

Report: EPS and electricity trade within the liberalized power market, Dragan Vlasisavljevic, EPS electricity trading department

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Achieved price in contract with users from high voltage consumption category is competitive and good for both sides. – Almost the same price was offered to all customers, full supply contracts are signed by 12 industrial consumers in addition to six buyers from EPS Group.

The liberalization of the internal electricity market in Serbia has started far better than anyone could expect at the end of the last year. At that time, the greatest number of customers from a high-voltage category was waiting until the last minute, some even missing the deadline established by the Law to choose their supplier in accordance with market conditions. By mid-January, only four customers signed a full supply contracts for 2013 with EPS, while others hesitated hoping that the Government would postpone the Energy Law enforcement in this segment and that they would be paying a regulated price determined within the previous tariff system. But the Government has acted differently. EPS was designated to be back-up supplier (“last resort” supplier) for the period of two months and provide large customers with electricity at the price higher than the one sought by the EPS. The large customers are thus given the additional time to adapt to the market code as well as to maintain continuity of supply. The company MESSER Tehnogas didn’t take advantage of this opportunity and publically announced that it had chosen Slovenian GENI to be its supplier, explaining that the price per MWh offered by EPS was seven times higher than the price they get from the Slovenian company. That was enough to put a negative spin on EPS, despite the fact that 12 large customers, mostly industrial companies, had already signed contracts on full supply with EPS, and seven new customers opted for EPS to be their back-up supplier.

Therefore, the first issue we addressed in the interview with Dragan Vlasisavljevic, Executive of Electricity Trade Department in EPS, was related to the actual price offered to MESSER.

- According to EPS policy, the contract price should not be disclosed, but I can firmly assert that EPS did not offer seven times higher price than average regional market price of electricity at high voltage to anyone. Experienced professionals could hardly give any credibility to such stories. Besides, MESSER could have accepted the price of back-up supplier, established by the Government, which for January amounted to EUR 64.825 per MWh, and from February 1 - EUR 70 per MWh. However, since February 8 MESSER has not been using our back-up supply service because it made a contract with GENI, one of 20 active licensed suppliers in the liberalized electricity market in Serbia. Anyone of large customers could have proceeded in the same manner, if it had found more favorable supplier than EPS. This unfounded claim, which is additionally emphasized in media by some alleged experts in the field stating that EPS has lost as a customer one of the largest consumers of electricity in Serbia, can be interpreted as a justification for a modest deal rather than as criticism of EPS.

How large was the actual MESSER's share in EPS' total sales of electricity at high voltage?

That company is far from being our largest customer. Messer belonged to the group of large customers with a share of 3.48% in total sales at high voltage, but if we take into account the total consumption at all voltage levels supplied by EPS, its share is only 0.44%. It should be noted that the last year's total sales for all consumption categories of EPS amounted to 35 billion kWh, of which 14.35% was attributed to high-voltage sales.

How is it possible for Messer to achieve cost-effectiveness if it has to "bring" electricity from Slovenia and pay for transit charges, instead of dealing with EPS and bypassing such costs?

This company has signed a contract with GENI on full supply by December 31, 2013. Considering terms of payment, the difference between price offered by EPS and GENI's price is only a few percent. Anyway, it's not a question of additional costs for transit services. If there is no congestion at the borders, there are no transmission costs either. This is about something else. Every licensed trader including GENI purchases electricity in the market in Serbia or, if necessary, in the region, which means that the Slovenian trader does not exclusively sell electricity produced in Slovenia. Given that the annual turnover in the Serbian bilateral market amounts to 10 TWh, GENI doesn't need to "bring" electricity from wherever in order to supply MESSER. The question, however, is whether GENI would make any profit from this deal with MESSER.

When you talk about the scope of bilateral market in Serbia, the question arises as to which strategy EPS should adopt to increase its share in that market?

The only option for EPS to increase its share in this part of the market is to increase its annual production of electricity or to boost its liquidity so that it can be able to purchase electricity in the region and place it on the Serbian market.

Are you satisfied with the volume of contracted sales in 2013?

I think that the price achieved in contracts with users from high voltage consumption category is competitive and good for both sides. Hereby, I would like to highlight that EPS offered nearly equal price to all customers from high voltage consumption category, including MESSER, as well as the same terms of payment, stemming from our full supply contract. Anyway, including customers from EPS Group, i.e. all electricity producers within EPS system, PE EPS signed a total of 18 contracts on full supply for 2013. These customers include EPS' power plants and mines that are large consumers of electricity, but also PUC "Beogradske elektrane", "Zelezara Smederevo", "Zorka Sabac", "Sirmijum stil" from Sremska Mitrovica and cement manufacturers "Lafarge" and "Holcim". Since January 1, EPS has served as backup supplier for seven companies including "Zeleznice Srbije" (Serbian railways), car factory "FAS" from Kragujevac and PE "Elektromreza Srbije". Therefore, as far as the sales volume in 2013 is concerned, EPS can be completely satisfied with the achieved, especially given that we are given the financial guarantees for the payment of contracted electricity. If we had same prices and 100% rate of collection at other voltage levels, it would be easy for EPS to overcome its current problems.

To what extent this year's experience can help maximising sales of high-voltage segment in 2014?

Even before these contracted sales, PE EPS gained a solid market experience through periodic sales of surplus electricity. This year we are faced with some new situations, because after many years of good cooperation with our partners we are forced to shift to contracting relationship with most of them, which sometimes may be time-consuming, implying a lot of "what if" and "can we do it differently" situations. Some of them tried to circumvent us, others had recourse to various interventions in order to get lower prices than the market ones, but there were also direct blackmails. We have acquired new experience from such situations. However, the most important thing is that most of the customers with whom we signed contract on supply in 2013 showed understanding for our position of the participant in the liberalized market.

Excluding backup supply activity in 2013, this year PE EPS has contracted the sales of 90% of available electricity at high voltage level and with good profit, though at the prices that are only closer to market prices. This is the whole truth. All the stories about how EPS offered enormously high prices become irrelevant if we take into account the number of signed contracts. After all, if we had offer such high prices as the rumors suggested, the other customers would have also chosen some other supplier, of 60 licensed traders that currently operate in Serbia. To illustrate this point, I will cite some examples from the neighboring countries.

According to Eurostat's data, price per MWh for industrial customers in Hungary amounts to EUR 72.6, while EUR 63.1 in Croatia and even to EUR 97.7 in the Czech Republic. These are the prices for the full supply contracts with calculated transmission costs and without taxes. The average price of the supply of electricity through transmission system in the 27 member states of the European Union is EUR 70.5 per MWh. Could anyone seriously consider the argument that EPS should be selling electricity at prices well below these average market

prices? The current level of sales and contacted prices are another proof of the fact that the liberalized market provides great opportunities for recovery of EPS. As of January 1 of 2014, 4000 new customers from medium-voltage consumption category will enter the liberalized market in Serbia. So, our share in the liberalized market is expected to increase - emphasized Vlasisavljevic.

Source Kwh/Serbia Energy