassing electricity, oil and gas, energy efficiency and renewable energy sources, control surveillance.

The SWG for energy is responsible to coordinate activities related to management of EU funds and other international assistance, to propose relevant measures and activities. In addition to the national sector institutions, members of SWG, local government is represented by representatives of Standing Conference of Towns and Municipalities. Members of SWG are also representatives of the Ministry in charge of finance, specifically from the National Fund and the CFCU. Representatives of the donor community active in energy sector including the Lead Donor participate in the SWG meetings based on the needs and requirements of each SWG meeting and take part in consultation processes for analysing sector priority goals, measures and operations supported by EU funds and other international assistance.

In order to enable more inclusive and transparent dialogue, consultation and communication with all relevant stakeholders in the respective sectors, SEIO established a consultation mechanism with the Civil Society Organisation (CSOs)<sup>6</sup>. This mechanism is based on the consultative process with **Sectorial Civil Society Organisations (SECOs)** and serves as a platform that enables exchange of information and contribution of CSOs in relation to planning development assistance, particularly programming and monitoring of the Instrument for Pre-Accession Assistance (IPA). Members of SECO are participating at the SWG meetings based on the needs and requirements of each SWG meeting and takes part in consultation processes for analysing sector priority goals, measures and operations for financing from EU funds and international assistance.

In the preparation of the Sector Planning Document and Action Document several rounds of consultations and meetings of the SWG were organised, including the participation of the Lead donor. Such a participative approach should ensure full consensus regarding the programming of international assistance, but also strong support in the ensuing implementation.

The performance assessment framework is still in a developing phase and is presently based on two key mechanisms: (i) system of indicators which have been developed to accompany the document "National Priorities for International Assistance for period 2014-17 with 2020 projections (NAD)" and (ii) annual review of the implementation of strategies and action plans relevant for the sector (NEEAP, NREAP). Indicators to monitor the achievement of the SPDs and ADs derive from those sources. Indicators to provide measurement of the achievement of Action Document's outcomes are:

**For Action 1:**

- Energy legislation aligned with the EU *acquis* and effectively implemented

**For Action 2:**

- Number of installations from energy sector from IPPC list exceeding ELVs<sup>7</sup> prescribed in IPPC permit

A well-functioning PFM system should provide the basis for sustainable structural socio-economic reforms. In this sense, the Strategy Paper explains that the legal basis for a well-functioning public finance management system is generally in place, but implementation is lagging behind. In December 2013 the Parliament adopted a set of 11 financial Laws which follows the Budget for 2014. The Parliament also adopted the changes in the Budget System Law. The Strategy Paper states that there is a need for a medium-term expenditure framework based on well-founded assumptions and targets. Performance indicators are not widely used. Move to programme-based budgeting is ongoing, but substantial efforts are needed in implementation over the coming years. Systems and structures for public internal financial control (PIFC), including internal audit, are largely in place, but practical implementation of the concept of managerial accountability is weak. There is a need also to prepare a public finance management (PFM) action plan, which commits Serbia to address identified

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<sup>6</sup> Introduced in 2011

<sup>7</sup> Emission limit values

weaknesses in its overall PFM system (especially in policy-based budgeting, public procurement, accounting, internal control systems and external audit). External audit work is also still at early stages, and needs to be further developed, as the State Audit Office is in the institution-building phase. These issues have been already stated in the **PEFA** (Public Expenditure and Financial Accountability Assessment (2010) report which highlighted important challenges which largely remain valid to date. Due to the PEFA, the weakest area seems to be budget planning, including policy based budgeting and planning for investment cycles and the development of public internal financial control. Most of these reforms are under preparation or are planned as it is explained in the Fiscal Strategy 2014 (with 2015 and 2016 projections) and the PEP 2014 which indicates as goal for the coming period the development of the strategic planning and coordination with public policies and their link with the Programme budgeting. As part of the public finance management reform the preparation of the medium term expenditure framework will be improved through interdepartmental fiscal coordination. The NAD 2014-1017 (with 2020 projections) indicates concerning PFM that the priority is to “improve transparency, efficiency and accountability in public finance management. This will be done through three measures: “Improving budget planning and preparation process”, “Strengthening revenue management”, “Strengthening public expenditure management and budget execution”.

Currently, important steps in the direction are being currently undertaken with preparations for program budgeting which is legally mandated to be introduced in year 2015 for all budget beneficiaries.

The Law on the 2013 Budget of the Republic of Serbia introduced for the first time three-year capital investment budgeting, which will ensure better development project planning. The adopted amendments to the Budget System Law, in one part related to capital investment, will contribute to the further establishment of a more systematic approach to capital investments by defining the notion of capital project, and prescribing the adoption of bylaw which will more closely regulate the content and the way of capital project preparation. In addition, the obligation is prescribed for the budget users to submit, within the deadlines stipulated by the budget calendar, the proposals of capital projects to the Ministry of Finance, after their assessment.

### **Conclusion:**

Although the adoption of the Energy Development Strategy of the Republic of Serbia to 2025, with projections to 2030 by the Parliament is still pending, the legal and strategic framework, as well as most relevant action plans in the energy sector have been developed shifting the focus in the forthcoming period to a more effective implementation of the sector-specific policies. The institutional set up is in place and AERS, the National energy regulator is extending its powers and strengthening its independence. Mechanisms for the participative programming of the international assistance and monitoring of its implementation are in place through the SWGs and the SECO. The performance assessment framework is still work in progress, yet substantial improvements can be recorded regarding the development of a relevant set of indicators to measure the progress in achieving the defined results (outcome level) of the IPA assistance. Also, all sector specific action plans set indicators and targets with trajectories of their gradual accomplishment and foresee Annual Reports on their implementation. The impact assessment of introduced policies will additionally be supported by the introduction of the Programme budgeting (2015), whereas the three-year capital investment budgeting will ensure better project development and planning. The newly established EE fund should compensate for the decline of expenditure ceilings for 2015/16.

Given the above, the energy sector may be deemed as mature for the sector support.

### **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

According to the ISDACON database, in the period 2007-2013 it is estimated that a total amount of € 750 million<sup>8</sup> was actually disbursed in assistance from the international donor community to the energy sector in Serbia. A list of relevant projects financed in the previous period and linked to the support envisaged in this Action Document are listed in Section: Log Frame - Additional Description.

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<sup>8</sup>Source: Isdacon: <http://www.evropa.gov.rs/Evropa/PublicSite/index.aspx>

The needs of this sector considerably exceed the amount of international assistance received. **The bilateral donor** community has been prominent in resourcing projects in energy sector, including Germany, Norway Japan, Switzerland, Austria, Czech Republic, Netherlands, Spain, Sweden, etc.

IPA 2013 supports further reforms of the energy policy by alignment with the EU energy Aquis, strategic planning in the sector, increased use of renewable energy, and upgrading of environmental infrastructure related to industrial waste water from electricity production. The overall IPA 2013 contribution amounts to EUR 25, 39 million EUR.

A recent SIDA Report on “Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia”<sup>9</sup> has found the **relevance** of the assistance to be **very high**. In the case of the institution-building activities under ‘policy framework’ and ‘internal energy market’, the **efficiency** of resource use seems to be **high**, while **impact** of the assistance has been evaluated as **low**.

Evaluation report recommends that the strengthening of institutions responsible for policy, regulatory oversight and implementation (or reorganisation, in the case of energy liberalisation) should be synchronised with infrastructure development, given the two are inextricably linked.

Another recommendation from the evaluation states that in order to be financially viable on a long-term basis, the **pre-conditions** for these infrastructure investments will be: measurement and charging systems that reflects both usage (reducing over-consumption and supply inefficiencies) and full cost recovery; the break-up of state monopolies in energy to inject competition into pricing; establishment of inter-municipal PUCs; and a social welfare policy that subsidises poorer households to prevent the effects of sustainable pricing from driving up fuel and other forms of poverty.

#### **Overall lessons learned**

- Until 2013, selected projects were not systematically checked in terms of strategic relevance, quality and maturity, hence there was no consistent single project pipeline; as from 2014, this problem has been overcome, given that the Methodology for the selection of projects has been adopted by the Government; this will also enable better sequencing and coordination of interventions.
- Technical assistance for preparing project designs and technical documentation is still indispensable;
- Bottlenecks in terms of absorption capacities must be taken into consideration in the programming period;
- International experts should be better acquainted with development and reforms in Serbia’s and regional energy sector;
- Tenders for procurement of equipment and delivery necessary for the (re)construction of facilities should be planned well in advance and envisage the overhaul periods;
- Domestic firms showed adequate experience and technical ability to carry out reconstructions
- Procedures for the implementation of large projects from combined sources (IPA, IFI, National budget, end-beneficiary co-financing) should be defined and respected.

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<sup>9</sup> Evaluation of Effectiveness and Efficiency of Development Assistance to the Republic of Serbia per Sector (April 2013), SIDA

## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	
To contribute to the security of supply, more competitive energy market and sustainable energy development	<ul style="list-style-type: none"> <li>Quality of energy supply</li> <li>Share of the renewable energy sources in the Gross final energy consumption (%) with sector breakdown (electricity, heat, transport)</li> </ul>	World Economic Forum) Energy Community Reports Reports on the implementation of NREAP	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
1. To improve policy enforcement, monitoring and harmonisation of national legislation in line with the EU Energy acquis.	<ul style="list-style-type: none"> <li>Energy legislation aligned with the <i>acquis</i> and effectively implemented</li> </ul>	EC Progress Reports SEIO Report AERS Report Annual Reports on the implementation of the NEEAP/Ministry in charge of Energy Annual Reports on the Implementation of NREAP/Ministry in charge for Energy	Full commitment to EU Integrations with a strong focus on the implementation of the harmonised legal framework in the energy sector and relevant sub-sector action plans. Full political commitment in meeting the energy saving target 3rd Energy package transposed by 01.01.2015 2nd Energy package fully implemented Better use of available financing instruments/mechanisms so as to support the NEEAP/ NREAP implementation
2. To develop strategically relevant energy infrastructure	<ul style="list-style-type: none"> <li>Number of installations from energy sector from IPPC list exceeding ELVs<sup>1</sup> prescribed in IPPC permit</li> </ul>	Annual EPS reports Energy community reports AERS reports	No delays in implementing strategically relevant infrastructure projects - problems in the procurement process or project works
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
<b>Result 1.1</b> (Action 1.): Regulatory policies, mechanisms and operational practices implemented in compliance with the EU 3 <sup>rd</sup> Energy Package	<ul style="list-style-type: none"> <li>Deadlines for implementing the provisions of the new Energy Law transposing the 3<sup>rd</sup> package related to national regulatory authority respected</li> <li>Deadlines for implementing the provisions of the EU Network Codes related to NRA tasks respected</li> </ul>	Energy Regulatory Agency reports, Government Annual Report Annual report of the SEIO EU progress report Energy community reports	Full political commitment to the removal of obstacles to competition in ensuring an open energy market.
<b>Result 1.2:</b> (Action 1.) EU Acquis in the field of energy efficiency and renewable energy sources implemented	<ul style="list-style-type: none"> <li>Number of legal acts (secondary legislation) relating to EE and RES adopted as per NPAA</li> </ul>	Government Annual Report Annual report of the SEIO	Full political commitment in meeting the EE/RES targets
<b>Result 2.1:</b> (Action 2.) Investment in energy infrastructure contributing to cleaner energy production at TENT A4	<ul style="list-style-type: none"> <li>NOx emissions reduced in accordance to National legislation and EU Acquis</li> </ul>	Annual EPS reports	Availability of the agreed financing (State side co-financing) is a necessary pre-condition
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS

<sup>1</sup> Emission limit values

<p><b>Activities to achieve Result 1.1 (Action 1):</b>  <b>Activity 1.1.1</b>          Technical assistance to AERS – approximation of NRA tasks to the energy third package</p>	<p><b>Service contract</b></p>	<p>Total budget for the Action – EUR 15 170 000          IPA budget – EUR 12 650 000</p>	<p>For Activity 1.1.1:          Increase of the AERS staff in line with recommendations provided in the EC Progress Report and Twinning Project “Capacity Building of AERS” Final Report.          The adoption of the new energy law transposing the third energy package.          Full implementation of the second energy package.</p>
<p><b>Activities to achieve Result 1.2 (Action1):</b>  <b>Activity 1.2.1.</b>          Technical assistance to the Ministry in charge for Energy and relevant public entities for the implementation of the new Energy law, NEEAP and RES Directive</p>	<p><b>Service contract</b></p>		<p>Activity 1.2.1 is under direct responsibility of the Ministry in charge of Energy. Capacity building is necessary for the concerned staff, activity that needs to be inserted within the Technical Assistance contract.          Adequate absorption capacity</p>
<p><b>Activities to achieve Result 2.1 (Action 2):</b></p>			<p>Selected Projects follow the recommendations and feed-back from the GAP Assessment Report          Financial scheme is well developed and commitments (from National side) obtained          Synchronisation of the EPS plan for overhaul of the foreseen Unit A4 with the time frame in which IPA financing procedure could be secured and implemented.</p>
<p><b>Activity 2.1.1:</b>          Implementation of the project: NO<sub>x</sub> emission reduction at the TE Nikola Tesla A4</p>	<p><b>Works/ contract for Activity 2.1.1</b>   <b>Service contract for supervision of Works contract under Activity 2.1.1</b></p>		

## ADDITIONAL DESCRIPTION

To achieve the specific objectives and results, a twofold set of activities has been identified and grouped within Action 1 and Action 2:

The first set of activities under Action 1 supporting the achievement of the Action Document **Specific objective 1** targets continuous harmonisation of legislative framework with the EU *acquis* in the energy sector which is required in accordance to national legislation and obligations derived from the EU accession process and the Treaty Establishing the Energy Community. These activities build on previous and ongoing support activities for harmonisation of energy sector legislation with the EU *acquis*. Given the volume of the legislation and its complexity, external assistance in this field is still valuable. The proposed activities include further support to preparation and approximation of system legal acts and planning documents of greatest importance in the period of IPA II implementation. Harmonised strategic and legislative framework should support achievement of the national energy policy goals and European integration targets as well as establishing preconditions for regular policy cycles changes through support to policy monitoring, reporting and evaluation, enabling, among other things, improved competitiveness in energy supply and better market integration. Major focus is on further implementation of Energy third package to support opening of the market and market integration on regional and wider level.

- **Activity 1.1.1 - Technical assistance to AERS – approximation of NRA tasks to the energy third package**

The expected output is: Regulatory policies, mechanisms and operational practices implemented in compliance with best regulatory practice and the applicable provisions of the Energy Community law comprising EU 3<sup>rd</sup> Energy Package of legislation, applicable Network Codes..

This activity will focus on:

- Developing new/ amending existing secondary legislation, internal procedures, data collection templates and operational guidelines related to (among others) price regulation, wholesale markets, network/storage operators unbundling, access to networks (rules on TPA, interoperability, capacity allocation and congestion management, balancing, harmonised tariff structures etc.), TPA exemptions, retail markets and consumer protection, regional cooperation, reporting etc.
- Operational support to AERS to develop regulatory mechanisms (internal procedures, data collection templates and operational guidelines) supporting investments in electricity and natural gas networks (e.g. ten years development plan, regulatory tests, cost-benefit analysis, regulatory investment incentives etc.).
- Developing/enhancing monitoring mechanisms (internal procedures, data collection templates and operational guidelines) and enforcement procedures.
- Developing tender documentation for AERS integrated information system supporting existing and additional competences of AERS and increased need for data collection and processing due to emerged electricity and natural gas markets.

**Assumption:** AERS has to perform a complex task (the implementation of the significantly expanded NRA tasks as envisaged by the EU 3<sup>rd</sup> Energy package in Serbia) and needs sufficient staff and suitable competences. Adoption of the new energy law transposing the third energy package is the key assumption.

### Links to other projects and follow up

Title	Donor	Amount
Capacity building for the Energy Agency of the Republic of Serbia	EU twinning - IPA 2011	EUR 1 500 000

This Action represents a follow up on the previous twinning project “Capacity Building for the Energy Agency of the Republic of Serbia” (2012-2014), whereby recommendations elaborated within the twinning project (further capacity building, developing regulatory mechanisms implementing the

3<sup>rd</sup> package of EU IEM legislation and the EU Network Codes, upgrading the monitoring mechanisms, ensuring IT resources adequacy etc.) have been taken into consideration while defining the activity content. Furthermore, this project provides input for the follow-up project “Developing AERS information system” (planned for Action Document 2015 funding) aimed to mitigate the bottlenecks in data collection and processing, supporting thereby efficient and sustainable operation of AERS.

- **Activity 1.2.1. Technical assistance to the Ministry in charge for Energy and relevant public entities for the implementation of the new Energy law, NEEAP and RES Directive**

Particular focus should be given to further adjustment of regulative framework. In order to support the implementation of a framework for energy efficiency further development of a regulatory framework and implementation of energy efficiency measures from NEEAPs, and to meet Serbia’s 2020 renewable energy target through implementation of the RES Directive, the following activities should be carried out:

1. Identifying gaps and needs for further alignment of legal framework in Serbia with EU Acquis in the energy efficiency/RES subsectors and alternative options for implementation of certain provisions and needs for awareness rising activities
2. Development of necessary legislation for EE/RES
3. Prepare analyses, tools/guidelines/affordability assessments/handbooks and other supporting materials necessary for successful development, implementation of EE/RES regulation and its monitoring
4. Implementation of measures to achieve national overall targets for RES and EE:
  - Implementation of the EE measures in accordance with NEEAP
  - Implementation of criteria for the sustainability of biofuels and tools to promote the development of second-generation biofuels, and development of support schemes to promote RES in transport.
  - Identification of measures to increase biomass availability taking into account other biomass users (agriculture and forest-based sectors)
  - Strengthening of capacities for RES plants inspections (legal provisions anticipated through the new Law of Energy)
  - Development and implementation of contingent corrective measures based on the monitoring and reporting of the NREAP and potential update NREAP with accompanying assessment of direct and indirect impacts and co-benefits of implementation, etc.
5. Developing and implementing awareness rising activities regarding EE/RES including support for the energy audit implementation
6. Develop and enhance horizontal and vertical coordination between different administrative bodies in the process of permits issuance in order to simplify and shorten lead time for RES projects
7. Study on capacity mapping, identification of bottlenecks and preparation of distribution network development plan with the aim to accommodate increased RES generation
8. Analysis, establishment and implementation of quality standards for RES technologies and certification of installers for RES equipment

**Assumption:** This activity is under responsibility of the Ministry in charge of Energy. Capacity building is necessary for the concerned staff, an activity that can be inserted within the Technical Assistance contract proposed as single Operation of this activity. A potential risk might be the Low absorption capacity of EU funds in the sector, including staff overload.

#### **Links to some other larger projects in EE and RES area**

<b>Title</b>	<b>Donor</b>
Energy Efficiency in Public Buildings – schools	KfW
Norwegian Energy Efficiency Assistance Projects to Serbia including development four Regional Energy Efficiency Centres, Establishment and operation of Serbian Industrial Energy Efficiency Network (SIEEN), introduction of the new energy efficiency policy, energy balance on local level and implementation of Kyoto	Norway



Protocol?	
Regional - Serbian Energy Efficiency Project	World bank
MB IPA Energy Efficiency Finance Facility- EEFF	EIB, EBRD, CEB in co-operation with KfW credit lines and/or risk sharing
Assistance for implementation of Energy Community Treaty requirements regarding implementation of EU Acquis on energy efficiency	Norway
Preparation of second Energy Efficiency Action Plan and Development of Energy Indicators	IPA 2012
Introduction of information system for the energy management in public buildings in the Republic of Serbia	UNDP
Removing barriers to Energy Efficiency in Municipal sector in Serbia	GEF/UNDP
The Project for Assistance of Enhancement of Energy Management System in Energy Consumption Sectors in the Republic of Serbia	JICA
Regional: Energy Efficiency Program in the Western Balkans - ESCO and dialog on policy	EBRD
Regional: Integrated Monitoring and Verification Platform (MVP) for Energy Efficiency Action Plans Implementation	GIZ ORF
Development of a Sustainable Bio energy Market in Serbia	DKTI: GIZ; KfW
Reducing Barriers to accelerate the Development of Biomass Markets in Serbia	GEF/UNDP
Update of Cadastre of SHPP	IPA 2013
Regional: Sector Study on Biomass-based Heating in the Western Balkans	Western Balkans Investment Framework (WBIF)

The Activities linked to the Action Document's **Specific objective 2** and **Action 2** contribute to the security of supply improvement of existing energy infrastructure enabling cleaner and more sustainable energy production. The activities relate to the implementation of the strategically most relevant infrastructure projects shortlisted in the Single Project Pipeline.

- **Activity 2.1.1. Implementation of the DeNO<sub>x</sub> Action at TENT A4 (utilisation of primary measures), so as to fulfil the stricter NO<sub>x</sub> emissions regulation according the new Industrial Emissions Directive - Directive 2010/75/EU.**

The Action applies cleaner technologies to the lignite-fed power production in accordance with Serbian environmental protection legislation and especially Law on Integrated Pollution Prevention and Control, using technologies proposed in the Best Available Technologies (BATs), presented in the BREF (Best Available Technique Reference Document) for Large Combustion Plants.

Unit A4 nitrogen oxides emission reduction solution at the Nikola Tesla A TPP provides for the application of a combined primary method based on low nitrogen oxides emission burners and multistage air supply to the boiler, where the nitrogen oxides emission will be decreased from the range from 365 to 511 mg/m<sup>3</sup> to 200 mg/m<sup>3</sup>. Unit A4 of TPP Nikola Tesla A power represents 7.6% of total EPS thermal generation.

The reconstructions on the TENT unit A4 will comprise the following:

- installation of new LNB (Low NO<sub>x</sub> burners),
- reconstructions of air supply duct (primary air and pulverised coal mixture transported by pulverised coal pipe are distributed for each nozzle through burner wind box and secondary air conveyed by secondary hot air duct),
- introduction of tertiary air (OFA, introduction of air duct for tertiary air)
- reconstruction of flue gas duct
- boiler evaporator (if necessary)
- other boiler parts and equipment according the project documentation and calculations.

**Assumption:** The selected Action follows the recommendations and feed-back from the GAP Assessment Report produced in the framework of Methodology for selection and prioritisation of infrastructure projects. Financial scheme is well developed and commitments (from National side)

obtained, Further assumption is that the timing for finalising the required technical documents, obtaining authorisations and implementation does not become excessive, due to challenges in the procurement process or works development. Finally, the assumption is also a well-developed sequencing of Action activities, i.e. the synchronisation of the EPS plan for overhaul of the foreseen Unit with the time frame in which IPA financing procedure could be secured and implemented.

### Links to some other larger infrastructure projects financed from IPA EU funds

Title	Donor	EU contribution
Emissions reductions from the Nikola Tesla thermal power plants (reconstruction of electrostatic precipitator at TPP Nikola Tesla Unit A6 )	IPA 2007	EUR 12 million
Equipment for continuous measurement of emissions from TPP Nikola Tesla A and B, Kolubara and TPP Morava, installation of electrostatic precipitators for TPP NikolaTesla Unit B1 and assessments regarding the existence of PCB oil (mineral transformer oils contaminated pyralene) with measures for their elimination.	IPA 2008	EUR 11 million
Construction of 400/110 kV SS Vranje 4 and expansion of SS Leskovac2	IPA 2010	EUR 15.5 million
Construction of Waste Water Treatment Facility at TPP Nikola Tesla B	IPA 2011	EUR 15 million
Reconstruction of Electrostatic precipitators at TPP Nikola Tesla Unit A3 and TPP Morava	IPA 2012	EUR 16.35 million

## 3. IMPLEMENTATION ARRANGEMENTS

### ROLES AND RESPONSIBILITIES

The institutional arrangements for implementation of the Action Document under Indirect management includes following institutions:

- Sector Lead Institution (SLI) – The Ministry in charge of energy
- Contracting Authority (CA - CFCU) - within the Ministry of Finance
- NIPAC/NIPAC TS – Serbian EU Integration Office (SEIO)
- National Fund (NF) - within the Ministry of Finance
- Audit Authority (AA)

In regard to the energy sector, the **Sector Lead Institution (SLI)** has the overall responsibility for managing the implementation of the Action and delivering of energy sector programme objectives, by securing that all institutions involved in implementation and monitoring are structured in a way to fulfil their tasks and responsibilities in meeting the pre-defined sector targets.

In addition, SLI is coordinating the work of all sector relevant institutions that will represent **the IPA II beneficiaries** and these are following institutions:

**For Action 1** – Ministry in charge of Energy, AERS,

**For Action 2** – PE EPS

Tendering, contracting and contract management will be under the responsibility of CFCU.

**Inter-institutional coordination in the implementation and monitoring will be ensured through the following structures:**

**Steering Committee (SC)** will be organised in line with detailed provisions of the respective procedures under indirect management of IPA II. SC is responsible to ensure smooth implementation through regular review of sector plan progress.

The energy sector SC's will be chaired by the Senior Programme Officer (SPO) of the Ministry in charge of energy, with the representative of EU Delegation and will monitor progress, examine and approve annual Action Documents respective outputs. **The Sector Working Group (SWG)** for energy sector was established to further strengthen inter-institutional cooperation and is responsible to ensure efficient coordination of activities related to programming and monitoring of EU funds, to

propose relevant measures and activities in energy sector. SWG for energy sector includes following institutions: Ministry in charge of Energy, Serbian European Integration Office, ministries in charge of Environment, finance Ministry of Regional defence, Standing Conference of Towns and Municipalities and Republic Geodetic Authority. Beside national authorities the members of the SWG are representatives of EU Delegation KfW (Germany), other donors and IFIs as well as CSO representatives when needed. The SWG also acts as an Energy Sector Monitoring Committee when it includes representatives of the Ministry in charge of finance, specifically from the National Fund and the CFCU, meaning that the composition of the SWGs and SMCs are the same.

#### **IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

**The Result 1.1** will be implemented through service contract. The Energy Agency of the Republic of Serbia is responsible for monitoring and reporting of the Result 1.1.

Indicative National contribution is EUR 150 000 and the co-financing shall be provided by the Energy Agency of RS via (the Ministry in charge of energy) throughout the implementation of the Service contract as the financial contribution in accordance with the requirements of indirect management of funds.

**The Result 1.2** will be implemented through service contract. The Ministry in charge of energy is responsible for monitoring and reporting of the Result 1.2.

Indicative National contribution is EUR 150 000 and the co-financing shall be provided by the Ministry in charge of energy throughout the implementation of the Service contract as the financial contribution in accordance with the requirements of indirect management of funds.

**The Result 2.1** will be implemented through one work and one service contract. The Ministry in charge of energy shall be responsible for monitoring and reporting of the Result 2.1.

The PE EPS will be responsible for securing the other part of indicative national contribution/co-financing in the amount of EUR 100 000 for service contracts and EUR 2 122 000 for works contracts, as the financial contribution in accordance with the requirements of indirect management of funds.

#### **4. PERFORMANCE MEASUREMENT**

##### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

So as to avoid duplication of monitoring systems, the system of NAD indicators was used for both, preparation of the Energy Sector Planning Document and the Action Document thus allowing harmonisation of PAF with the monitoring provisions defined by the relevant legislation for indirect management. In that respect the IPA monitoring process is organised and lead by the NIPAC/ NIPAC TS. The monitoring function has been institutionalised by the establishment of a monitoring system within Sector Monitoring Committee (SMC) and IPA Monitoring Committee (IPA MC). Under the relevant legislation for indirect management, monitoring will be carried out by means of Implementation Reports which will be examined by these two Monitoring Committees: IPA MC will oversee the implementation, progress and performance of overall IPA under implementation in Serbia while Energy SMC will examine the effectiveness and quality of implementation at the sector level and achievement of Action Document specific objectives. The SMCs shall meet twice a year to examine reports submitted by the SLI and shall report to the IPA-MC on the progress made in implementing the Action Document. The IPA-MC meets once a year. Report examined by the SMC is envisaged to include information on status and progress in implementation of all relevant sector operations (in terms of degree of achievement of objectives and attainment of stated results, reviews programme/project expenditure). Depending on the issues/ problems identified, conclusions and recommendations of the SMC may be taken forward to the IPA MC. Composition of SMC for the Energy Sector is the same as composition of the SWG.

The Ministry in charge of Energy is the Sector Lead Institution and bears full responsibility for overall management and implementation of actions within the Action Document, thus being the responsible institution for collecting the data and reporting to SEIO (NIPAC TS).

##### **INDICATOR MEASUREMENT**

Indicator	Description	Baseline 2010	Last available (year)	Milestone 2017	Target 2020	Source of information
<i>ISP Indicators</i> Energy legislation aligned with the Acquis and effectively implemented  Quality of energy supply (rank)				4,17	5	EC Progress reports World Economic Forum
<b>Action 1</b>						
<i>Action outcome indicator1</i> Energy legislation aligned with the Acquis and effectively implemented			(2013)  Partially aligned	Partially aligned	Fully aligned	Report on the Implementation of the NPAA EU progress report Energy community reports
<i>Action output indicator1</i> Deadlines for implementing the provisions of the new Energy Law transposing the 3 <sup>rd</sup> package related to national regulatory authority respected.	Energy Law transposing the 3 <sup>rd</sup> package, setting the implementation deadlines is planned to be adopted in 2014. Deadline for transposing (i.e. adapting national legislation) the 3 <sup>rd</sup> Package, according to Energy Community Ministerial Council Decision, is 1 <sup>st</sup> January 2015.	N/A	N/A	Yes	Yes	EU progress report Energy community reports AERS Report
<i>Action output indicator2</i> Deadlines for implementing the provisions of the EU Network Codes related to NRA tasks respected.		N/A	N/A	Yes	Yes	EU progress report Energy community reports AERS Report
<i>Action output indicator3</i> Number of legal acts (secondary	To be measured as total of planned,		(8 adopted out of 18 being in	18 of 18	N of N	Annual report of the SEIO EU progress report

legislation) relating to EE and RES adopted as per NPAA	always related to the currently valid NPAA		procedure)			
<b>Action 2</b>						
<i>Action outcome indicator2</i> Number of installations from energy sector from IPPC list exceeding ELVs prescribed in IPPC permit		N°				Energy balance, EMS reports, Energy Community Reports
<i>Action output indicator 2</i> NO <sub>x</sub> emission reduced		mg/Nm <sup>3</sup>	365-511 mg/Nm <sup>3</sup> (2012)	200 mg/Nm <sup>3</sup>		EPS Report
<i>Process indicator 1 and 2</i>	As per Action Design					

## CROSS-CUTTING ISSUES

### ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The objective of this Action Document is to support the Republic of Serbia to achieve compliance with the Energy and Environmental *Acquis*, as required by the Energy Community Treaty. Both foreseen Actions and in particular Activities 1.2.1, 2.1.1 and 2.1.2 are directly contributing to enhanced use of renewable energy sources, better EE and reduction of emissions in energy production. The implementation of the Activity 2.1.1 will decrease the nitrogen oxides emission at TENT A4 Unit from the range from 365 to 511 mg/m<sup>3</sup> to 200 mg/m<sup>3</sup>—Consequently, the actual effect of all measures that EPS plans to take through investments in TPPs performance improvement will be seen through the reduction of emissions of hazardous substances to a level allowed by the EU regulations.

### ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

CSOs' participation in the preparation of the NAD and Action Document has been secured through the SECO mechanism where representatives of CSO have been invited to provide its inputs into the NAD document. These inputs were carefully examined and integrated where appropriate in the NAD document. Feedback in regards to all the submitted comments has been prepared by the SEIO.

### EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

Gender mainstreaming requires as a first step the collection of relevant data about how men and women consider their energy needs and what actions they perceive as most beneficial. It will be ensured that same opportunities are available to women as well as men. As the national strategy for improved status of women and gender equality promotion (2009-2015) obliges for equal participation of women and men in decision making at all levels and in all policy areas, greater involvement of women in energy policy decision-making processes will be promoted.

### MINORITIES AND VULNERABLE GROUPS

The link between energy supply and minorities and vulnerable groups is reflected primarily in the impact on the health and quality of living of Serbia's population. The general tendency is to work simultaneously on minimising the consequences of energy poverty and promoting activities aimed at its prevention with an ultimate goal of ensuring energy sustainability in the long run.

## **FIGHT AGAINST CORRUPTION**

Anti-corruption National Strategy (2013-2018) and accompanying Action plan, envisages the preparation of integrity plans as preventive measure in fight against corruption, enabling institutions to apply self-control in the implementation of their competences. Thereupon and based on the Law on public administration („Official Gazette of Republic of Serbia”, No.79/05, 101/07 и 95/10), the Minister of Energy, development and environmental protection has adopted a codex on prohibiting the corruptive behaviour of civil servants in the named Ministry. An Integrity plan covering a period 2013-2015 has been developed and enacted by the Minister in March 2013. The Integrity plan stipulates anti-corruptive behaviour and procedures which would prevent/hinder corruption. The Agency for Anticorruption carried out the supervision and submitted the Report on 05.05.2014.

## **6. SUSTAINABILITY**

The analysis of sustainability is made with reference to the single actions/sub actions.

- **Action 1. Policy enforcement, monitoring and harmonisation of national legislation in line with the EU Energy acquis**

For **Activity 1.1.1**: AERS, as the beneficiary, is sustainable and empowered institution, established by law, and foreseen by EC Directives (more specifically, the EU 3<sup>rd</sup> Energy Package). The results achieved by AERS (trained staff, secondary legislation, new or enhanced regulatory mechanisms) will remain in AERS and will last in time, as Serbia approaches the EU accession. After completion of the foreseen activity, complemented with the IT upgrade (envisaged for the IPA 2015 programme as a follow-up to this Activity), AERS staff will be fully capable to perform their tasks of supervising wholesale and retail energy markets and network operators, price regulation, consumer protection and others as required by the 3<sup>rd</sup> Package.

**Activity 1.2.1** is under direct responsibility of the Ministry in charge of Energy, which as the policy owner of the efficient use of energy and RES is the guarantee for institutional sustainability and executive powers related to their implementation. In the mid-term perspective, foreseen activities shall positively impact the energy consumption and lead towards meeting EE/RES targets. However some problems might arise regarding the understaffing and possible bottlenecks evidenced in the “Energy Sector Absorption Capacity” analysis.

- **Action 2. Implementation of energy infrastructure projects contributing to market opening, regional competitiveness and sustainable energy development**

For **Activity 2.1.1** the beneficiary is PE EPS. PE EPS already implemented several large projects related to improvement of measures for environmental protection and some of them were/are supported by EAR/EU Delegation or other donors including receiving loans from EBRD or KfW. The Green Book states the lists and tables of all projects for improvement of TPP emission values and environmental protection and which of them were/are supported by international donors/institutions. The PE EPS does not have a permanently established Project Implementation Unit. For every project that has to be implemented, depending on the complexity, maturity and sources of finance, PE EPS establishes a temporary team consisting of individuals that responds to all demands of the situation and follow the project all the way until it is fully implemented. Taking into account the complexity of already successfully implemented projects, PE EPS is fully capable for the management and implementation of every project that could be financed by IPA or some other donor.

## **7. COMMUNICATION AND VISIBILITY**

Communication and visibility will be given high importance during the implementation of the Action.

The implementation of the communication activities shall be the responsibility of the beneficiary, and shall be funded from the amounts allocated to the Action. All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general

public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions. Visibility actions should also promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities. The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectorial monitoring committees.