

Serbia: EPS - corruption, price change due to market price or just luck

Categories : [News Serbia Energy](#)

Date : December 23, 2016

During past 2 days, Serbian media and state officials (including Prime Minister) were overwhelming public with most recent EPS issue, related to allegedly electricity price manipulation for customers on open market: accusations on corruption scandals, data manipulation and information leakage, —inside jobs and tender fixing||....However, internal control is yet to present its findings and official announcements do not give many details. So far, the only relevant official information is that the supply price approved by the board of EPS Snabdevanje (supply division) was later increased -allegedly for favoring undisclosed 3rd parties. But, there are many 3rd parties on electricity supply market.

According to the statements from EPS and state officials, the findings of internal control revealed that several individuals in EPS' electricity supply division - EPS Snabdevanje (EPS Supply) have increased approved the index for electricity price calculation for large and state customers by adding two more numbers at the end of the fractional part of the defined price. According to official statement, this made EPS uncompetitive in —tender procedures|| - thus EPS lost some of its clients and profit...on already liberalized market. The investigation within EPS started when internal control noticed that - according to EPS - some 300 large customers decided to select another supplier.

Several local media also mentioned Croatian Proenergy, as party involved in corruption scandal. Yet remains unclear how Proenergy could be linked with this issue, since neither the state nor EPS official mentioned this company as a party involved in the scandal. Aside from state-owned HEP, Proenergy is one of the largest suppliers on Croatian electricity market, ability to sell on wholesale market and with experience in supplying on the free market - Proenergy has denied its involvement in this issue.

Back to the EPS statement: Chairman of the Supervisory Board of EPS, Mr. Branko Kovacevic told the press that he believes that such conduct should be sanctioned and noted that 99.9 % of the employees in EPS are doing their job professionally and are not involved in this matter. He said that the fraud had nothing to do with EPS as a company, and only few individuals that will be sanctioned are involved, adding that the case was reported to relevant state authorities.

Kovacevic stressed that there are no official estimate how big the damage to EPS is, but, according to unofficial sources, damage is estimated to over 10 million euros. Kovacevic also noted that fifteen directors within the company have been either dismissed or transferred to another position in regard to this matter, adding that the directors were dismissed or transferred by command responsibility, which does not necessary mean that all of them actively participated in the fraud, but they are all to blame for not noticing the irregularities in time.

Electricity supply markets in early stages of opening, but in mature states as well, are known as markets with high competition where competitors are offering electricity usually below market prices in order to get clients and market their name. This is the concept still present in all East European countries, although it is well proven to be completely wrong. First point, all the offers to the consumer were probably below the wholesale market price and EPS could sell this electricity better on the wholesale market than by selling to the consumer and no direct damage was present by losing customer at the point of submission of offer.

Chairman of the Supervisory Board of Serbian state-owned power utility EPS Branko Kovacevic confirmed today that the internal control in this public enterprise has revealed that there is reasonable suspicion of corruption which caused damages to the company of over 10 million euros. However, no additional information regarding —10 million euros figure were presented to the public - wherever if it is lost sales or lost profit. Second point, it is for sure not 10 million euros loss of profit. Sales margins are rather negative in supply market so the 10 million euros is the most probably just the value of lost sales. Sales of electricity does not matter - production of electricity matters since EPS can anyhow sell all produce electricity at probably better price than to these customers while all the distribution fees would anyhow remain in EPS group.

Price calculation for the offer of electricity to the consumer consists of several main components: wholesale purchase price, grid utilization costs, imbalance costs. Grid utilization and imbalance costs are quite fixed and at the end of the day anyhow remain in EPS regardless to who supply a consumer. Wholesale price is the important component since it fluctuates all the time, even each minute wholesale price for 2017 deliveries has different value on the wholesale market what can be observed by offers and bids on broker screens. Third point, As of the second half of February 2016, wholesale prices for electricity deliveries in 2017 are constantly increasing in all the markets in Europe and in Germany increased for nearly 50%, in France even 70%, in Hungary for some 8% (due to coal prices, gas prices, nuclear power plants safety checks, etc...) . Such price increase has been quite constant, slowly moving up each day or each minute. Third point, since the Wholesale market price has been higher each minute, should not a person submitting the offer anyhow adjust the offer for the amount of Wholesale price change from the point of board approval till the time of the offer submission. If not, then offering process of EPS is not competitive and by stating that employees of EPS cannot change the price of the offer after the board approval competitors can easily estimate the offer of EPS each time and be below offer of EPS just by following the market price change and by knowing that EPS cannot follow market price change.

Fourth point, if somebody in EPS was responsible for losing customer he actually did a favor to EPS since due to price rise EPS can sell this —not sold electricity at much better prices than at any moment during this year. Eider way, EPS got lucky, earned more by not selling to the customer, learned about failures in their offering process, learned its competitive disadvantages, made money by losing customers and should be happy about this.