Croatia: Power utility HEP is losing race against the electricity traders, lack of investments into new power generation facilities

Categories : SEE Energy News

Date : November 27, 2014

Within a couple of years, Power utility HEP has lost 20 % of the market share in the segment of supplying electricity to entrepreneurs. A lack of investments in production facilities will soon lead to a deterioration in supply security, however, investing circumstances are more complex than before.

The lack of a high-quality strategy has resulted in the fact that no decent production facility whatsoever has been built for years, but we do have 500 km of gas supply network worth 600 million euros, which serves as a gas storage. Because there are no large consumers, nor are they envisaged in Dalmatia, but in Osjek as it seems.

The HEP ODS, as a supplier within the guaranteed supply and the HEP Supply, as a market supplier, deliver about 80% of energy to entrepreneurs, resumed on an annual basis. In the households sector, the situation is significantly more favourable for HEP, the companies of which hold 93 % of the market, as shown by the fresh data for September, which we have obtained from HERA (the Croatian Energy Regulatory Agency), trying to find out the actual levels of market opening, which is not easy in an outpouring of contradictory data. Last year, the total electricity sale amounted to 15.1 TWh, and, of this amount of energy, 41 % was sold to households.

Therefore, the households consumed 6.19 TWh, and the remaining 8.91 TWh refer to the entrepreneurs. If HERA's fresh figures about market liberalization are applied to these data, it follows that the dominant supplier has lost about 1.78 TWh of supply within a couple of years. This data can be worrying, because, if it is converted into the power required in the system, it means that HEP does not need some three hundred MWs of power anymore, because they are substituted by the import of alternative suppliers. If HEP continues losing the market share, the investments for which they have been preparing out of necessity could become uncertain. HERA, which, in the previous years, behaved as if the supply security had not been its priority, has also concluded at the "last minute" that the present satisfactory level of supply security could "substantially worsen" by 2020. During this period, it is necessary to withdraw from operation around 1.100MW of power in dilapidated power plants, therefore, the construction of new production units fuelled by conventional energy sources is the condition for maintaining the supply security. However, instead of the conventional sources, Croatia has been rapidly “hooking up" only the renewables on the electric power network, so, next year, new 206 MW from the inconsistent wind could be found on the network, the balancing of which could be a problem.

The HEP is aware that the issue of supply security is becoming more and more serious and this is why it has launched a somewhat confusing investment cycle on all fronts. Whereas all eyes are on the TPP Plomin C, the public misses the tenders for the TPP-HP Osijek, the HPPs Kosinj-Senj, and the construction of a replacement cogeneration in the PP-HP Zagreb, as well as of the small-scale cogenerations fuelled by biomass in Sisak and Osijek, is also being prepared. The state should certainly support HEP in its investments, but not neglecting the quality assessment of each project. These investments are not for a few-year term, the period during which Europe could still be stupefied in the economic crisis, but these are the investments the lifetime of which will be 30 years and longer. Trying to maintain the competitiveness, Europe creates an energy union, in which the member states could lose a part of their sovereignty in the decision-making within the energy sector. Croatia will also have to realise the ambitious objectives concerning energy efficiency, which means that energy consumption will continue declining, and energy systems will have to be more efficient and environmentally acceptable. There is also the increasing reliance on renewable energy sources and regional cooperation in the energy sector which will soon become an imperative, regarding either new generation facilities or interconnections. It may sound utopian now, but an integral energy market in Europe is getting closer, and Croatia will not remain an island.

Therefore, the carbon and the CO2 management in Plomin are not and will not be negligible problems with future implications. The Marubeni will know how to reflect all the risks, including this one, in the price of electricity, which HEP may not find desirable to pay according to the future rules of the game. In addition, should the TPP-HP Osijek have 400 MW or would a lesser power would be optimal at this location? Why isn't the gas-fired power plant which balances the wind located in Dalmatia, where there are unused gas pipelines? And why is a strategic partner for the construction and management of the HES even being looked for? HEP obviously does not have enough money to build the system on its own, but it is clever enough to manage the power plant independently, so it would probably be the optimal solution to look for an investor, whom it should not be difficult to find. A parallel could be drawn between the liberalization of gas market and electricity market and the situation in which the INA and HEP have found themselves. The situation on the European gas market is similar to the circumstances on the electricity market - there are surplus goods on the market, and the prices are lower than in the previous years, which ensures decent margins for the traders and cheaper gas for the market. Few years ago, a couple of important players appeared on the gas market, who have created a big problem to INA in the meantime. The public has missed the information that, last year, the participation of local gas in the total consumption dropped to only 54%! The decline of INA’s market share will stop at certain point, but it is a fact that it has already substantially eroded the income sphere, and together with this, the investment potential, too. This, not neglecting the negative impact of the MOL, combined with the shabby refineries and low refining margins as well as with a progressive loss of market in the country and abroad, has made the once strong INA slump. The market liberalization and a lack of investments or wrong investments could also harm HEP, if it does not play smart, because many opportunities have already been missed.

With respect to both electricity and gas, the lack of a high-quality and comprehensive Energy strategy which deliberates various sources in a complementary manner is taking the toll on Croatia. This is why no decent production facility whatsoever has been built for years, but we do have 500 km of gas supply network worth 600 million euros, which serves as a gas storage. Because, there are no large consumers, nor are they envisaged in Dalmatia, but in Osjek (?!). In addition, the construction of new magistral gas pipelines is announced, instead of using the EU funds for renewing the existing distribution networks which are partly in disrepair. It should be thought more cleverly because, sooner or later, the investments in 'dead' energy infrastructure, the unnecessary or commercially unreasonable production plants will fall to consumers’ lot to pay.