

*Stručni članak*

## ENERGY CRISIS, MEASURES AND CONSEQUENCES FOR CONSUMERS FROM THE REGULATED AND FREE ELECTRICITY MARKET IN THE REPUBLIC OF NORTH MACEDONIA

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**Abstract:** As we move towards the end of this year 2022, it can be freely concluded that not only has not been found a permanent and fixed solution to prevent and mitigate the energy crisis, but also that it is experiencing its culmination in the last quarter of the year. The government of the Republic of North Macedonia, in addition to last year's attempts to deal with the emerging crisis situation, also in the second half of this year undertook a series of measures to alleviate the energy crisis and the caused price shock of food products. The effectiveness of the undertaken and planned state measures is still the subject of polemics and discussions among experts. Even though the measures do not apply equally to all consumers of electricity, as well as the fact that there were negative effects from the adopted measures which were obviously not planned, and which are being remedied by the Government in a very hasty manner, using the crisis situation and the government's broad powers and competences provided through it. The state, trying to make the crisis felt as little as possible by households and small consumers, although it promised, still failed to find a way to take care of consumers who independently participate in the market and who are supplied by suppliers and traders on the free market of electric energy. The subject of analysis of this paper is the effectiveness of measures to subsidize the price of electricity for households and small consumers and the inconsistencies that have arisen during their implementation, which caused the adoption of a debatable Decision by the Government aimed at large consumers and preventing their transfer to the regulated electricity market.

**Key words:** energy crisis, price shock, electricity market, supply of electricity.

### 1. ELECTRICITY CONSUMERS AND THEIR TREATMENT AND PARTICIPATION IN THE ELECTRICITY MARKET UNDER THE ENERGY LAW AND BY-LAWS

#### 1.1. Types of consumers and their way of supplying electricity according to the provisions of the Law on Energy

In terms of the provision of Article 101 paragraph 1) of the Law on Energy<sup>28</sup>, the Universal supplier is obliged to supply electricity to **households** and **small consumers** who are located in the area where it is obliged to provide universal service and who have chosen to be supplied by it, in accordance with the obligations determined by this law and the supply rules.

Pursuant to Article 3, paragraph 1, point 36) of the Law on Energy, a "**small consumer**" of electricity, i.e. natural gas, is an entity whose average number of employees in the last two accounting years is **less than 50 employees** and **has a total annual income of less than two million euros in denar equivalent**, with the exception of the electricity producer and the operator of the transmission system and the electricity distribution system, i.e. natural gas. The liberalization of the energy market comes to the fore in the provision of Article 106 of the Law on Energy according to which paragraph 1) every consumer of electricity can be supplied with

<sup>28</sup>Law on Energy "Official Gazette of the Republic of North Macedonia" no. 96/2018, 96/2019

electricity from a supplier of his own choice, in accordance with the conditions established by this law and the rules for electricity supply.

The paragraph from the same Article 106 provides that, as an exception, consumers who meet the conditions for independent participation in the electricity market can also purchase electricity from traders or electricity producers.

According to paragraph 3) of Article 106, consumers who meet the conditions for independent participation in the electricity market can buy electricity from a supplier or trader of electricity from another country, which has acceded to all valid international agreements in the field of electricity which The Republic of North Macedonia has ratified them, if such electricity supplier complies with the regulations and rules adopted on the basis of this law.

### **1.2. Supplying consumers with electricity according to the Electricity Supply Rules**

Pursuant to Article 7 paragraph 1) of the Electricity Supply Rules<sup>29</sup> the consumer has the right to freely choose the supplier.

Paragraph 2) of the same Article of the Rules stipulates that the consumer who meets the conditions for independent participation in the electricity market, established in the Electricity Market Rules, has a balance responsibility agreement with the operator of the electricity transmission system and is registered as a market participant of electricity, besides from a supplier, can also buy electricity from a trader or producer of electricity.

### **1.3. The supply of electricity to consumers according to the Electricity Market Rules**

According to Article 15 of the Electricity Market Rules of 31.10.2022.<sup>30</sup> consumers who are connected to 110kV or higher voltage level can independently participate in the market, i.e. buy electricity from a PEE, supplier, electricity trader, virtual producer or from an electricity supplier or trader from another country, which has acceded to all valid international agreements in the field of electricity that the Republic of North Macedonia has ratified, if such supplier or trader of electricity respects the regulations and rules adopted on the basis of the Law on Energy. Termination of the contract for participation in the market in terms of Article 29 paragraph 1) paragraph 5) of the Electricity Market Rules, The contract for participation in the market also ends **if the consumer has stopped fulfilling the conditions for independent participation in the market.**

## **2. MEASURES TO SUBSIDIZE THE PRICE, DECLARATION OF A STATE OF CRISIS AND MEASURES PREDICTED AND ADOPTED BY THE STATE DURING 2022 IN CONNECTION WITH THE ENERGY CRISIS**

### **2.1. Measures to support citizens and companies, including measures to subsidize the price of electricity for households and small consumers**

The Government of the Republic of North Macedonia, at its 88th session from 09.10.2022, brought several proposed measures to support citizens and companies, in times of economic and energy crisis.

<sup>29</sup> The rules for electricity supply "Official Gazette of the Republic of Macedonia No. 172/2018

<sup>30</sup> Rules for the electricity market "Official Gazette of the Republic of Macedonia No. 234/2022 of 03.11.2022

According to the official announcement of the Government <sup>31</sup> this package of anti-crisis measures contained targeted measures aimed at the most vulnerable categories of citizens; targeted support for public and health institutions; supporting the liquidity of companies; investments in energy efficiency and renewable energy sources.

The measures were aimed at targeted support for citizens and companies, as well as at stabilizing the price of food, and they ensured the maintenance of macroeconomic and fiscal stability.

The total fiscal effect of the new set of measures was estimated at 22.2 billion denars, ie 360.2 million euros.

**The following are foreseen:**

1. Measures to support socially vulnerable categories of citizens and to support the vulnerable category – pension beneficiaries
2. Measures to support public, educational and health institutions
3. Measures to support the private sector, targeting micro, small and medium-sized companies
4. Measures to subsidize the price of electricity and heat for households and small consumers

**The aim** of these measures is:

- Direct subsidization of energy companies, planned until the end of the year (funds provided by the Proposal - Decision on redistribution);
- ESM liquidity support with a loan from the EBRD.

At the session, it was also ascertained that measures, foreseen by the previous package of measures, are in progress, which **continue to be valid until the end of 2022**, which is made possible by the Rebalancing of the Budget for 2022.

It's about:

- Continuation of the application of the preferential tax rate of 5% for the sale of electricity to households, which applies to all households, users of electricity;
- Direct financial support for vulnerable consumers of electricity;-Financing of energy efficiency projects for municipalities, through the use of a favorable loan from the World Bank, implemented by the Ministry of Finance;
- Prolongation of the introduction of green fees for derivatives, i.e. the environmental fee for energy , which applies to all households and companies, which are users of energy;
- Exemption from payment of VAT, when importing natural gas and electricity, thermal energy or energy for cooling - to importers of natural gas and electricity, thermal energy or cooling energy
- The credit line for green transition from the EIB, with favorable lending conditions to companies for investments in energy efficiency and renewable energy sources, with the aim of stimulating investments by companies in energy efficiency and renewable energy sources and long-term savings through reduced consumption of electricity;

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<sup>31</sup> <https://vlada.mk/node/30451> 09.10.2022 - 21:25

- Continue implementation of the measure for subsidizing the price of electricity for the regulated market (households and small consumers).<sup>32</sup>

## 2.2. Declaration of a state of crisis and measures taken and Decisions made for that purpose

On 30.10.2021 the Government of RNM adopted a **Decree** on the criteria and conditions for declaring a state of crisis in the electricity supply.

This decree establishes the criteria and conditions for declaring a crisis situation in the supply of electricity and the measures that are taken in the event of a crisis situation caused by weather and natural disasters, breakdowns and disturbances in the energy markets, the method of electricity supply in conditions of a crisis situation, as well as the rights and obligations of license holders for performing energy activities: transmission, distribution, supply and trade in electricity.

On 09.11.2021, the Government of RNM, at the request of the Commission for monitoring the situation in the energy sector, composed of the Ministry of Economy, had made a decision to declare a state of crisis in the energy sector for a period of 30 days.

A new Decision on the existence of a crisis situation in the electricity supply this year was adopted on 25.08.2022 and which situation has been extended by Decision ("Official Gazette of the Republic of North Macedonia" number 188/22) **until 30.04.2023**.

In a crisis situation, the Law on crisis management enables the Government to make decisions on the use of the resources of the state administration bodies, municipal bodies and the City of Skopje, as well as on their management in case of a crisis situation. Also, during a crisis situation, the resources of public enterprises, institutions and services, as well as commercial companies, which are of special importance for work in a crisis situation in accordance with the law, can be used.

At the same time, when making the decisions, the Government equates the state of emergency with the crisis and, referring to the crisis in the supply of electricity, finds controversial solutions for the dysfunctionalities that have arisen in the energy system as a consequence of the government's measures.

The Government of the Republic of North Macedonia on 04.10.2022, i.e. immediately before taking steps to sanction certain participants in the electricity market, adopted amendments to the aforementioned Decree, whereby the same in Article 7 in paragraph (1) under point 2 is supplemented by two new points 3) and 4) which read:

*"3) prevention of abuses and manipulations in the provision of universal service on the electricity market,*

*4) provision of uninterrupted and reliable supply of electricity by the universal supplier to consumers who perform activities of public interest, as well as other consumers who are not supplied by the universal supplier, for the purpose of protecting the standard of living".*

According to Article 7 paragraph 1) point 4 of the mentioned Decree, in order to create conditions for the rational use of electricity in crisis conditions, depending on the risk

<sup>32</sup> <https://vlada.mk/node/30451> 09.10.2022 - 21:25

assessments from Article 5 of this Decree, as one of the measures, the measure can be taken - **prevention of abuses and manipulations in the provision of universal service on the electricity market.**

This measure is too general and deterministic, which leaves room for arbitrariness in interpretation and application if a correct assessment of the risks has not been carried out, if it has not been established that there is/is an imminent danger of abuse and manipulation, it is not absolutely necessary and necessary and if not is properly directed towards the entity that is directly responsible and can apply it.

### **2.2.1 Analysis from a legal aspect of the measures taken and decisions made under the conditions and for the purpose of the current declared crisis situation**

The government of the Republic of Macedonia, shortly after its introduction, has already taken this newly determined measure to prevent abuses and manipulations and directed it directly at the legal entities-independent consumers of the electricity market and at the local self-government units in whose jurisdiction are the public lighting and the enterprises that it established for the performance of public lighting.

Namely, in the conditions of the existence of the last crisis situation in the supply of electricity, two Decisions were made by the Government of RNM to undertake the measure to prevent abuses and manipulations, namely:

- **Decision from 30.10.2022<sup>33</sup>** which refers to the units for local self-government and the enterprises formed by them for performing public lighting and
- **Decision of 02.11.2022<sup>34</sup>** which refers to large consumers of electricity, i.e. legal entities that independently participate in the market.

At the same time, the general conclusion is that the Government of the Republic of Macedonia did not at all explain and justify these decisions, i.e. the imposed measures, so it remains unclear what abuses and manipulations in the provision of universal service are in question and why this measure is aimed at independent consumers on the market and local self-government units, which are not competent and responsible for the way of performing universal service on the electricity market, that is, it is the responsibility of the universal electricity supplier.

### **2.3. Detailed overview of the conditions and consequences of the adoption of the Government's Decision of 02.11.2022. for consumers who meet conditions for independent participation in the market**

In Article 1 paragraph 1) of the Decision on taking a measure in conditions of the existence of a crisis situation in the supply of electricity<sup>35</sup> it is foreseen that the operator of the electricity

<sup>33</sup> Decision to take a measure in the presence of a crisis situation in the electricity supply (Official Gazette of the RNM No. 232/2022 of 02.11.2022 )

<sup>34</sup> Decision to take a measure in conditions of the existence of a crisis situation in the electricity supply (Official Gazette of the RNM No. 240/2022 of 09.11.2022 )

<sup>35</sup> Decision to take a measure in conditions of the existence of a crisis situation in the electricity supply (Official Gazette of the RNM No. 240/2022 of 09.11.2022 )



distribution system, upon submitting a request for a change of user, makes an on-site inspection and checks how many and what activities are performed in the facility.

In paragraph 2) it is stated that if the operator of the electrical distribution system during the on-site inspection determines that there are several legal entities performing activities in the facility, and the request for changing the user of the calculation metering point was submitted by a small consumer in accordance with the Law on energy and through the same metering point electricity was simultaneously used by other consumers who did not meet the criteria for a small consumer at that metering point, the user of electricity **will be considered not to belong to the category of a small consumer** and it will not be supplied by the universal supplier of electricity.

In paragraph 3) it is stated that in the cases of change of the user from paragraphs 1 and 2 of this Article, the Electricity Supply Rules should be applied.

**In Article 2 of the Decision dated 02.11.2022 the following is foreseen:**

Paragraph 1) Based on the database of electricity consumption at calculation metering points by the operator of the electricity distribution system in cases of established abuses and manipulations on the electricity market for electricity consumption at calculation metering points until 01.01.2022 was part of the portfolio of large consumers, contracts for the supply of electricity by consumers are concluded with electricity suppliers, no later than 01.01.2023, during which the operator of the electricity distribution system will record them as users of the calculation metering points.

Paragraph 2) If the consumers who were recorded as users of the calculation metering points from paragraph 1 of this article, do not conclude an agreement for the supply of electricity as users of calculation metering points until January 1, 2023, it will be considered that the users of the calculation metering points from paragraph 1 of this article do not fall into the category of small consumer.

Paragraph 3) As of January 1, 2023, the supply of electricity as a universal service to the calculation measuring points from paragraphs 1 and 2 of this article will be stopped by the universal supplier of electricity.

**2.3.1. Reasons for the imposition of a measure and adoption of the Decision of 02.11.2022. for taking a measure in conditions of the existence of a crisis situation in the supply of electricity<sup>36</sup>**

According to the Vice President of the Government of R.N.M. - Mr. Fatmir Bitiqi for dealing with the energy crisis, 653,000 households and 70,000 private entities that are on the regulated market with government measures were provided with a subsidized price of electricity, that is electricity that comes 100 percent from domestic production, and so far for this subsidy the state has spent 240 million euros." pointed out the Vice-President Mr. Bitiqi, adding that all domestic capacities have been put into operation for greater electricity production. The Vice-President Mr. Bitiqi emphasized that the Government has reached agreements with neighboring

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<sup>36</sup>Decision to take a measure in conditions of the existence of a crisis situation in the electricity supply (Official Gazette of the RNM No. 240/2022 of 09.11.2022 )

countries for guaranteed electricity imports and energy sources, but that they would only be used if domestic energy sources were exhausted.<sup>37</sup>

Hence, in a situation where, according to the analyzed measures of the Government, it can be concluded that their priority was to mitigate the price shock of electricity for households and small consumers-legal entities, it follows that the legal entities-large consumers have risen.

Namely, large consumers - independent participants in the electricity market, in order to avoid paying the very high price of electricity provided by the free, not regulated market - where there is a subsidized price of electricity, because they were suspended by the state, they had to find legal way to alleviate the crisis and survive in the market.

So, at the end of the month of October, 2022 the information echoed in the media that about 12,000 consumers improperly made a transfer from the free to the regulated market, and that during this year certain consumers improperly transferred, then it was confirmed by the Regulatory Commission for Energy and Water Services (abbreviated as "ERC")<sup>38</sup> from where they stated that they informed the inspection services.

Immediately afterwards, the government's associate for energy, Mr. Viktor Andonov, announced at a press conference in the government that the companies that entered the regulated market "through manipulations" will be automatically returned to the free market from January 2023. At the same time, in connection with the adopted Decision of the Government of 02.11.2022 by pointing out that this decision correctly states that if the mentioned legal entities do not return to the free market by the end of the year, the operator of the distribution system, as the holder of a license operating on the basis of the Law on Energy, will have an obligation automatically from 01.01.2023 return them to the free market.<sup>39</sup>

To prevent a repeat of the same situation according to statements by introducing block tariffs for companies, just as they were introduced for households, the Regulatory Commission for Energy (ERC)<sup>40</sup> plans to prevent large companies from the free market to switch to the regulated one from where citizens and small companies are supplied with electricity.

Such a measure was announced by the President of the Regulatory Commission for Energy and Water Services – “ERC”, Marko Bislimovski, in an interview with Radio Free Europe (RFE).<sup>41</sup> With the introduction of block tariffs, the price for electricity consumed by large companies will be much higher than what they pay on the free market, which, according to Bislimovski, will not be profitable for them.

According to Mr. Bislimovski, it was about introducing a block structure among small consumers.

They had lower consumption, so there will be a low block, in order to avoid such situations, which will have an extremely high price, maybe even higher than the market price, so that it

<sup>37</sup> <https://javnaadministracija.mk/2022/09/23/subventionirame-80-otsto-od-tsenata-na-strujata-za-graganite-posveteni-sme-na-obebeduvane-dovolno-energensi-za-zimata/>

<sup>38</sup> <https://www.erc.org.mk>

<sup>39</sup> <https://360stepeni.mk/preku-blok-tarifi-rke-ke-gi-sprehuva-firmite-da-troshat-od-strujata-nameneta-za-domakinstvata/>

<sup>40</sup> <https://www.erc.org.mk>

<sup>41</sup> Interview of Mr. Marko Bislimovski, President of ERC of RNM for Radio Free Europe  
<https://www.slobodnaevropa.mk/>

will not be worthwhile for large consumers to return from the free to the regulated market. However, on the regulated market, the priority was to provide the needs of households at reasonable prices and also these small consumers, that is, small businesses, micro-businesses, which actually need cheaper electricity than that available on the free market.<sup>42</sup>

In any case, according to the legal analyzes made for the needs of this paper, it follows that there is no full legal basis and justification for the adoption of the Decision of 02.11.2022 which refers to large consumers who independently participate and are supplied with electricity in the open/free market.

This is due to the fact that the Government not only introduced the measure in the Decree on the criteria and conditions for declaring a state of crisis in the supply of electricity, immediately before its pronouncement, but also did not give a precise interpretation of the term " *prevention of abuses and manipulations in the provision of universal service on the electricity market* ".

Hence the question arises whether the general and vaguely defined and undefined concept of prevention of abuses and manipulations is only a framework for subsuming all possible activities that the Government would like to undertake ab/using its broad and unlimited powers for the duration of the current crisis situation in the supply of electricity (for now, as of the end of April, 2023).

## CONCLUSION

According to the analyzes for the needs of this paper, it follows that the Government of the Republic of North Macedonia adopted a package of anti-crisis measures, aimed at the most vulnerable categories of citizens; targeted support for public and health institutions, support for the liquidity of companies, investments in energy efficiency and renewable energy sources and for stabilizing the price of food, and they should ensure the maintenance of macroeconomic and fiscal stability.

It is concluded that the measures of the Government of the Republic of Macedonia to alleviate the energy crisis in the last quarter of 2022 do not apply equally to all consumers of electricity, as well as the fact that there were also negative effects from the adopted measures that were obviously not planned, and which are being remedied by the Government in a very hasty manner, using the crisis situation and the government's broad powers and competences provided through it.

We should not overlook the fact that according to the Government's arguments, it was not a question of a problem arising with legal entities such as large consumers who directly switched from the free to the regulated market due to a cheaper (subsidized) price of electricity, but it was a question of allegedly newly established small consumers, which during an on-site inspection by the operator of the transmission system and when changing the user, it could be concluded that they were somehow connected to the big consumers.

At the same time, one cannot help but notice that the basis for the adoption of the disputed Government Decision of 02.11.2022<sup>43</sup> and content of whole Article 1 of the same are

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<sup>42</sup> Interview of Mr. Marko Bislomovski, President of ERC of RNM for Radio Free Europe <https://www.slobodnaevropa.mk/>

<sup>43</sup> Decision to take a measure in conditions of the existence of a crisis situation in the electricity supply (Official Gazette of the RNM No. 240/2022 of 09.11.2022 )



assumptions and not the result of properly conducted procedures to prove the connection of the companies and possibly the reasons for the changes in the number of employees as a condition for classifying small and large consumers according to the Law on Energy.

Namely, it is concluded that the reason for the adoption of the disputed Decision is not the non-fulfillment of conditions for the legal entities to be supplied on the regulated market, but their greater number at once, which requires the provision of a larger amount of subsidized electricity, which was not planned in time nor can be provided in conditions of an energy crisis and an unenviable situation with limited capacities for the domestic production of electricity.

Due to the aforementioned adoption of the contested Decision of 02.11.2022. is far from an ideal solution to the problem that has arisen and the fact that it was adopted in a crisis situation should not be an excuse for its legal shortcomings, inconsistencies and vagueness.

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