

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS



Only a strong and well-organized system can serve as a reliable pillar of all its parts, but even the strongest individual part cannot provide a similar support to the system. - The new organization of company will be implemented, which will lead to rationalization, cost savings and improvement in business operations. - Profitability depends on adequate energy prices.

At the beginning of the month, the Board of Directors of EPS has appointed Životije Jovanović, who until recently served as Director of Electricity Distribution Department in EPS, as Deputy General Manager of PE “Electric Power Industry of Serbia”. Due to his excellent working results and efforts in the previous appointments as director of EPS’ department and director of “Elektrodistribucija Jagodina” and, above all, due to his call for better positioning of distribution function within electric-power and business system of EPS, he has deserved a respectable place among distributors. Hence, our first question in this interview relates to the relationship between the whole and the parts.

**From the point of view of Deputy General Manager who is able to see the “big picture” what is more important, the strength of the system or the sum of strengths of their parts?**

Only if Electric power industry of Serbia remains a cohesive system, it could successfully perform its important role in Serbia and its public sector, i.e. to provide households and businesses with a regular supply of electricity, as well as to ensure the country’s energy stability and security. Besides, each one of its parts, including production of coal, hydro and thermo power plants, and distribution companies, is equally important for the accomplishment of the abovementioned purpose of EPS. It certainly would not do any good to separate, favor or pay special attention to any specific part of this system. To conclude, the strength of the system as a whole is more important than the sum of the strengths of its individual parts. A strong and well-organized system is a reliable pillar to all its parts, but even the strongest part cannot provide a similar support to the system.

**However, until recently you were saying that the distribution was somehow marginalized in comparison to the other functions in EPS...**

It is true that I have often talked about it, vehemently opposing to the attempts to treat distribution exclusively as a collector of customers’ payments, which would be later invested in the overhauls or other production processes. In fact, I have never questioned the importance of the system as a whole - quite the contrary - I have argued that distribution companies should obtain an appropriate place in the overall system, in order to be able to adequately contribute to its enhancement. However, we have faced almost identical situation with investment planning for years. Rather than getting one third of the profit pie, according to their share in the EPS system, distribution companies obtained only a slice of 15% of the total budgeted amount for investment. I believe that the process of

[serbia-energy.eu](http://serbia-energy.eu)

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS

corporatization and restructuring, which we are about to undertake very seriously, will lead to more equal treatment of all parts of EPS.

**The previous activities in the field of restructuring also yielded certain results.**

**Why didn't they reflect on financial results?**

The process of corporatization and restructuring has been in progress for several years, but it has been particularly intensified two years ago. This process was formulated in cooperation with an international consulting firm and though the extensive analyses and elaborations were made, it remained of academic interest only. Why didn't such an effort bear fruit? Well, because there was no will to carry out some changes. Anyway, the decision about the start of implementation was never made. The new management of EPS is quite decisive in this respect. It is expected that the new organizational design, which has already been prepared, will enable PE EPS to operate more efficiently and cost-effectively, as well as to become a successful player in the regional electricity market. The legal documentation is currently being prepared so that EPS could soon get status of a public corporation. However, all these organizational changes could not boost profitability without an adequate electricity pricing policy in Serbia.

**When you are saying that, do you take into consideration the responsibility of the public sector for the social status of most citizens of Serbia?**

I certainly do! I'm completely aware of the fact that a current poor financial condition of many citizens would be further aggravated once we increase electricity price. During the last couple of years Electric Power Industry of Serbia has also offered substantial discounts to the families and individuals facing financial insecurity. The ministries in charge of this field have started making the social maps, which are conceived as an instrument of consumer protection and intended for the groups of population in the European countries known as the "energy poor". When we put the social maps into effect, there will be no more excuse for Serbia to keep the lowest electricity price in the region.

**To what extent would an adequate price of kWh encourage reduction in electricity consumption?**

I'm absolutely sure that the customers would consume electricity more rationally. Among other things, this is one of the reasons why PE EPS has launched an initiative to amend the Tariff system, which didn't serve its purpose in an effective manner. Along with gradually increasing electricity prices, we intend to introduce a new method of meter reading and billing, because these regular activities have been time-consuming for the distributors. Meter reading and delivery of bills and notices have taken, on average, one third of the working hours, which could be used for the maintenance of the distribution system or consumption control.

**But such a way of doing things has resulted in improved collection rate, hasn't it?**

During the past several years, we have recorded an increasing rate of invoice collection. In

[serbia-energy.eu](http://serbia-energy.eu)

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS

spite of this year's difficult financial and economic conditions, starting from the spring the collection rate has exceeded the projections, so the last month it reached nearly 98%. It is without a doubt a significant result. However, it has been achieved at substantial costs, which we want to change. We will have to reduce costs, at the same time continuing to continually increase collection rate. To reiterate, the overall rationalization should be enhanced due to the new organization of the company, which is designed to enable significant cost savings in all areas of business. In addition, I would like to emphasize that the process of separation of distribution system operators and suppliers should be approached with caution in order to preserve the achieved level of collection rate. We have to find the mechanisms for maintaining and further increasing a collection rate.

### **Is there any solution to the accumulated bad debts?**

Unfortunately, this is the most difficult challenge for financial consolidation of EPS. Despite a monthly collection rate of 98%, outstanding unpaid account receivables are still growing in the sense that customers currently owe one billion euros. This is a huge sum. A half of this amount is owed by a small number of customers, only about 4%, which do not belong to the disadvantaged groups or companies undergoing restructuring, the cases in which government authorities provide reimbursements for delivered electricity. It is evident that a portion of debt can never be collected and that this issue must finally be tackled, starting from adjusting our documentation to the actual situation in situ (sometimes there is no building, not to mention an electricity meter, at the address of debtor, registered a long time ago), to writing off bad debts.

### **Openly on losses**

– In the past few years, Electricity Distribution Department of EPS has completely disclosed the data on electricity losses in distribution and has constantly discussed this topic in a very argumentative and critical manner. As a result of the constant efforts made in this regard, losses decreased from 14.84%, recorded in July of the previous year, to 14.24% in July this year. It is certain that distribution companies could do much more to improve this situation, but as theft of electricity is widespread, we would need an adequate support of the authorities to extirpate this social phenomenon. Bearing in mind that the distribution companies have disclosed their losses, both internally and externally, I would like to invite the production units of EPS to speak openly about their own irrational spending or, maybe, cite some examples of energy efficiency or better use of the equipment – said Jovanović

### **Special funds for staff recruitment**

– Staff reduction which we had to undertake was commissioned by the owner of EPS, namely, the Government of the Republic of Serbia. This process wasn't performed thoughtfully enough; its worst part was the decision that we could engage a number of new employees which represented only a half of a number of those who left the company. Thereby, we lost much-needed qualified employees, workers of various professions, as well

[serbia-energy.eu](http://serbia-energy.eu)

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS

EPS prepares for new organization of company which will lead to rationalization, cost savings and improvement in business operations, says Životije Jovanović, Deputy General Manager of PE EPS

as engineers, but it is likely that we still have excess employees of some professions that are completely irrelevant to the electric power industry. Accordingly, EPS now has a very unfavorable age structure. This situation must be changed and EPS will have to provide special funds for staff recruitment - Jovanović said.

*Source Serbia Energy Magazine*