

Serbia energy company EPS current liquidity problems: Long term plan of costs management says Director of the EPS for Economic and Financial Affairs

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Causes of the endangered current liquidity are very simple, and one of the main causes is the low cost of electricity, ie. insufficient income. The centralization of certain functions will be done by corporatisation. Centralization of procurement is one of the most important and fastest measures which can provide results and ensure synergy between the companies.

Endangered current liquidity is the biggest problem of the „Electric Power Industry of Serbia“ and solutions are difficult to find in short notice. What EPS needs are the systematic changes, from the increasing of the electricity prices level to the reduction of the costs through synergies of all public enterprises within the company- says Branislav Vukosavljević, Director of the EPS for Economic and Financial Affairs.

He points out that the financial loss of 33.4 billion RSD will be recorded in 2012, while the result of cash flows is about 30 billion RSD in the red. Significant purchasing of the electric power out of the company, from January to March 2012, greater engagement of “Pannonian TE-TO”, as well as drought that reduced hydropower production also have had additional negative influence on the EPS liquidity during this year. Even though the positive result in business has been planned, the loss of 6.4 billion RSD will be recorded in 2012. Very difficult situation with the current liquidity during 2012 is the biggest problem of the company. Director of the EPS for Economic and Financial Affairs says that the reasons for the endangered current liquidity are very simple.

- One of the main reasons is the low cost of electricity, that is, insufficient revenues- explained Vukosavljević. - Impact on costs is limited and can hardly be significantly ie.

sufficiently decreased, since the large part is consisted of staff costs, as well as the costs of repairs, maintenance and procurement of the missing energy. Thus, we are left with little opportunity for big savings.

However, there is a progress in relation to the moment when the entire system was facing the financial collapse and Vukosavljević indicates that the situation is not as dramatic as it used to be. 8.2 billion RSD of short-term loans has been reprogrammed, but that is, according to our guest, only the postponement and “catching the air”.

- It is necessary for us to cope with the rest of the problems and among them is the maturity of the short-term loans in 2013 and 2014 of the significant amounts, which are submitted every six month or a year- said Vukosavljević. -We will try to reprogram them or to provide long-term loans at more favorable terms. However, these are short-term measures and more significant financial source is needed, and that can be obtained, as already mentioned, by increasing the electricity price. The most realistic would be to provide the long-term credit and, the financial position of the EPS should be on much better level from 2015, when the liberalization of the entire electricity market in Serbia follows.

Director of the EPS for Economic and Financial Affairs says that it is very difficult to decrease costs, because company has a social function both in terms of electricity prices and in terms of employees in the EPS and outside the company, from the “third circle” companies, which used to operate within the company. Formation of the social maps and determination of the vulnerable consumers as well as the opening of the electricity market will be some of the solutions for a fair price. However, according to Vukosavljević, the corporatization is the only way, in the current situation, for reduction of the costs within the company.

- Centralization of some functions could be done by corporatization and synergy will be provide among companies- points out Vukosavljević. - That’s the only measure of saving which we can conduct. With synergy among Public Enterprises, the business affairs will not be conducted “twice” anymore; on the contrary, they will be distributed and unified. This should occur in the affairs of public procurement, finance, informational technology, public recourses, ie. all supporting functions in the company. Nowadays, the procurement is done by Public Enterprises individually, and if we all performed together for the suppliers as a company, we would have much more favorable conditions. That is the principle of all the public procurements. As our source points out, the centralization of the public procurements is one of the most important and fastest measures that can produce results.

Regarding the terms of the company’s business in 2013, Vukosavljević says that the year ahead us will be just as financially complicated as the year 2012. Even the annual business program for 2013 is not “rosy”. Total revenues amount about 197 billion RSD and expenditures amount about 192 billion RSD are planned. Although the operating profit of 5.4 billion is planned, EPS forecasts a net loss of 21.4 billion in the financial field. The following year will also be financially difficult, since it will lack about 50 billion RSD in the cash flow.

- It is necessary to consistently implement measures and actions in order to reduce the expenses and losses on the network, the debt collection and rationalization of the operations - explains the Director of ESP for Economic and Financial Affairs.

- Despite the careful planning of investments of 62 billion RSD, the constant reconsideration, in accordance with the available financial funds through the optimization of the portfolio and better terms of payment, is important. It is necessary to take advantage of every commercialization opportunity, in the better hydrology conditions, greater technical efficiency and the improvement in the export-import of electricity. The question of current and future development of the EPS is, primarily, a matter of policy in electricity prices, payment rate, reduction of the losses, market adjustment and improvement of the efficiency through the implementation of the development program, their own investments, strategic partnerships, corporatization and restructuring.

One of the challenges that the EPS will face with and a step towards the full liberalization of the market is the opening of ten percent of the electricity from 1st January next year.

- We expect the opening of ten percent of the market at 110 kV from January 1st 2013 and testing our skills on the open market is a special challenge. It is up to EPS to determine the price for their customers- says Vukosavljević.

- However, this process brings many changes which should be quickly implemented. It is necessary to establish a distribution system operator and public supplier, define the model and the procedures by which the market will be opened, as well as to introduce a "spare supplier".

As for the macroeconomic assumptions, on which the Annual business program is designed, everything is done according to the data of the Serbian Government. The plan is done with the assumption that the Gross National Income is 2.5 percent, inflation 5.5 percent, with the rate according to the assessment of the banks in the market. How sensitive the plan is, according to the source, can be seen from the fact that one percent of higher inflation creates a loss of about 900 million RSD per year. Oscillations of one percent higher exchange rate increase the loss of 340 million RSD per year.

- Even a one percentage point of the payment less than the defined 96 percent is 1.7 billion RSD less per year- emphasizes Vukosavljević.

Collectable after the analysis

Uncollected receivables for electricity reach some 100 billion RSD and it seems that they do not reduce but only grow. Regarding the collection of the debts, the Director of EPS for Economic and Financial Affairs says that if 50 percent of the debts were charged, many problems would have been solved and that would have been a great success. He says that there is the analysis which will be completed by the end of the year, in which it will be exactly estimated what is payable and what is not, and then the rescheduling plan will be defined.

Search for the solution

Regarding the solution of the accumulated debts of many state institutions and companies and possible years' claims "offset", Vukosavljević says that finding the solutions for the

reprogramming of certain obligations of the EPS, based on public revenues, is in the process. Agreement with the state is necessary for the solution of the state companies' debts, many of which are in the restructuring.

Source Serbia Energy/Kwh magazine