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## Renewable energy incentives in the Western Balkans

*Progress towards compliance with EU state aid rules and preventing environmentally harmful subsidies*



*Almost dry fish pass and riverbed below Brajcino 1 intake, North Macedonia  
Photo: Igor Vejnović*

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### Introduction

Against a backdrop of widespread public protests opposing hydropower in the Western Balkans, in September 2019, Bankwatch and partners published the [Who Pays, Who Profits?](#) report.

The report showed how renewable energy incentive schemes have driven the over-development of hydropower plants with a capacity of less than 10 megawatts (MW) across the region, drying up countless rivers and streams, increasing deforestation and erosion in order to build access roads, and often leaving local people without water for their crops and livestock.

It also revealed that hydropower had been systematically privileged over other sources such as solar and wind. In 2018, small hydropower received 70 per cent of renewable energy incentives in the Western Balkans, yet it generated only 3.6 per cent of electricity overall.

As a result, Bankwatch and its partners have been calling for an end to subsidies for this disproportionately destructive form of electricity generation, and an overall change in the countries' incentives schemes in line with EU rules.

In fact, a change was already long overdue, as the Western Balkan countries are obliged under the [Energy Community Treaty](#) to apply EU state aid rules in the energy sector. The EU introduced new rules on renewable energy incentives back in 2014, called the [Guidelines on State Aid for Environmental Protection and Energy](#) (EEAG). These Guidelines are already [undergoing revision](#) in the EU.

Among other things, the EEAG stipulates that – with the exception of the smallest renewable energy plants (see below for details) – support can only be granted via premiums to be paid on top of the market price, not through feed-in tariffs as in the past. In addition, a competitive auction procedure is required in order to set the level of the premiums.

This new model sought to ensure affordable and proportionate incentives, after the previous system of feed-in tariffs became too expensive. In this previous system, all electricity from renewable sources up to a certain capacity quota was bought off at a fixed price higher than the market price. Additional provisions give renewables producers greater balancing responsibilities than they had previously, as well as other duties; however, here we focus on the feed-in tariffs themselves, as the main driver for small hydropower and the main burden on bill payers.

Given that the existing incentives schemes in the Western Balkans had not been in place for that long, as well the fact that building small hydropower plants was proving lucrative for many well-connected businesses, the countries have moved at very different speeds to change their legislation in line with the EEAG. This briefing aims to provide an overview of the current state of play in terms of legislative changes, country by country.

### **Main features of the EEAG with regard to renewable energy**

The EEAG covers a wider spectrum of state aid than just renewable energy incentives, but here we will focus only on a few key provisions related to renewables support schemes.

Since 1 January 2017, the EU has generally required that subsidies be awarded on the basis of market instruments, such as auctioning or a competitive bidding process open to all generators producing electricity from renewable energy sources competing on equal footing.

Technology-specific tenders are allowed, on the basis of a technology's longer-term potential, the need to achieve diversification, network constraints and grid stability, and system integration costs. The exceptions are installations with an installed electricity capacity of less than 1 MW, or demonstration projects, except for electricity from wind energy, for which installations with an installed electricity capacity of up to 6 MW or 6 generation units are exempted. For these smaller units no auctions are necessary.

Since 1 January 2016, all new aid schemes and measures have had to grant aid as an additional premium in addition to the market price. So, instead of covering the whole purchase price of the electricity with state

aid, state aid can only top-up the market price by paying a premium. This should reduce costs for the final consumers. The exceptions are installations with an installed electricity capacity of less than 500 kW or demonstration projects, except for electricity from wind energy where an installed electricity capacity of 3 MW or 3 generation units applies. For these units, feed-in tariffs are still allowed.

*Figure 1: Feed-in tariff model vs. sliding feed-in premium model<sup>1</sup>*



*Source: Adapted from Banja, M. et al: Renewables in the EU: the support framework towards a single energy market*

In order for sliding premium systems to work, a functioning day-ahead electricity market is needed in order to know what the market price is and therefore how much premium needs to be paid to top it up to the agreed amount.

The advantage of the EEAG system is that investors have to analyse their investments much more seriously in advance: if they bid too high a price they will not win the auction, and if they bid too low a price, they will not be able to really produce for that price and will lose money.

What is also important to note about the EEAG is that it explicitly requires that projects receiving state aid must be in line with EU environmental legislation. It particularly highlights the need for any hydropower projects to be in line with the Water Framework Directive, i.e. they must not result in the deterioration of the status of water bodies, unless they comply with a narrow set of exceptions defined in Article 4.7 of the Directive.

<sup>1</sup> Banja, M., Jégard, M., Monforti-Ferrario, F., Dallemand, J.-F., Taylor, N., Motola, V. and Sikkema, R., [Renewables in the EU: the support framework towards a single energy market - EU countries reporting under Article 22\(1\) b, e and f of Renewable Energy Directive](#), EUR 29100EN, Publication Office of the European Union, Luxembourg, 2017.

## Albania

According to the 2019 Energy Regulator's annual report, no fewer than 29 new hydropower plants under 10 MW came online in 2019.<sup>2</sup>

Albania is one of the two countries in the region (with Serbia) to have offered feed-in tariffs to hydropower plants larger than 10 MW – in this case up to 15 MW. As of the end of 2019, there were 182 hydropower plants in the incentives scheme,<sup>3</sup> mostly under 10 MW, but at least eight plants between 10 and 15 MW.<sup>4</sup>

Despite the huge wave of hydropower construction in the last decade, in 2019 Albania had to import almost a third of its electricity.<sup>5</sup>

Plants included in the incentives scheme – not including Ashta, which is regulated by a specific contract – generated almost 24 per cent of Albania's domestic generation,<sup>6</sup> or 16.7 per cent of its 2019 consumption.<sup>7</sup> This is much more than small hydropower plants contribute in the rest of the region. This is partly because of the sheer number and relatively large size of some of the incentivised plants, but also because almost all the rest of Albania's generation consists of hydropower plants as well. So, in years with little rainfall, generation is low across the board. Only three times in the last ten years has Albania managed to meet domestic demand.<sup>8</sup>

Excluding Ashta, in 2018 Albania's incentives scheme cost EUR 93.5 million<sup>9</sup> and in 2019 around EUR 87 million (due to lower generation).<sup>10</sup> With such high costs, and an increasingly obvious need to diversify its renewable energy supply, it is not surprising that Albania was the first country in the region to change its legislation to introduce auctions and premiums.

Law no. 7/2017 *On the promotion of the use of energy from renewable sources* allows only smaller producers to enter the feed-in tariff system: up to 2 MW for solar and hydropower, and up to 3 MW for wind.<sup>11</sup> The thresholds for solar and hydropower are higher than those set out in the EEAG. This could potentially be expected for solar due to the need to further encourage investments in this sector, but given hydropower's extreme dominance in Albania, it is far from clear why it should be further incentivised at all.

If they obtained an operating certificate before the end of 2020, solar and wind producers above this threshold and hydropower plants between 2 and 15 MW were able to obtain contracts for difference for

<sup>2</sup> Albania Energy Regulator, [Annual Report 2019](#), 2020, p. 43 Albanian version, 2020.

<sup>3</sup> Albania Energy Regulator, [Annual Report 2019](#), p. 42 English version. Calculated from 190 minus the solar plants. The figures seem to include the Ashta plant, regulated under a specific contract.

<sup>4</sup> Albania Energy Regulator, [Annual Report 2019](#), p. 45 English version.

<sup>5</sup> Albania Energy Regulator, [Annual Report 2019](#), p. 78 English version.

<sup>6</sup> Albania Energy Regulator, [Annual Report 2019](#), calculated from graph on p. 30 English version.

<sup>7</sup> Albania Energy Regulator, [Annual Report 2019](#), calculated from total consumption on p. 78 English version and priority producer figures on p. 137 without Ashta.

<sup>8</sup> Albania Energy Regulator, [Annual Report 2019](#), p. 78 English version.

<sup>9</sup> Albania Energy Regulator, [Annual Report 2018](#), p. 156 Albanian version, 2019. Average InforEuro exchange rate for 2018.

<sup>10</sup> Albania Energy Regulator, [Annual Report 2019](#), p. 125 Albanian version. Average InforEuro exchange rate for 2019.

<sup>11</sup> [Law no. 7/2017 on the promotion of the use of energy from renewable sources](#).

premiums without an auction. Any plants which have not done so will now have to participate in auctions if they are to obtain incentives.

Albania has so far held two solar auctions, in 2018<sup>12,13</sup> and 2020, and launched another one at the end of 2020.<sup>14</sup> It has also announced a wind auction to be launched in 2021.<sup>15</sup>

In an effort to limit costs, in May 2020, the Government also amended the *Decision on approving the methodology for determining the annual purchase price of electricity to be paid to existing renewable power generators*. The amendments decrease the coefficient for the calculation of the feed-in tariff for existing hydropower plants.<sup>16</sup>

### What needs to be done

- Change the law allowing feed-in tariffs for plants up to 2 MW. At minimum, the threshold needs to be brought down to 500 KW in line with the EEAG, but given Albania's over-dependence on hydropower, it would be much wiser to just halt feed-in tariffs for hydropower.
- Do not award incentives to plants up to 15 MW. The Law should be changed to stipulate this. Meanwhile, no hydropower auctions should be organised.
- Annul existing power purchase contracts whose terms have been broken. These promise to cost Albania dearly for several years yet, so it is imperative that the Ministry of Infrastructure and Energy follows through on its promise to do so.
- Publish up-to-date information on which plants still have concessions and priority producer status and which concessions have been cancelled.
- Provide clearer instructions in the renewable energy Law on how the environmental compliance of projects will be checked before awarding incentives and stipulating that any plant later found to be violating environmental legislation will have its incentives cut.
- Use the National Energy and Climate Plan process to clarify Albania's future renewable energy plans and reduce its dependence on hydropower. Projects which have been around for decades need to be critically reassessed for their relevance and feasibility in today's conditions.

<sup>12</sup> Energy Community Secretariat, [Albania becomes first Energy Community Contracting Party to hold renewable energy support auction](#), 14 November 2018

<sup>13</sup> Emiliano Bellini, [India Power wins Albania's large-scale solar tender](#), PV Magazine, 12 November 2018.

<sup>14</sup> Vladimir Spasić, [Albania launches auction for 100 MW solar PV park in Spitalle](#), Balkan Green Energy News, 20 November 2020.

<sup>15</sup> Bojana Vlajcic, [Albania announces plans to launch tender for first wind power plants](#), EBRD, 29 December 2020.

<sup>16</sup> Energy Community Secretariat, [Implementation Report 2020](#), November 2020.



## Bosnia and Herzegovina

In 2019, 37 small hydropower plants in the Republika Srpska (one of Bosnia and Herzegovina's two entities) received BAM 33 976 771 in feed-in tariffs, out of total renewables support of BAM 37 811 909 (ie. EUR 17.4 million out of EUR 19.3 million).<sup>17,18</sup>

Hydropower therefore accounted for almost 90 per cent of support. Countries across the region have started to diversify their renewable energy mix by bringing wind farms online, and Republika Srpska is now alone in not having any wind farms online at all.

In fact, in early 2019, the Republika Srpska Government suddenly cut all incentives for wind energy through amendments to the Law on Renewable Energy which were approved via an emergency procedure,<sup>19</sup> giving hydropower an even greater advantage than before. Despite this, in December 2020, it was announced that construction on the 66 MW Grebak wind plant had started near Nevesinje.<sup>20</sup>

The situation in the Federation of Bosnia and Herzegovina regarding renewables incentives can only be described as chaotic. The incentives system is untransparent and more complicated than others in the region.

In 2019, 43 hydropower plants qualified for feed-in tariffs by having achieved 'privileged producer' status.<sup>21</sup> This entitles them to have all their electricity bought off at a fixed price with an in-built incentive, similar to other schemes in the region.

But an additional 20 plants have 'qualified producer' status, which enables them guaranteed purchase of their electricity output at a so-called 'reference price'.<sup>22</sup> These can be producers who never achieved privileged producer status, or those whose power purchase agreements have expired. The 'reference price' would usually mean the market price, or a price calculated to be as near to the market price as possible. But in the Federation of BiH (FBiH) there is a 20 per cent mark-up built into the reference price, thus allowing producers to benefit from electricity purchase with a lower subsidy throughout the lifetime of their concessions.<sup>23</sup>

<sup>17</sup> Of the support for hydropower, BAM 15 363 426 was the reference price of electricity, i.e. the price at which it was calculated the electricity would have been sold if it was not part of the incentives scheme, while BAM 18 613 345 consisted of the incentive part of the feed-in tariff. For all renewables in the feed-in tariff scheme, the reference price cost paid amounted to BAM 16 196 215 and the incentive part to BAM 21 428 921. Regulatorna Komisija za Energetiku Republike Srpske, [Prilog uz Izvještaj o radu Regulatorne komisije za energetiku Republike Srpske za 2019](#), p. 13, July 2020.

<sup>18</sup> Support for hydropower and overall renewables support in 2019 was considerably higher than the 2018 figures, which amounted to BAM 23 877 412 for hydropower and BAM 27 395 322 overall. Source: Regulatorna Komisija za Energetiku Republike Srpske, [Prilog uz Izvještaj o radu Regulatorne komisije za energetiku Republike Srpske za 2018](#), p. 61, July 2019.

<sup>19</sup> Law on Amendments to the RS Law on Renewable Energy Sources and Efficient Co-Generation (no. 02/1-021-250/19).

<sup>20</sup> The plant is controversial, among other things because the Minister for Energy signed the concession agreement even after a negative opinion from the Republika Srpska Attorney General's office. Dejan Tovilić, [Đokić ozvaničio izgradnju vjetroelektrane koja ga je koštala raspada partije](#), Capital.ba, 4 December 2020.

<sup>21</sup> Operator za OIE, [Izgrađene elektrane koje električnu energiju proizvode iz OIE](#), March 2019 and Operator za OIE, Spisak proizvođača u sistemu EP BiH - Januar-Decembar 2019. godine, undated. Obtained by the Center for Environment via an information request.

<sup>22</sup> Operator za OIE, [Izgrađene elektrane koje električnu energiju proizvode iz OIE](#).

<sup>23</sup> See Article 20, FBiH Law on Renewable Energy and Efficient Cogeneration and the Regulation on Attaining the Status of Qualified Producer.

The incentives scheme is run by a body called the *Operator za obnovljive izvore energije i efikasnu kogeneraciju (OIEiEK)*, which has been mired in controversy for at least the last two years, with a major dispute between its Director, Board and some of the employees, and numerous accusations against the Director for improper spending of funds, failure to finalise key documents, and excessive engagement of new employees. On 3 December 2020, this culminated with the Director being dismissed and a temporary one being appointed.<sup>24</sup>

Given the political flavour of the disputes, and the fact that many of the relevant documents have never been published, drawing conclusions about the role different actors have played in this crisis would need a much deeper investigation. The point, however, is to emphasise that the incentives system has not been transparent and is seriously lacking integrity.

Among others, attempts to audit the Operator za OIEiEK in 2019 failed when the Director did not grant Federal auditors access to the necessary documentation.<sup>25</sup>

And in March 2019, the FBiH government ordered the Financial Police to examine the Operator's files and to report back within a month. Only extracts from the police report were published, but they appeared to establish several instances of problematic conduct.<sup>26</sup>

Moreover, the government temporarily banned the Operator from making payments to renewables producers in March 2019, a situation which appears to have lasted for several months, as the Director sent a letter in June pleading for a resolution of the situation.<sup>27</sup>

No report on the payment of incentives has been published for 2019, but a report has been obtained on request by the Center for Environment. This shows hydropower in FBiH benefiting from BAM 2 865 249.93, or EUR 1.46 million, out of total incentives of BAM 10 796 422.82, or EUR 5.5 million.<sup>28</sup>

This figure is surprisingly small – much smaller than that in Republika Srpska shown above, despite the slightly higher number of hydropower plants. It is clear from the list of plants that qualified producers are not included, and most likely the figure refers only to the incentive part of the price paid, not the whole feed-in tariff. Indeed, on 4 March 2019, the FBiH Prime Minister approved a decision that BAM 19 886 626 would be needed for the purchase of renewable energy from producers in 2019,<sup>29</sup> suggesting that a higher overall figure was expected.

<sup>24</sup> [Odluka o imenovanju vršioca dužnosti direktora Operatora za obnovljive izvore energije i efikasnu kogeneraciju broj 1672/2020, Službene novine Federacije BiH](#), broj: 90/20, 3 December 2020.

<sup>25</sup> Rubina Čengić, [Dževad Nekić, glavni revizor u Uredu za reviziju institucija u FBiH: FIA, Pretis i Operator onemogućavaju rad revizora](#), Interview.ba, 10 December 2020.

<sup>26</sup> Amarildo Gutić, [Uzaludni dokazi nadležnih institucija: SDA i HDZ štite nezakonite postupke SBB-ovog direktora](#), Žurnal, 12 December 2019.

<sup>27</sup> [Letter from the Director of the Operator za OIEiEK to the FBiH Government](#), 14 June 2019.

<sup>28</sup> Spisak proizvođača u sistemu EP BiH - Januar-Decembar 2019. godine, undated. Obtained by the Center for Environment via an information request.

<sup>29</sup> [Odluka o utvrđivanju potrebnog iznosa za podsticanje i jediničnog iznosa naknade za podsticanje proizvodnje električne energije iz OIEiEK za 2019. godinu](#), Službeni Novine FBiH no.16/2019 (PDF pp. 12 and 13), 4 March 2019.

In 2019, small hydropower plants contributed only 3.1 percent of electricity generated in Bosnia and Herzegovina<sup>30</sup> – slightly more than the 2.6 per cent generated in 2018,<sup>31</sup> but still a minor contribution compared to the widespread damage they cause.

A proposal for reforming renewables support schemes in Bosnia and Herzegovina and introducing auctions and feed-in premiums for large scale projects was developed during 2018 and 2019. The process was led by Germany's GIZ and external consultants and was based on a working group made up of representatives of relevant national and entity institutions. In August 2019, an overview of the proposals was published for public comments,<sup>32</sup> but since then there has been little visible progress in moving forward the legislative changes required.

The proposals aimed at bringing incentives in BiH into line with the EEAG and abolishing feed-in tariffs for all but the smallest hydropower plants – though the exact threshold remains to be decided. Worryingly, however, the proposal introduced the possibility of awarding premiums for some hydropower plants larger than 10 MW, which has not been done in Bosnia and Herzegovina so far. Given the current low level of environmental enforcement, there is little chance that such a process would ensure compliance with environmental legislation.

In parallel, public resistance has kept small hydropower high on the political agenda, with the FBiH authorities making a series of pledges to curb small hydropower development<sup>33</sup> and changing environmental implementing regulations to make this possible.<sup>34</sup> The Minister for Energy also pledged to stop incentives for small hydropower starting on 1 January 2021,<sup>35</sup> but no legislative changes appear to have been completed to back this up yet.

### What needs to be done

- Publish clear information on incentives and total feed-in tariffs provided so far in FBiH.
- Only grant new incentives for any technologies once new targets and a new framework has been set up, as incentives rules for both entities were based on 2020 targets and quotas. In particular, no new producers should be granted preliminary privileged status or privileged status in the Federation until the situation in the Operator za OIE has been thoroughly investigated.
- Initiate changes in both entities' respective Laws on Renewable Energy and associated implementing legislation, to exclude hydropower incentives and bring the whole system into

<sup>30</sup> Državna Regulatorna Komisija za Električnu Energiju (DERK), [Izveštaj o radu državne regulatorne komisije za električnu energiju u 2019. godini](#), calculated from p.34 and 35, December 2019.

<sup>31</sup> Bosnia and Herzegovina State Energy Regulatory Commission (DERK), [Annual report for 2018](#), December 2018

<sup>32</sup> Center for Environment, [Reform of the Renewable Energy Support Schemes in Bosnia and Herzegovina](#), 5 August 2019. The proposals have now been removed from the Ministry's website.

<sup>33</sup> Igor Todorović, [Federation of BiH bans construction of small hydropower plants](#), Balkan Green Energy News, 24 June 2020.

<sup>34</sup> More serious changes in the Law on Environment are still pending, but the Ministry announced the completion of short-term legal changes at the beginning of 2021: Federal Ministry for Environment and Tourism, [Završene izmjene i dopune pravilnika o uvjetima za izgradnju mini hidrocentrala: Na snagu stupaju nakon objave u Službenim novinama](#), 3 January 2021.

<sup>35</sup> Vladimir Spasić, [Federation of BiH to scrap feed-in tariffs for small hydropower plants from 2021](#), Balkan Green Energy News, 19 November 2020.



compliance with the EEAG. If needed, interim changes to implementing legislation should be made in order to prevent new incentives being granted.

- The Federal Energy Regulator, FERK, needs to change the methodology for calculating reference prices to remove the 20 per cent subsidy element.
- Use the National Energy and Climate Plan process to clarify Bosnia and Herzegovina's future renewable energy plans and prevent hydropower development in sensitive locations. Projects which have been around for decades need to be critically reassessed for their relevance and feasibility in today's conditions.
- Undertake a full review of existing hydropower concessions and take corrective action against non-compliant plants.

## Kosovo

Kosovo has the least hydropower potential in the region, but this has not stopped attempts to build a wave of new hydropower plants. By the end of 2018, Kosovo had 11 hydropower plants operating, of which only one was above 10 MW.<sup>36</sup> In 2019, four more hydropower plants with a combined capacity of 24.88 MW were added.<sup>37</sup>

As in the rest of the region, the plants have damaged sensitive areas, including the Bjeshkët e Nemuna National Park, and met with determined opposition from local people.<sup>38</sup> Yet for all the destruction, small hydropower plants in Kosovo still contributed only 2.3 per cent of electricity in 2019.<sup>39</sup>

Moreover, in late 2020, the Belaja and Decani plants, operated by a subsidiary of Austria's Kelag, had to be taken off the grid, due to their failure to fulfil environmental requirements.<sup>40</sup>

Numerous attempts have been undertaken by successive governments to curb destructive small hydropower development,<sup>41</sup> but so far none have been fully effective due to a combination of political instability and lobbying and threats by investors.

<sup>36</sup> Kosovo Energy Regulatory Office, [Annual Report 2018](#), ERO, p. 76 English version, March 2019. Not all the plants are in the incentives scheme. In addition, the Lumbardhi 2 plant had already been built in 2018 but did not receive a licence until the end of 2019 when it received a temporary licence, so it was not counted by ERO in its annual reports until 2019. But it was included by some other documents, for example the ERO [2018 Energy Balance](#), 2018.

<sup>37</sup> Kosovo Energy Regulatory Office, [Annual Report 2019](#), ERO, p. 27 English version, March 2020.

<sup>38</sup> Riverwatch, [Another Slap in the Face for Kelag in Kosovo](#), 13 December 2020. See also a series of articles on this issue on the Prishtina Insight portal at: <https://prishtinainsight.com/?s=hydro>.

<sup>39</sup> Kosovo Energy Regulatory Office, [Annual Report 2019](#), ERO, March 2020. Calculated from p.78 and p.79 of the English version.

<sup>40</sup> Riverwatch, [Another Slap in the Face for Kelag in Kosovo](#), 13 December 2020.

<sup>41</sup> See e.g. Egzon Dahsyla, [Outgoing environment minister lifts ban on hydropower plant permits](#), Prishtina Insight, 27 September 2019; Drenushe Ramadani, Government suspends construction of hydropower plants, Prishtina Insight, 12 April 2020, Igor Todorović, [Kosovo Parliamentarians reviewing small hydropower permits](#), Balkan Green Energy News, 29 September 2020.

Costs for renewable energy incentives in 2019 appear to have increased to EUR 15.673 million in 2019,<sup>42</sup> higher than the EUR 13.74 million foreseen by the Energy Regulator.<sup>43</sup> However, no breakdown is publicly provided.

Based on the available feed-in tariff levels and generation figures, it is not possible to fully account for the figure of EUR 15.673 million, but we can estimate that the Kitka wind farm received around two-thirds of the incentives, with hydropower's share decreasing to around a quarter, compared to 72.6 per cent in 2018.<sup>44</sup> This drastic change is because 2019 was Kitka's first full year of operations, and because it was a very poor hydrological year.

Kosovo has for several years<sup>45</sup> recognised that it needs to change its feed-in tariff system. Investor interest for solar and wind considerably exceeds<sup>46</sup> the quotas set in Kosovo's Administrative Instruction No. 05/2017 on renewable energy targets for 2020 (30 MW and 150 MW respectively),<sup>47</sup> and continuing to issue feed-in tariffs for larger installations will quickly become very expensive.

The European Bank for Reconstruction and Development (EBRD) has been providing assistance to develop an auctions scheme, and in late 2020 it was announced that the first auctions would be launched in 2021.<sup>48</sup> However, this seems quite ambitious considering that legislative changes are needed and that there will be elections in February.

### What needs to be done

- Publish data on the payment of incentives so far, broken down by energy source.
- Complete a full review of the legal compliance of ongoing hydropower plant projects and take corrective action against non-compliant plants.
- Use the National Energy and Climate Plan process to clarify Kosovo's future renewable energy plans and prevent hydropower development in sensitive locations. Projects which have been around for decades need to be critically reassessed for their relevance and feasibility in today's conditions.
- Update Kosovo's legislation, including the Law on Electricity and all implementing legislation, to exclude hydropower incentives and bring their provisions into line with the EEAG.

<sup>42</sup> Grant Thornton, [Financial Statements and Independent Auditor's Report, Transmission, System and Market Operator](#) - KOSTT J.S.C., pp. 28, 31 December 2019.

<sup>43</sup> Kosovo Energy Regulatory Office, [Annual Report 2019](#), ERO, p. 22 English version, March 2020.

<sup>44</sup> Calculated from figures obtained from KOSTT in response to an information request, 30 August, 2019.

<sup>45</sup> Balkan Green Energy News: [Kosovo is looking for investments in solar energy through auction scheme](#), 28 November 2017.

<sup>46</sup> The number of applications for licences for wind farms and solar installations can be seen on the Energy Regulatory Office's [register of permits](#).

<sup>47</sup> Kosovo Ministry of Economic Development, [Administrative Instruction No. 05/2017 on renewable energy targets](#), 2017.

<sup>48</sup> Igor Todorović, [Kosovo\\* to launch renewable energy auctions, submit NECP next year](#), Balkan Green Energy News, 3 December 2020.

- Clarify in the legislation how environmental compliance of projects will be checked before awarding incentives and stipulate that any plant later found to be violating environmental legislation will have its incentives cut.

## Montenegro

In 2009, Montenegro already had seven hydropower plants under 10 MW.<sup>49,50,51</sup> By late 2019, 15 additional new small hydropower plants were operational,<sup>52</sup> eight more came online in 2020 and at least another ten<sup>53</sup> are expected in 2021.<sup>54</sup>

Together, the old and new small hydropower plants only generated 2.37 per cent of Montenegro's electricity generation in 2019<sup>55</sup> – even less than the 2.7 per cent they contributed in 2018.<sup>56</sup>

But with the upsurge in construction, in 2017, there was also an increase in local citizen protests as well, urging the Government to suspend further construction of small hydropower plants. Montenegro was also the first of the Western Balkan countries to see a sustained backlash against incentives for small hydropower plants, due to continuous media exposés of the links between the incentive recipients and the ruling party.

In 2019, the total cost of feed-in tariffs amounted to EUR 25 898 798.53,<sup>57</sup> of which EUR 12 028 969.64 represented the incentive, and the remainder was the price that would have otherwise been paid for the electricity.<sup>58</sup>

Unlike in previous years, neither this figure nor a breakdown per producer was included in the Energy Regulator's annual report, while figures presented to the media<sup>59</sup> included only the incentive, not the total feed-in tariff, making them hard to compare with previous years. Nevertheless, it is possible to calculate the proportions of incentives for each energy source. Wind dominated, due to the 72 MW Krnovo plant, and small hydropower took around a quarter of the incentives.

<sup>49</sup> [National Renewable Energy Action Plan to 2020](#), Montenegro, 2015

<sup>50</sup> A joint venture between state-owned Elektroprivreda Crne Gore (EPCG) and Norway's Nord - Trøndelag Elektrisitetsverk Holding AS (NTE), with partial ownership of NTE's Montenegrin subsidiary by businessman Blagota Radović via his companies Promocija plus d.o.o. and Zetogradnja d.o.o. Source: Montenegro [Central Register of Business Subjects](#).

<sup>51</sup> Zeta Energy: Glava Zete and Slap Zete; EPCG: Rijeka Crnojevića, Rijeka Mušovića, Lijeva rijeka, Podgor, and Šavnik. For more information, see: <https://www.epcg.com/o-nama/istorija>.

<sup>52</sup> One, Ljevak, was only in trial operation. Crna Gora Regulatorna agencija za energetiku, [Izveštaj o stanju energetskeg sektora Crne Gore u 2019. godini](#), REGAGEN, pp. 30-31, July 2020.

<sup>53</sup> The text states that around 13 are expected, but Table 7 shows ten in addition to those operating from 2020.

<sup>54</sup> Government of Montenegro, [Odluka o Energetskom bilansu Crne Gore za 2021. godinu](#), 27 November 2020.

<sup>55</sup> Crna Gora Regulatorna agencija za energetiku, [Izveštaj o stanju energetskeg sektora Crne Gore u 2019. godini](#), p. 32.

<sup>56</sup> Crna Gora Regulatorna agencija za energetiku, [Izveštaj o stanju energetskeg sektora Crne Gore u 2018. Godini](#), p. 25. Distributed sources were at that time all hydropower plants.

<sup>57</sup> Compared to EUR 22.85 million in 2018. Source: Crna Gora Regulatorna agencija za energetiku, [Izveštaj o stanju energetskeg sektora Crne Gore u 2018. godini](#), REGAGEN, p. 106, July 2019.

<sup>58</sup> Crnogorski operator tržišta električne energije, [Izveštaj o poslovanju 01.01.2019. do 31.12.2019. godine](#), p. 20, undated.

<sup>59</sup> CDM.me portal, [Povlašćenim proizvođačima električne energije isplaćeno 12 miliona eura](#), 28 January 2020.

The Law on Energy stipulates that the Government will cease to incentivise the construction of new renewable energy generation facilities, and the Regulatory Agency will cease to grant new *privileged producer* status for new plants, if Montenegro meets its renewables target.<sup>60</sup>

Considering that Montenegro met its 2020 target several years ago, largely by adjusting its biomass data,<sup>61</sup> the government in 2017 decided not to accept any new requests for energy permits for renewables except for reconstruction of two existing hydropower plants,<sup>62</sup> and in 2018 repeated the decision, with some minor exceptions.<sup>63</sup>

On 23 January 2019 a new Decree on incentive levels entered into force,<sup>64</sup> which foresees a gradual decrease in feed-in tariffs after 2020, and the Government announced that it would continue to promote renewable energy without guaranteed buy-off of electricity.<sup>65</sup>

Despite previous declarations that the Montenegrin government would promote further renewables development without incentives, in 2020 the Law on Energy was adjusted to allow for auction-based incentives even if the country's renewable targets are met.<sup>66</sup> The provisions now appear to be roughly in line with the EEAG's requirements on renewable energy but are not clear enough to prevent environmentally harmful subsidies from being granted.

The amendments to the Law also introduced a provision that declared renewable energy a matter of public interest, which in our view may lead to abuses and shortcuts in permitting and public participation procedures.

Montenegro has certainly taken steps forward to diversify its renewable energy mix, bringing the Možura wind plant online,<sup>67</sup> planning a massive solar plant at Briška Gora,<sup>68</sup> as well as the 54.6 MW Gvozd<sup>69</sup> and 100 MW Brajići wind farms.<sup>70</sup> However, it is also strongly pushing forward the 172 MW Komarnica hydropower plant, in spite of a lack of clear justification, energy-wise or economically, and without the location's biodiversity having been adequately researched.<sup>71</sup>

<sup>60</sup> Article 98, [Zakon o energetici \(Službeni list CG, br. 5/2016 i 51/2017\)](#). This was adjusted in 2020 - see main text.

<sup>61</sup> Energy Community Secretariat, [Annual Implementation Report 2018](#), October 2018.

<sup>62</sup> Government of Montenegro, [Izveštaj o realizaciji Nacionalnog akcionog plana korišćenja energije iz obnovljivih izvora do 2020. godine, za period 2014 - 2015. godine](#), 2 February 2017.

<sup>63</sup> Government of Montenegro, [Plan izdavanja energetske dozvole za 2018. godinu](#).

<sup>64</sup> Government of Montenegro, [Uredba o načinu ostvarivanja i visini podsticajnih cijena za električnu energiju proizvedenu iz obnovljivih izvora i visokoefikasne kogeneracije](#), approved 20 December 2019.

<sup>65</sup> Vladimir Spasić, [Od 2020. počinje postepeno ukidanje fid-in tarifa za OIE u Crnoj Gori](#), Balkan Green Energy News, 25 December 2018.

<sup>66</sup> [Zakon o izmjenama i dopunama Zakona o energetici](#), *Službeni list Crne Gore*, broj 82/2020, 6 August 2020.

<sup>67</sup> The plant's commissioning has been overshadowed by corruption allegations. In 2020 the European Commission asked Montenegro to thoroughly investigate the allegations, which had also been the subject of an investigation conducted by Maltese journalist Daphne Caruana Galizia, who was murdered in 2017.

<sup>68</sup> Svetlana Jovanović, [Contract signed to build 250 MW solar power plant](#), Balkan Green Energy News, 31 December, 2018

<sup>69</sup> Vladimir Spasić, [EPCG is negotiating with EBRD loan for Gvozd wind farm](#), Balkan Green Energy News, 29 June 2020.

<sup>70</sup> Balkan Green Energy News, [Land lease agreement signed for Brajići wind farm](#), Balkan Green Energy News, 27 August 2020.

<sup>71</sup> Alisa Hajdarpašić, [Poslije potopa nema kajanja](#), *Vijesti and CIN-CG*, 13 August 2020.

In addition, with so many small hydropower plants expected to come online in the next couple of years, more decisive action is needed to prevent the further development of plants whose permitting or construction has not been carried out in line with the law.

Montenegro's new government has made clear its intentions to further stem the tide of small hydropower plants. In December, it requested the Ministry for Capital Investments to form a commission to review all the hydropower concession contracts signed so far.<sup>72</sup> On 29 December 2020, it also approved the termination concession agreements for the construction of seven plants on the rivers Raštak, Ljeviška, Reževića, Đurička, Bistrica (Bijelo Polje) and Bukovica.<sup>73</sup> On 14 January 2021 it also agreed to refuse a construction permit for the Slatina plant, built by a company part-owned by President Milo Đukanović's son, and to refrain from permitting any more plants until all the current concessions have been reviewed.<sup>74</sup>

Given the change of government, many aspects of Montenegro's future direction remain unclear. It is currently working on a National Energy and Climate Plan, which should help to clarify its energy policy and its stance on providing incentives for renewable energy.

### What needs to be done

- Vigorously pursue the ongoing review of hydropower concessions and take additional corrective action against non-compliant plants.
- Use the National Energy and Climate Plan process to clarify Montenegro's future renewable energy plans and prevent hydropower development in sensitive locations.
- Use the National Energy and Climate Plan process to clarify Montenegro's future incentive plans and adjust the Law on Energy and the implementing legislation accordingly. Projects which have been around for decades need to be critically reassessed for their relevance and feasibility in today's conditions.
- Clarify in the legislation how the environmental compliance of projects will be checked before awarding incentives and stipulate that any plant later found to be violating environmental legislation will have its incentives cut.

<sup>72</sup> Government of Montenegro, [8.5 Informacija o realizaciji projekata iz oblasti obnovljivih izvora energije iz nadležnosti Ministarstva ekologije, prostornog planiranja i urbanizma](#), 14 January 2021.

<sup>73</sup> Government of Montenegro, [22.2 Informacija o predlozima za raskid ugovora o koncesiji kojima je predviđena izgradnja malih hidroelektrana na vodotocima Raštak, Ljeviška i Reževića rijeka](#) and [22.3 Informacija o predlozima za rješavanje statusa ugovora o koncesiji kojima je predviđena izgradnja malih hidroelektrana na vodotocima Đuričkoj rijeci sa pritokama, Komarači, Murinskoj, Bistrici i Bukovici](#), 29 December 2020.

<sup>74</sup> Government of Montenegro, [8.5 Informacija o realizaciji projekata iz oblasti obnovljivih izvora energije iz nadležnosti Ministarstva ekologije, prostornog planiranja i urbanizma](#).



## North Macedonia

By the end of 2019, North Macedonia had 101 operating hydropower plants under 10 MW, with a total of 111.4 MW<sup>75</sup> – five more than in 2018.<sup>76</sup>

Incentivised plants generated 3.15 per cent of North Macedonia's domestic generation, with another 2.22 per cent from older small plants owned by the energy company EVN<sup>77</sup> – even less than in 2018.<sup>78</sup>

In 2019, 90 hydropower plants benefited from feed-in tariffs, with MKD 841 711 395, or nearly EUR 13.7 million, paid out that year.<sup>79</sup> This made up 36.6 per cent of renewables incentives, which reached nearly EUR 37.4 million altogether.<sup>80</sup>

In 2018, the North Macedonian government adopted a new Law on Energy, opening the way for the introduction of renewable energy auctions, but the subsequently adopted implementing legislation left feed-in tariffs for small hydropower intact. The *Decree on support measures for production of electrical energy from renewable sources of energy*<sup>81</sup> still allowed first-come, first-serve feed-in tariffs for hydropower, biogas and biomass, but only feed-in premiums for wind and solar.<sup>82</sup>

In the accompanying *Decision on the total installed capacity of preferential electricity producers*,<sup>83</sup> there is no cap placed on the total amount of hydropower plants that can receive feed-in tariffs, whereas the quotas for biogas and biomass were almost full when the Decision was adopted.

After unsuccessful attempts to resolve the issue with the Government and the national Commission for the Protection of Competition, which is supposed to approve all state aid measures, Bankwatch and its member group Eko-Svest filed a complaint to the Energy Community Secretariat on 1 July 2019.<sup>84</sup> The case is still being processed.

In the meantime, North Macedonia has made significant progress on moving forward solar investments,<sup>85</sup> and is the first Western Balkan country to have submitted a National Energy and Climate Plan to the Energy

<sup>75</sup> Republic of North Macedonia Regulatory Commission for Energy and Water Services, [Annual Report for 2019](#), English version p. 31, 2020.

<sup>76</sup> Republic of North Macedonia Regulatory Commission for Energy and Water Services, [Annual Report for 2018](#), English version p. 9, April 2019.

<sup>77</sup> Republic of North Macedonia Regulatory Commission for Energy and Water Services, [Annual Report for 2019](#), English version p. 30.

<sup>78</sup> Republic of North Macedonia Regulatory Commission for Energy and Water Services, [Annual Report for 2018](#), English version p.18.

<sup>79</sup> Republic of North Macedonia Regulatory Commission for Energy and Water Services, [Annual Report for 2019](#), English version p. 33. Euro exchange rate average for 2019 from InforEuro.

<sup>80</sup> Republic of North Macedonia Regulatory Commission for Energy and Water Services, [Annual Report for 2019](#), English version p. 31.

<sup>81</sup> Government of the Republic of North Macedonia, [Decree on support measures for production of electrical energy from renewable sources of energy](#), Official Gazette no. 29/19.

<sup>82</sup> Some wind capacity was still included in the feed-in tariff system but this constitutes only the existing Bogdanci plant, its extension and one more plant – Bogoslovec – that already has preliminary privileged producer status, so in reality there are no new feed-in tariffs available for wind.

<sup>83</sup> Government of the Republic of North Macedonia, [Decision on the total installed capacity of preferential electricity producers](#), Official Gazette no. 29/19.

<sup>84</sup> CEE Bankwatch Network and Eko-Svest, [North Macedonia: Complaint challenges unfair subsidy advantages for hydropower](#), 1 July 2019.

<sup>85</sup> Igor Todorović, [EVN Macedonia opens solar power plant with two-sided panels](#), Balkan Green Energy News, 4 December 2020.

Community Secretariat.<sup>86</sup> The Energy Community Secretariat's comments on the NECP underline the issues with small hydropower plants:

*The Secretariat recommends that the final NECP should further elaborate on schemes supporting the deployment of renewables, in particular in relation to small hydropower, and to ensure that the incentives provided do not favour specific renewable energy resources which either do not require support or have disproportionate environmental impact. The Secretariat's Policy Guidelines on small hydropower plants can serve as a reference when finalising the NECP.<sup>87</sup>*

Although a tender for 19 new small hydropower plants was completed in early 2019,<sup>88</sup> because of public pressure, by the end of 2020 these concession agreements had not been signed yet.

Despite North Macedonia's undoubted progress in the energy transition, its poor record on regulating small hydropower plants and failure to bring its incentives scheme for hydropower into full compliance with the EEAG still needs to be addressed.

### What needs to be done

- Change the *Decree on support measures for production of electrical energy from renewable sources of energy* and *Decision on the total installed capacity of preferential electricity producers* to remove incentives for small hydropower.
- Use the National Energy and Climate Plan process to rationalise North Macedonia's future renewable energy plans, ensure hydropower development is kept to an absolute minimum, and prevent hydropower development in sensitive locations. Projects which have been around for decades need to be critically reassessed for their relevance and feasibility in today's conditions.
- Annul the results of the 2019 concession tender for small hydropower plants.
- Review existing hydropower concessions and annul any where projects have not been developed in line with environmental or other legislation.
- Clarify in the legislation how the environmental compliance of projects will be checked before awarding incentives and stipulate that any plant later found to be violating environmental legislation will have its incentives cut.

<sup>86</sup> Energy Community Secretariat, [Secretariat issues Recommendations on Macedonian draft National Energy and Climate Plan, the first one ever provided by an Energy Community Contracting Party](#), 24 November 2020.

<sup>87</sup> Energy Community Secretariat, [Energy Community and National Energy and Climate Plans](#), undated, last accessed 15 December 2020.

<sup>88</sup> E. BOCHVAROSKA, [ВЛАДАТА ДА ЈА ПОВЛЕЧЕ ОДЛУКАТА ЗА ИЗГРАДБА НА 8 ХИДРОЕЛЕКТРАНИ ВО ЗАШТИТЕНИ ПОДРАЧЈА, БАРА „ЕКО-СВЕСТ“](#), SDK.mk portal, 18 May 2019; Ministry of Environment and Spatial Planning, Call for tenders - [Јавен повик за прибирање на понуди за доделување на концесија за користење на вода за производство на електрична енергија од 22 мали хидроелектрични центри](#), 3 January 2019.

## Serbia

Small hydropower plants in Serbia generated just 0.7 per cent of electricity in 2019 – even less than 2018’s 0.8 per cent. This happened despite the fact that around 15 more plants came online.

Around two-thirds of Serbia’s energy is generated by coal and most of the remainder by hydropower plants. Serbia’s state-owned utility Elektroprivreda Srbije (EPS) has 18 small hydropower plants with total installed capacity of 41 MW<sup>89</sup>, and by the end of 2019, other producers had 113 small hydropower plants.<sup>90</sup>

Solar and wind have been slow to get off the ground, although wind capacity has greatly increased in the last two years, with 373 MW installed by the end of 2019.<sup>91</sup> Solar languished at around 10 MW at the end of 2019.<sup>92</sup>

Despite around 15 new small hydropower plants coming online in 2019, due to the large amount of new wind power and poor hydrological conditions, the proportion of renewables incentives taken by small hydropower went down to 20.5 per cent, compared to just under half in 2018. This amounted to EUR 21.8 million, compared to just under EUR 25 million in 2018.<sup>93</sup>

Serbia’s incentives scheme has been in limbo for several years now, and changes are long overdue. A 500 MW cap was set for wind projects to receive incentives until 2020,<sup>94</sup> and this quota was reserved already in early 2016, so no new wind projects have been able to enter the pipeline since then.<sup>95</sup> Solar photovoltaics (PV) was even more disadvantaged, with a cap of 10 MW on incentivised installed capacity. Hydropower, geothermal, biomass and biogas, on the other hand, had no such caps, giving them a clear privilege, even though solar and wind have higher potential for additional capacity.<sup>96</sup> Serbia is also the only country in the region to offer incentives for plants up to 30 MW.<sup>97</sup>

In 2018, the expiring Regulation on Incentive Measures was extended until the end of 2019,<sup>98</sup> allowing the approval of incentives for hydropower, geothermal, biomass and biogas to continue for another year, and in January 2020 it was finally announced that the Regulation had expired and not been renewed.<sup>99</sup>

<sup>89</sup> Serbia Energy Regulatory Agency, [Annual Report 2019](#) (AERS), May 2020

<sup>90</sup> There were 113 new hydropower plants in the incentives system in 2019, plus three older EPS plants, according to calculations based on EPS Supply: [Overview of contracts with privileged producers](#), last updated October 2020. In addition to these there are 15 more EPS small hydropower plants that do not appear to receive incentives.

<sup>91</sup> Serbia Energy Regulatory Agency, [Annual Report 2019](#) (AERS).

<sup>92</sup> International Renewable Energy Agency, [Renewable Energy Capacity Statistics](#), IRENA, 2020.

<sup>93</sup> Republic of Serbia Energy Agency, [Annual Report for 2018](#), AERS, May 2019; Serbia Energy Regulatory Agency, [Annual Report 2019](#), AERS, May 2020.

<sup>94</sup> Government of Serbia, [Regulation on Privileged Producers](#), Official Gazette No. 8/13.

<sup>95</sup> Balkan Green Energy News, [Serbia reaches 500 MW quota for wind power](#), 27 April 2016

<sup>96</sup> IRENA, Joanneum Research and University of Ljubljana, [Cost-Competitive Renewable Power Generation: Potential across South East Europe](#), International Renewable Energy Agency (IRENA), Abu Dhabi, 2017

<sup>97</sup> Republic of Serbia, Zakon o energetici (Službeni Glasnik RS broj 145/2014), [English version](#), [Serbian version](#), Article 70.

<sup>98</sup> Vladimir Spasić, [Serbia pushes back introduction of renewables auctions by a year, extends existing support decree](#), Balkan Green Energy News, 27 November 2018.

<sup>99</sup> Pippa Gallop, [Serbia finally moves to halt unfair advantage for small hydropower plants](#), CEE Bankwatch, 22 January 2020.

The rest of 2020 saw little progress due to COVID-19 and a general election, but in December 2020 and January 2021 public consultations were launched on a concept paper<sup>100</sup> and then a draft of a new Law on Renewable Energy<sup>101</sup> aimed at introducing an auctions and premiums system. The draft Law on Renewable Energy foresees feed-in tariffs for hydropower up to 500 kW, and eligibility for hydropower up to 30 MW to take part in auctions.

In theory, this is in line with the EEAG, provided that the hydropower plants are in line with the Water Framework Directive and all other EU environmental legislation. However, given the damage wrought so far by small hydropower plants and their negligible contribution to Serbia's energy generation, cutting feed-in tariffs altogether seems wiser.

Likewise, incentivising plants up to 30 MW does not seem useful, as hydropower is a mature technology, and there appears to be limited potential for such plants in Serbia.<sup>102</sup> So, incentivising will not serve the purpose of bringing the price of the technology down for future investments.

### **What needs to be done**

- Do not allow feed-in tariffs or premiums for hydropower in Serbia's new Law on Renewable Energy.
- Provide clearer instructions in the legislation on how the environmental compliance of projects will be checked before awarding incentives and stipulate that any plant later found to be violating environmental legislation will have its incentives cut.
- Use the National Energy and Climate Plan process to clarify Serbia's future renewable energy plans and prevent hydropower development in sensitive locations. Projects which have been around for decades need to be critically reassessed for their relevance and feasibility in today's conditions.
- Review the environmental compliance of ongoing and existing hydropower projects and take additional corrective action against non-compliant plants.

<sup>100</sup> Ministry of Mining and Energy of the Republic of Serbia, [Invitation to comment on the concept note for the new Law on Renewable Energy](#), 31 December 2020.

<sup>101</sup> Ministry of Mining and Energy of the Republic of Serbia, [Draft Law on Renewable Energy](#), 21 January 2021.

<sup>102</sup> There are a small number of plants in the pipeline, but even when feed-in tariffs were offered for plants up to 30 MW, no plants above 10 MW were built to the best of our knowledge.