

Overview of Natural Gas Sector Development and Regulation in Serbia

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Contents

- Production, transportation, distribution, storing of natural gas as energy related activities
- Privatization and investment in distribution network
- Third party access, market opening
- Natural gas market legislation

Previous situation

- In 1990. Petroleum Industry of Serbia was established passing the Law in the Parliament
- Previously completely separated companies were joined into one vertically integrated company
- All the activities in oil and gas sector were integrated

Necessary steps and obstacles (1)

- In order to perform necessary reforms in oil and gas sector the Law on NIS' establishment had to be withdrawn
- Serbian Government had to propose Law on withdrawal of this Law and initiate it in the Parliament
- This procedure was politically and time consuming

Necessary steps and obstacles (2)

- There were several ideas on future organization of successor companies
- The major one was to organize NIS as holding company
- The final decision was to establish two public companies and one joint stock company
- In July 2005. Government of the Republic of Serbia made a decision on establishing public company Srbijagas, public company Transnafta and joint stock company NIS.

Energy related activities

- Activities joint stock company NIS is performing are: exploration, production, processing, distribution and retail of oil and oil derivatives and exploration and production of natural gas
- Activity public company Transnafta is performing is transportation of oil and oil derivatives

Natural gas activities (1)

Energy related activities public company
Srbijagas is performing are:

- transportation of natural gas,
- operation of transportation system,
- storing of natural gas,
- operation of natural gas storage,
- distribution of natural gas,
- operation of distribution system,
- natural gas trade for captive consumers supply.

Natural gas activities (2)

- This way natural gas activities are separated from oil activities and exploration and production of natural gas are separated from all of the other natural gas activities
- Two separate public companies NIS Energogas and NIS Gas were joined into one company, meaning that previously doubled activities are now united
- This new company is officially operational from October 1st 2005.

- The rationale for the existing Srbijagas organization is based on legislative framework in Serbia
- All of the energy related activities concerning natural gas, except its production, exploration and trade on free market are defined according to the Law on public enterprises and Energy Law as activities of public interest
- These activities are basically performed by public enterprises or other types of companies if they are authorized by Serbian Government
- The solution was to take the first step and establish public company Srbijagas

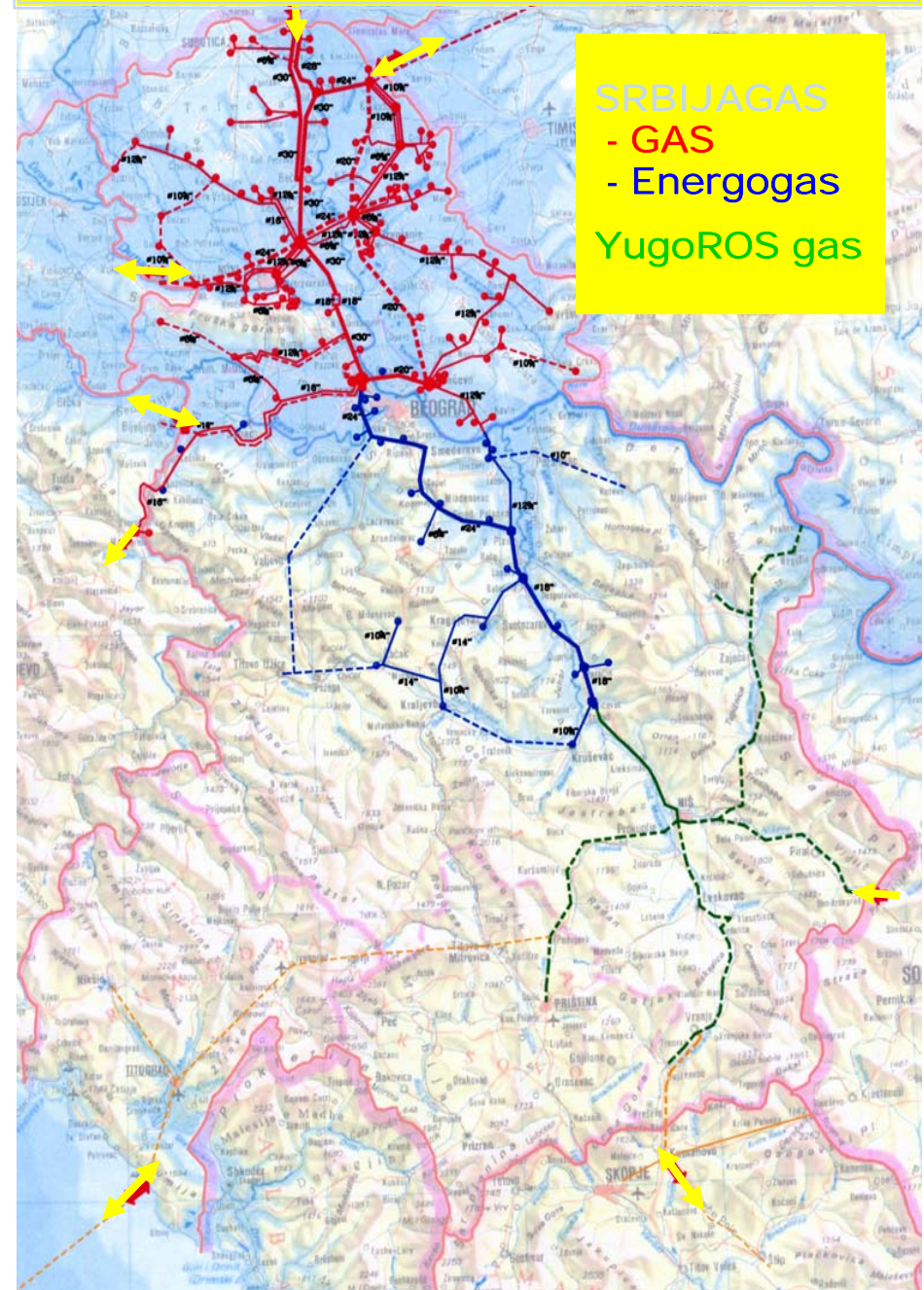
Energy activities in natural gas sector

- Gas distribution, operation of distribution pipelines and trade for captive consumers are *activities of public interest (while trade on free market is not)*, monitored by the Government and the Energy Agency;
- For distribution company to perform activity of public interest the prerequisite is to obtain assignment contract by the Government as well as a license by the Energy Agency;
- License is issued for the existing distribution network, based on the reports of the competent bodies, establishing the fulfillment of technical, energy and other conditions for performance of energy related activities.

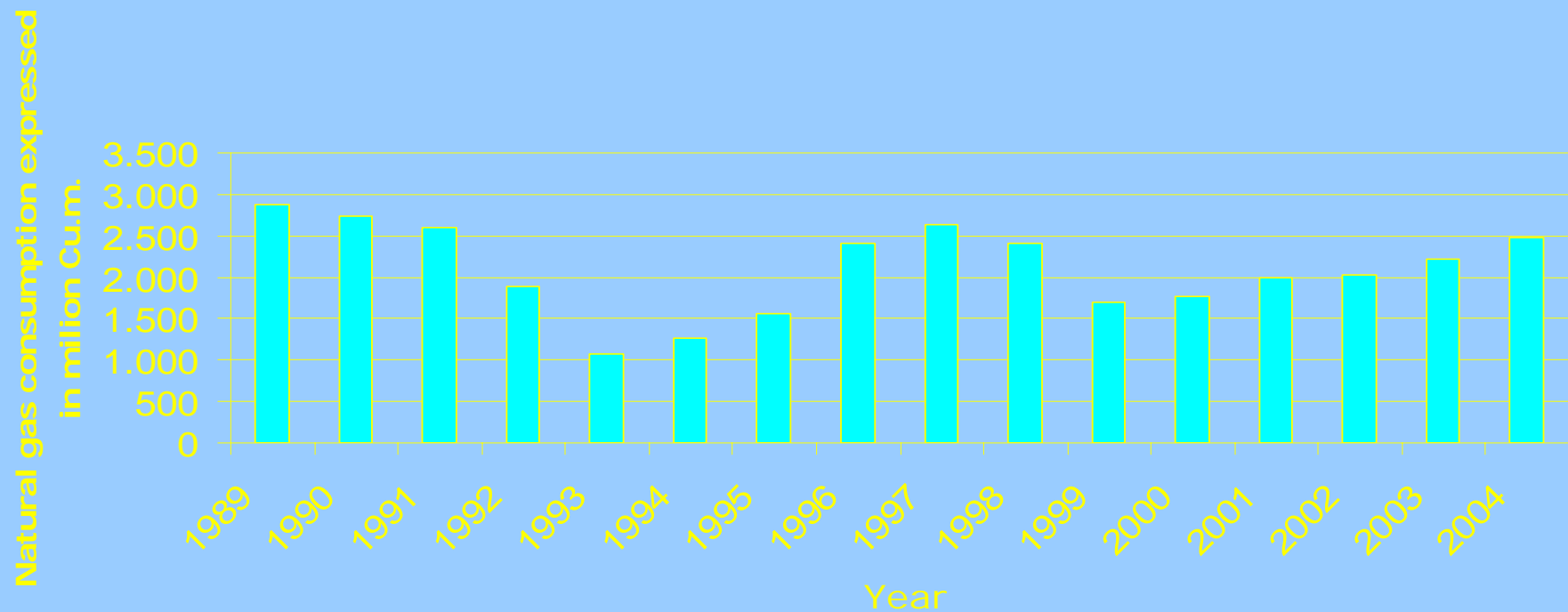
New distribution network construction conditions

- Energy permit for construction of energy facilities – responsibility of Ministry of mining and energy
- Energy permit is precondition for building permit issued in accordance with:
Energy Sector Development Strategy and
Strategy Implementation Programme

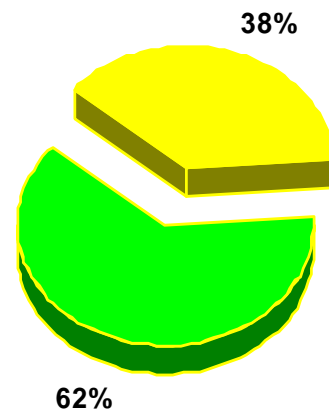
PIPELINE SYSTEM OF SERBIA



THE CONSUMPTION OF NATURAL GAS IN SERBIA DURING THE PERIOD 1989-2004



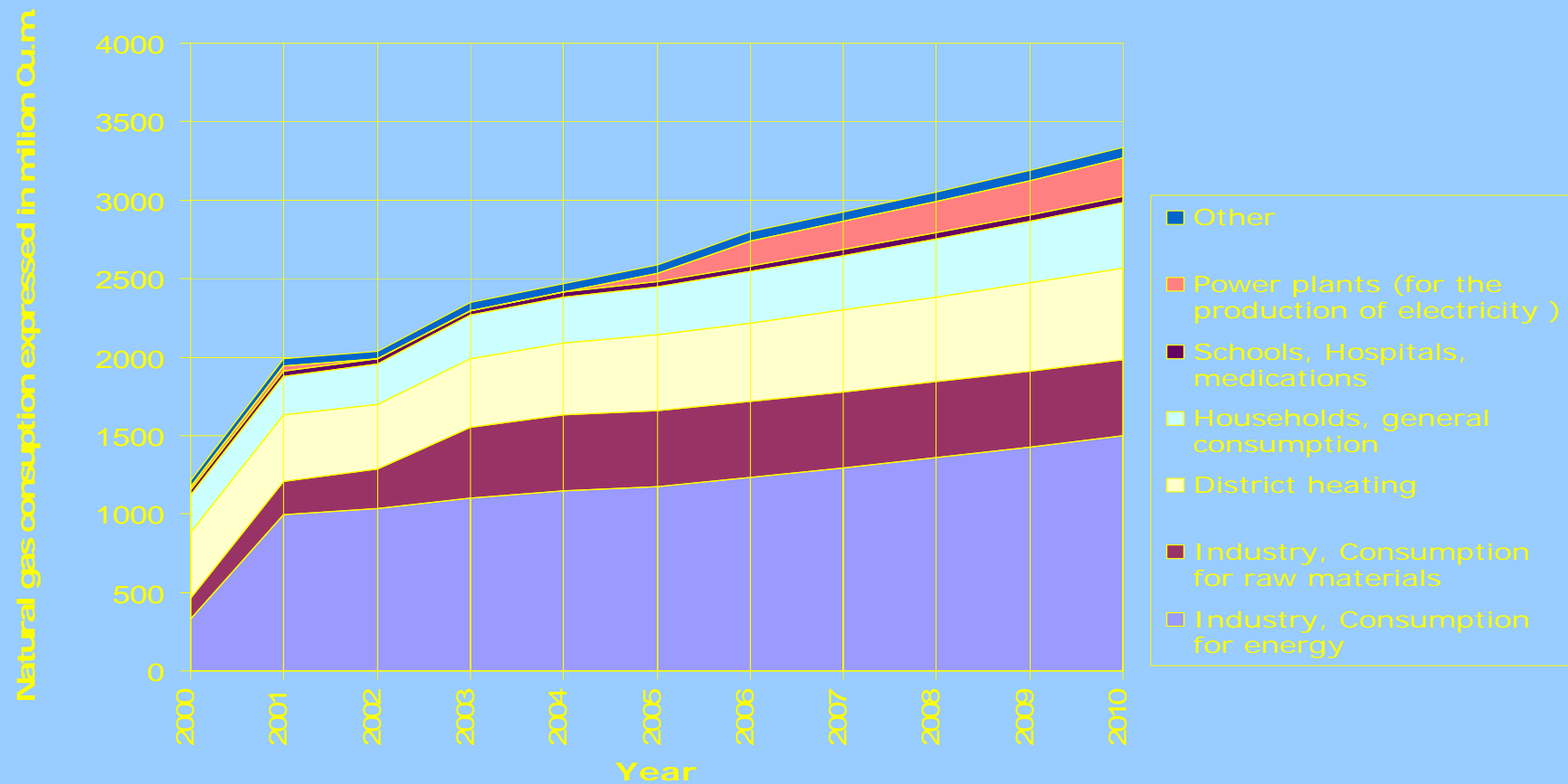
The Heating Plant and Household share in yearly gas consumption in Serbia



■ Heating Plant & Households
■ Industry

According to the energy balance sheet for 2007. total natural gas consumption is predicted to be 2,668 bcm - 2,405 bcm of which is imported, while 0,263 bcm is from domestic production (10%)

NATURAL GAS DEMAND FORECAST FOR THE PERIOD 2000-2010



Existing models for natural gas distribution companies (1)

- state owned enterprise (SOE)/daughter company of SOE
 - SOE founded by the Government of the Republic of Serbia
 - Investment into SOE is not allowed so far;
 - Joint ventures with SOE are possible;
 - Loan agreements and commercial arrangements are possible, and the State appears as guarantor
- Daughter company founded by SOE
- Sources of investments
 - Investment in daughter company of SOE;
 - Joint-venture...

Existing models for natural gas distribution companies (2)

- Contract on assignment of right to conduct activity of public interest- Assignment contract

Preconditions:

- Any form of company can be founded (except SOE)
- Founder of the company – domestic and/or foreign person
- Company must be fully in compliance with the legislation- technical conditions for equipment, environmental protection...

Existing models for natural gas distribution companies (3)

- Concession contract

Preconditions:

- Grantee- domestic or foreign person
- Grantor- the Government of the Republic of Serbia

- Procedure: Serbian Government and Parliament to review the application, one member of Tendering Commission from Serbian Parliament, the Government of Serbia signs the contract

Conclusions for potential investors

- Concession contract- the most precise procedure
- Assignment contract- avoiding tendering procedure, shorter procedure, transfer of energy facility into state property is not envisaged, risk of changes in legislation
- Investment in daughter company of SOE- the shortest procedure, risk of changes in legislation

Market opening

- According to Energy Law AERS determines the minimum yearly consumption of natural gas necessary to obtain the eligibility status
- Actual eligibility threshold is set to 50 million m³/ year
- Only one natural gas customer has asked for the eligibility status to be determined but actually they are not using it, the tariff systems are not in place yet
- With this eligibility threshold the possible market opening is 47%
- AERS keeps public information about eligible customers on our web site, but we still have to take care about the confidentiality issues

Applicable Laws in gas sector

- Energy Law
- Law on foreign investments
- Company Law
- Law on State-owned enterprises and activities of public interests
- Concession Law
- Law on pipeline transportation of liquid and gaseous hydrocarbons

Thank you for your attention!

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