

Five years passed since the signing of the Contract on selling a portion of shares and recapitalization concluded between the Government of Montenegro and the Italian company A2A. By the end of 2014, the five-year contract, which by all odds has not completely fulfilled the expectation of the Electric Power Industry of Montenegro, will have expired. At the recently held meeting, the Government of Montenegro has expressed the readiness to look for solutions together with the company A2A, for overcoming the issues identified in the main contract implementation. As given in the press release, on the official webpage of the Ministry of Economy of Montenegro, the starting point of the Government was the strategic interest of Montenegro to keep the majority shares in Electric Power Industry and to speed up the investments for the power sector. One of the discussion topics was the status of the activities for the implementation of the project of Power Unit 2 of the TPP in Pljevlja. The interlocutors considered the possibility of extension of management rights by A2A company, with prior defining new indicators and monitoring methodology as a mechanism for evaluating management effectiveness. There is still not a hint of solving the problems presented by the representatives of the government of Montenegro at the meeting.

As reported by Montenegrin news "Vijesti", under the Law on Budget, the Government was obliged to settle the debt for taxes of EPCG in the amount of 45 million euros by turning this debt into state shares. But, the Decision on collection of debt has been postponed precisely for the reason that the Italian partner A2A has not shown firm guarantees that it will keep managing the EPCG after the expiration of the five year contract this year. The regular Shareholders' meeting has been arranged to be held on June 27th.

Political public in Montenegro has often speculated in the recent years about the positive and negative sides of privatization of the state-owned Electric Power Industry. In 2012, a group of several members of Montenegro Parliament submitted a request to the Commission for monitoring and control of privatization procedure, for rendering a Conclusion on effectiveness/ineffectiveness of partial privatization and recapitalization of EPCG. On that occasion, one of the MPs pointed out that privatization of this company was troublesome from the very start and that Electric Power Industry should be brought back to the ownership of the state. As he said, the strategic partner has not met the expectations. Out of 20 indicators envisaged by the contract, almost none of them were fulfilled.

The citizens of Montenegro are also unhappy. They complain about the electricity prices and claim that the electricity bills are not realistic, and/or that Electric power Industry is monopolized. That is not far from truth. By the Decision of Energy Regulatory Agency, in late 2009, the electricity market was opened. In the previous period, there appeared a problem for free entrance of other supplier to the market, and the reason was the incompliance of the Law on energy with bylaws adopted by the Energy Regulatory Agency. From January 1st 2015, as stipulated by the Law, the buyers will be able to switch to another supplier,

because the obligation of EPCG as public supplier stops at that moment. With the competition coming to the market, the electricity prices should be adjusted.

As a reminder, on September 3, 2009, the Contract on selling a portion of shares and recapitalization concluded between the Government of Montenegro and the Italian company A2A was signed. In February, same year, a public call was announced for participation in a tender for selling the state-owned shares, in total 18,3% of the total capital. By buying off the shares from the minority shareholders, the A2A company obtained the shares of 43,7% in the ownership of Electric Power Industry of Montenegro AD Nikšić. The agreement between the Government and A2A Company envisages that the strategic partner takes the executive management, i.e. the Italian company, and they officially took over those positions in March 2010.

The share of Montenegro State in the ownership structure is 55%, and the Italian company paid around 420 million euros for the shares of EPCG. Through the process of recapitalization, the funds for rehabilitation and modernization of the existing, but also construction of new power structures are planned to be provided. Through the new organization, the centralization and modernization of the system (the reason for that is a big number of employees, the dispersion of the company causing extremely complex control process) were also foreseen. All these changes should increase the efficiency and effectiveness of the business, cut costs and significantly accelerate the information flow, within the very company and also in communication with partners. Also, considerable investments in modernization of the plants are planned: HPP Perućica, HPP Piva, TPP Pljevlja, and construction of the new structures: HPP Morača, HPP Otilovići and TPP Pljevlja 2. Prior to introducing minority partner in the company, EPCG has invested over 100 million euros in production facilities efficiency improvement, and also in the network development and renewal. The mentioned investments have facilitated the increase of the total production, improvement of the quality of end consumers supply and reduction of losses on the line.

The privatization wave, containing systematic transfer of activities from public to private sector, caught up all developing countries. According to experience gained by some countries caught by this wave, the main goals to be reached by privatization are increasing the competitiveness and efficiency, better operation of companies, stimulating foreign investments, economy growth, opening new work posts and enhancing the population living standard. However, special attention should be paid to selection of the bidder, because it certainly has to be a solid and reliable partner, and also to the manner in which the privatization is being carried out, since there are various models.

According to the Contract, if the Investor successfully implements five year investment program, he will be entitled to become the majority shareholder after five year period expires. Another option is that the Government of Montenegro buys off the Electric Power



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EPCG and A2A Italy, The Contract signed with the Italian company
on strategic partnership soon to expire

Industry and returns it into state-owned company. In the following months, the decision on
the destiny of Montenegro Electric Power Industry is to be reached.