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Energy trading companies EFT and Rudnap, control the Serbian energy sector, stated magazine Nin weekly in their latest article on energy sector in Serbia. At the end of February 2011, Zorana Mihajlović, at times known as a prominent opposition representative from the Serbian Progressive Party, used these exact words to describe a state of the sector she would take over in a year and a half. Immediately upon being appointed Minister of Energy, Development and Environmental Protection, she ambitiously announced a fight against the so-called “energy mafia” and investigations into electricity trading activities. We have already heard some arguments from the ranks of the Serbian progressive party that support this claim: new management has reported that EPS has made a loss of 41 billion dinars in this year (nearly 400 million euros); over 10 billion euros passed through the energy sector over a 12-year period, but a single facility hasn’t been constructed; the previous management of EPS directly acted against Serbia’s interest by insisting on the purchase of electricity through intermediaries even though EPS has been licensed for trading activities since 2006.

“Although EPS obtained a license to purchase electricity six years ago, it has never exerted that right because a former management of EPS was obviously reluctant to such an activity, always purchasing electricity through a network of “its own” intermediaries. I hope that the authorities will investigate this case,” said Mihajlović.

However, she didn’t want to discuss this issue with a journalist of NIN, nor did Ljubiša Milanović, her advisor in the field of fight against corruption and a former associate of Zoran Stanković, Minister of Health in the previous government. Mihajlović suggested that the biggest frauds were related to emergency electricity imports, because EPS was paying for these imports a price that was 30-50% higher than a common price. Electricity purchasing plans were intentionally created in a wrong manner, thus enabling the owners of electricity trading companies to get rich, and now we can see new “targets” in the fight against corruption, which the public recognized in already mentioned market players – Vuk Hamović, the owner of EFT and Vojin Lazarević, the owner of Rudnap. A list of the companies which took part in these trading activities with EPS also includes GEN-I from Slovenia and Eagle from Switzerland.

INTERMEDIARIES

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“We purchased electricity in full accordance with the Law on public procurement, and we could not have proceeded otherwise. Besides, a new management also confirmed this fact,” said for NIN Dragomir Marković, a former CEO of this public enterprise, appointed by the Democratic Party, stressing that the lowest price was always a sole criterion.

“EPS wasn’t sending public invitations and tender documentation only to trading companies, but also to producers such as, for instance, the Slovenian company GEN-I or nuclear power plant Krško, which was offering good prices over the last couple of years,” claims Marković. He adds that in the last six years Hamović and Lazarević had an average market share of about 30% of total purchased electricity, but that the other 10-20 companies participated in importing electricity for EPS as well. The demand of electricity imports is projected based on weather forecasts and other relevant factors, and there is no way that such a methodology could be intentionally abused with the aim of providing profits for anyone. Marković denies further accusations and explains why EPS didn’t handle electricity imports by itself. In fact, in order to deal with trading activity in an effective manner, EPS should have a network of regional representative offices, which were incorporated in the business plans presented to the Ministry in charge, but this proposal was rejected because it required significant investments.

„Each activity of the management of EPS, including importing, was undertaken with a necessary approval from the Ministry of Energy,” said Marković. He also claims that there were no privileged tenderers and that no one ever complained about procedure.

Directorate of Public Procurement also confirms that EPS has been using restricted procedure of public procurement in recent years, which involves a public invitation to tender (there are no direct negotiations), and that they haven’t received any complaint yet.

#### SAVINGS

The question is whether EPS could have bypassed intermediaries or someone deliberately allowed their enrichment. Experts are cautious about making judgments on this subject. Slobodan Petrović, an expert from the Serbian Chamber of Commerce, said for magazine NIN that the saving could possibly be 5-6% of a total amount of payment. This means that, if the information about the sum of 500 million euros was accurate, the saving would amount to 25-30 million euros, which excludes speculations about a considerably larger amount that can be heard in the Ministry these days. Anyway, given the current economic conditions, even this saving would not be negligible. According to Petrović, the problem comes from the fact that EPS as a public enterprise is not allowed to buy electricity directly on energy exchanges.

„EPS wasn’t responsible for this situation. The Government could adress this problem by

bringing a Regulation or bylaw that would allow EPS to come to the market,” said Petrović. As a matter of fact, there are views that the previous governments and ministries of energy actually enabled Hamović and Lazarević to act as intermediaries in these transactions and, thereby, to reap considerable profits for their companies.

On the other hand, Vojislav Vuletić, an analyst in energy sector, explains for NIN why the exclusion of intermediary itself would be a “double-edged sword”. Given that large trading companies have business operations throughout the Balkans, they are always prepared to react promptly in case of a shortfall in electricity. “I cannot guess whether EPS would be able to manage these operations in a similar way, but it would certainly need some time to get necessary practice and experience. Of course, we should let EPS to face a fierce competition, but this issue should not be approached in a populist manner,” Vuletić argues.

#### LICENSE

If it's true that EPS, in spite of the license, wasn't able to purchase electricity due to inadequate legislation and that the Ministry approved all emergency imports, than it seems that our Minister Mihajlović actually points a finger at Socialist Party of Serbia (SPS) and Petar Škundrić, who led that department in recent years. Consequently, Mrs. Mihajlović should first ask her coalition partners, or precisely, Mr. Škundrić, a current advisor to the Prime Minister for Energy policy, why he didn't change regulations and keep away intermediaries from electricity imports. NIN asked him instead, but it didn't get answer. He also refused to talk about this issue, which has obviously become so politically sensitive that it could seriously shake the foundations of the ruling coalition. Is this another attempt of the progressives to discipline SPS? Could announced investigations in Srbijagas eventually lead to the exclusion of SPS from the energy sector? Does Minister Mihajlović point her menaces at trading companies, always hungry for more profits, or at government structures that allowed them to achieve their goal?

It is also important to take a look at business operations of Hamović and Lazarević as well as their possible connections with some political parties. The Anti-Corruption Council confirms that they haven't monitored the imports of electricity because they haven't received any complaint about that issue yet, but that the two businessmen were identified in their reports as the main protagonists of the National Savings Bank affair.

Anyway, it would be good if the Minister of Energy could add some evidence or specific action in support of her scathing words. Otherwise, this could be perceived as a threat to coalition partners to reduce their power, or as a prelude to the announced increase in electricity price of 30% (on three occasions by 10%) which would be further justified by the difficulty of inherited situation.

We do not dispute the fact that the electricity price should increase because it is the lowest in the region; the question remains whether the losses of EPS are a consequence of corruption or of a combination of a low energy price and unpaid bills, even those of

government authorities. The public demands answers to these questions and harsh penalties for corrupted individuals, but this struggle should be based on evidence, and not on populism and battle for supremacy between the members of ruling coalition.

*Source Serbia Energy Magazine*