

# **Bosnia/Republika Srpska: Restructuring of Electric Power Industry of the Republic of Srpska entity**

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**Date :** September 29, 2014

The Electric Power Industry of the Republic of Srpska (ERS) was founded as a Public enterprise in June 1992, by the decision of the National Assembly of the Republic of Srpska.

Because of the high participation of state capital in the Electric Power Industry, it was necessary to modernize it in terms of organization and to arrange it in the manner in which the companies from this sector were arranged in the countries with a developed market economy, i.e. to provide an increase in the efficiency and competitiveness of the company's business operations, thereby improving its position on the capital market. In 2005, the Government of the Republic of Srpska organized the Electric Power Industry of the Republic of Srpska as the Mixed Holding "Electric Power Industry" of the Republic of Srpska joint-stock company Trebinje, in accordance with the Company Law and the Law on Public Enterprises.

The MH "Electric Power Industry" of RS is comprised of 11 subsidiary companies and the parent company which controls, i.e. monitors and assesses the successfulness of business operations of all subsidiaries. The MH ERS includes five companies involved in electricity generation - the Hydro Power Plants on the river Trebišnjica, the HPP on the river Drina and the HPP on the river Vrbas, the Mine and Thermal Power Plant "Ugljevik" and M&TPP "Gacko" and five companies for electricity distribution - „Elektrokrajina“, „Elektro Doboj“, „Elektro Bijeljina“, „Electricity Distribution Company Pale“ and „Elektrohercegovina“. In addition, the MH ERS also includes the SC Research and Development Center of Electrical Engineering RDCE jsc, involved in the research, testing and development of electrical engineering equipment.

Reorganization of the "Electric Power Industry" of RS (ERS) was announced last year and it should go in the direction of consolidation of the existing subsidiaries into one or two companies with an incomparably higher potential for investments in the construction of new energy facilities, as shareholders and experts believe. The experts also emphasize that the restructuring of the electric power industry system would contribute to more efficient business operations, thereby enabling the achievement of higher profits, which is in the interest of all shareholders.

Centralization carries its advantages and disadvantages. Surely, the consolidation of certain units and functions would lead to savings and simplification of the decision-making in the ERS, but the system must also be divided according to the EU directives, at least in financial terms, into the production and the distribution part, as the experts from this sector believe. The restructuring of energy sector also requires a thorough analysis which would also include the changes of law.

In the Republic of Srpska, the Energy Development Strategy was adopted back in March

2012, and it includes investments in the energy sector together with a simultaneous strive that the Electric Power Industry of the Republic of Srpska should remain in majority ownership of the state, which includes its restructuring. The Strategy systematically incorporates the objectives, measures and plans for energy development based on the principles of global best practices, the EU legislation and the recommendations of the Republic of Srpska institutions. The planned investments in the energy sector by the year 2030 amount to 11.5 billion KM. A full opening of electricity market is envisaged for 1st January 2015, as in other countries within the region, too.

One of the most important investments in the energy sector is the construction of the TPP „Stanari“. In spite of the disputes arising over the ownership of land, nothing jeopardizes the started erection of the thermal power plant. The erection of the thermal power plant “Stanari“ in the Republic of Srpska officially began in May 2013. The thermal power plant with the capacity of 300 megawatts, which will generate 2.000 gigawatt-hours of electricity annually, is built by the “EFT“ group, headed by one of the most prominent electricity traders in the Balkans, Vuk Hamović. The erection of the thermal power plant is funded by the Chinese Development Bank which provided a loan of 350 million euros. In return, the bank took in pledge the company „EFT – Mine and Thermal Power Plant Stanari“ and all associated property and rights with respect to the company. As stated by the Center for Investigative Reporting (Cin.ba), the Government of the Republic of Srpska also had to change certain by-laws because of this loan. In this way, the Chinese Development Bank was enabled to dispose of the Concession agreement in case that “EFT“ was not able to repay the loan.

Another dispute arose when the Government of the Republic of Srpska, in the place called Ugljevik, approved to a foreign investor the exploitation of a quantity of coal which was bigger than the quantity approved to their own company M&TPP Ugljevik. This led to a series of protests of the M&TPP Trade Union, the leaders of which say that the public enterprise could easily run out of sufficient quantities of coal before the expiration of the next 25 years, by which time the plant has been envisaged to operate. The foreign investor is the Russian millionaire Rašid Sardarov, who will invest money in the erection of two new thermal power blocks in Ugljevik.

Back in September 2010, the “Electric Power Industry of the Republic of Srpska“ and the “Electric Power Industry of the Republic of Serbia“ concluded the agreement on joint development of the feasibility Study for the HPP „Middle Drina“ with the preliminary design, after which the EPS and the Italian company “Seci energia“ concluded the preliminary agreement on cooperation in this project. The estimated worth of this investment is 830 million euros. The construction of „Middle Drina“ is accompanied by frequent disputes between the Federation BiH and the Republic of Srpska, most often over jurisdiction. The Federation believes that this job has to be done through the state Commission for Concessions, whereas in the Republic of Srpska, they emphasize that this is a project from the Agreement on Special and Parallel Relations between the Republic of Srpska and Serbia. Later, there was also a holding-related problem. It is obvious that many things with respect to the project have not been defined yet, so the beginning of project implementation has been postponed constantly. It has been envisaged that the Italians should own 51 percent of the future hydro power plants, Serbia would have 12, 25, and the rest would belong to the Republic of Srpska and BiH.

The project for the construction of four hydro power plants on the Upper Drina has also had a similar fate. Despite the agreed cooperation with the German company RWE, the Contract was terminated last year, although the beginning of construction of the hydro plant had been planned for the year 2013. There is no official explanation for the failure of this cooperation.

When it comes to the ownership of the ERS, the president of the Republic of Srpska, Milorad Dodik, has recently said that the existing system of the Electric Power Industry of the Republic of Srpska has to remain in state ownership. Dodik emphasized that the government of the Republic of Srpska would not allow a change in the ERS ownership structure, because, as he says, the ERS has to retain its integrity in the functional and financial sense.