

European Energy Review
Recent Development Article
Republic of Macedonia

AUTHORS: Ljupka Noveska, Associate, Veton Qoku, Associate, Office, Leonid Ristev, Associate, all of Karanovic/Nikolic Law Office, Macedonia

Proposed/potential investments in the electricity sector

Chebren and Galishte hydroelectric power plants

The Ministry of Economy of the Republic of Macedonia ("**Macedonia**") recently published a public call for the construction of the large hydroelectric power plant ("HEPP") Chebren (with an indicative investment value of € 340 million) and Galishte (with an indicative investment value of € 200 million). This was the sixth opportunity for potential investors to join the race to build the two power plants on the Crna River (the previous public calls failed due to several different reasons such as reluctance of the pre-qualified bidders to make an actual bid etc.). The project is envisaged as a public-private partnership (together with the state-owned electricity production company ELEM AD), by way of offering of the existing hydroelectric power plant Tikvesh (currently owned by ELEM AD); under concession.

With the latest public call, the Government of Macedonia ("**GoM**") provides the possibility of the construction of Chebren and Galishte as a package; however, the public call does not envisage obligation for investors to build both HEPPs. This can be seen as a positive feature, bearing in mind that many potential investors rejected the possibility of this investment because they considered the Galishte power plant as not profitable. Ten out of the 16 interested investors for this project were prequalified by the Government of Macedonia. These ten companies are as follows, namely AS Electric of the United Kingdom, Edison of Italy, Energopro from the Czech Republic, EVN AG, Strabag from Austria, Greece's PPC as well as four other consortiums. These ten prequalified companies had a deadline up to 29 July 2011 to submit their offers and all other relevant documentation with regard to the bidding procedure.

Concession for 400 small hydropower plants

Studies have shown that Macedonia has sufficient hydro potential to support more than 400 small hydropower plants. According to the Ministry of Environment of Macedonia, this kind of hydropower plants are the suitable choice for the environment, since they do not emit pollutants and do not require building a dam and the creation of large lakes is avoided. Consequently, the small hydropower plants do not disrupt plant and animal habitats, and also do not affect the microclimate of the locations in heavy manners. Therefore, a plan which proposes the building of 400 such small hydropower plants has been proposed.

The respective concessions related to the construction and use of these small hydropower plants will be given to investors by way of a number of separate tenders. The total value of the necessary investments for this project is estimated to be approx. € 300 million. Up to date, there are 47 concluded contracts with investors related to small hydropower plants projects with a total value of approx. € 60 million.

The Vardar valley project

The biggest planned project in the Macedonian energy sector is the project Vardar Valley which envisages the construction of 12 hydropower plants, all situated on the biggest river in Macedonia – the Vardar. The Macedonian Ministry of Economy issued a general memorandum on the project, stating the basic characteristics of each hydropower plants and detailing the environmental and climate circumstances of the Vardar basin.

Moreover, the GoM signed a Memorandum of Understanding for the valley project with China International Water & Electric Corporation and China Development Bank. According to this Memorandum of Understanding, a feasibility study is to be prepared, upon which the completion of the project is to follow. The total value of this project is estimated at around € 1.5 billion and the realisation of the project is expected to be over the period of the next 12 to 15 years.

Boshkov Most hydropower plant

The procedure for the granting of a concession for this project (which envisages building a HEPP in the western part of Macedonia, close to the town of Debar) was put on hold following an announcement by the Macedonian Ministry of Economy on 24 September 2009. Only one bidder had submitted the required concession documentation under the given preconditions of the project. Since then there have been no particular activities with regard to this project.

It is likely that in the near future the Macedonian Ministry of Economy will amend the set preconditions in order to attract more potential investors to participate in the bid for this project, which according to currently available information is unlikely to move forward without such amendments of the preconditions.

Windmill park projects

South Korean companies KOSEP and Samsung Heavy Industries, as well as company Inval Macedonia (the Macedonian subsidiary of Spanish Inval), expect to complete all documentation and start building a "wind generator farm" near the town of Stip in the eastern Macedonia. These companies expect to start producing electricity in Macedonia in 2012.

In 2010, Inval Macedonia, KOSEP and Samsung Heavy Industries formed a joint consortium for the purpose of this project. The consortium announced plans to invest € 240 million in this project, installing 66 wind generators with a total capacity of 198 MW and an estimated annual output of 500,000GWh.

Nuclear power plant

The Macedonian Minister for Economy, who is in charge of the energy policy for Macedonia, along with other high ranking Macedonian officials, were negotiating with Bulgaria on the subject of Macedonia's participation in their nuclear plant project "Belene", planned to be constructed in the northern part of Bulgaria. The projects estimated value is approximately € 6 billion and has planned generation capacity of approximately 2000 MW.

Other projects have been mentioned and reviewed, such as the project "Mariovo". This project envisages a construction of a nuclear plant, in the central-eastern part of Macedonia (Mariovo region). Prior to commencement of serious planning for this project, the Macedonian Assembly would need to pass a particular law which would lift the current ban for construction of this type of generation facilities in the Republic of Macedonia.

Proposed/potential investments in the gas sector

The inclusion of Macedonia in the South Stream pipeline project

At first it appeared that the South Stream gas pipeline would overlook the Republic of Macedonia and that the country had missed out on a great opportunity to utilise its convenient geographical position in the region. However, recent events have given Macedonia hope that there might be a possibility for a last gasp entry to the South Stream pipeline project.

Namely, after a few meetings between Macedonian authorities and executives of Gazprom, an agreement has been reached to commence a feasibility study regarding a potential increase in Russian gas supplies to Macedonia by means of constructing a gas pipeline lateral to the South Stream pipeline. It has been agreed that in the event of a positive outcome of these studies, the parties would work out a proposal to sign an appropriate intergovernmental agreement, the South Stream pipeline is a project of great importance to Macedonia. The whole South Stream pipeline project is estimated to carry a total value in the region of € 19– 24 billion.

It is still unclear what the potential Macedonian portion of the pipeline would cost.—In addition to this, at this point it is still unclear exactly how Macedonia would fit in the South Stream pipeline structure. At present there are two possible options: the first one envisages Macedonia being a cul-de-sac type branch of the projected pipeline, while the second one, however, sees Macedonia as a transit route of the South Stream, which would connect neighbouring Albania and Kosovo, should they also decide to join the planned pipeline project.

Progress of privatisation

The privatisation of the former Electric Power Company of Macedonia ("ESM") was performed in 2006. As part of the government's programme to liberalize the electricity market, the restructuring resulted in unbundling of the vertically integrated ESM into three legally separated enterprises: (i) the Macedonian Electricity Transmission System Operator ("MEPSO") which remained in 100% state ownership, (ii) the principal electricity generator, a joint stock company Electric Power Plants of Macedonia ("ELEM") which is also 100% state owned, and (iii) a private company, EVN Macedonia, which distributes and supplies electricity. Therefore, in 2006 the distribution segment of the energy market was completely privatised. Currently, there are no announced intentions to take any further steps regarding the privatisation of ELEM or MEPSO, or parts of their transmission capacities.

The GoM has announced its² intention to privatise the Company for research, design, manufacture and construction of power and industrial facilities EMO AD Ohrid. So far, there have been several public calls for the privatisation of this company that has shown major losses, in which the State owns the majority of the shares. All of the attempts were unsuccessful and the public calls resulted in a decided lack of reported interest from potential investors.

The GoM and the Macedonian Pension Insurance Fund own 65.15% of the total share capital of EMO AD Ohrid. The recent sixth attempt for privatisation of the company ended unsuccessfully, when there were no bidders on the public call for privatisation of EMO AD Ohrid due to 29 July 2011. Only one Turkish company was interested for the privatisation process, but according to the publicly available information, the potential investor decided not to file the necessary documentation because of the significant outstanding debts of the company EMO AD Ohrid's.

The impact of the new Energy Law on the energy market in Macedonia

At the moment, the energy market in Macedonia is partially liberalized. However, the new Energy Law¹ stipulates a full liberalisation of the energy market in Macedonia from 1 January 2015. The Energy Law envisages enactment of a range of secondary legislation that would have a significant impact to the energy market.

Primarily, the newly passed Energy Law prescribes that, with the enactment of a part of the necessary secondary legislation that follows the Energy Law (i.e the Rules for Supply of Electricity, the Rules for Supply of Electricity in Exceptional Cases, the Rulebook on Prices of Electricity for Suppliers in Exceptional Cases, the Energy Market Rules and Tariff Systems for Transmission and Distribution of Electricity and Services Provided by the Operator of the Electricity Market)—all electricity consumers are going to acquire the status of eligible consumers and will therefore be able to choose for themselves how they are about to acquire electricity.

The enactment of such secondary legislation is not only a precondition in the electricity market, but also in the market of the natural gas. The households are left aside as an exception to this rule, and they will remain as tariff consumers until 31 December 2014. After this, the households too are expected to become eligible consumers and to be able to choose their suppliers, and with this to gain from the full liberalisation of the energy market in Macedonia.

¹ Published in the Official Gazette of the Republic of Macedonia nos. 16/2011, 136/2011