

Serbia: EPS Supply market positioning toward competition in liberalized market

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Regulated price favorable for buyers. Suppliers in the open market will be able to count on the customers who use electricity for heating. – It is necessary to form one operator of distributive system, instead of the current five.

The liberalization of the electricity market in Serbia could enter in the final, third phase in the middle of the year if the National Assembly of Serbia adopt the new Energy law as proposed. We have no doubts that this Law will be among the first items on the agenda of the new parliamentary convocation according to the fact that the first steps in preparation for accession to the European Union were marked by the harmonization of domestic regulations in the energy sector with the European directives and regulations. At the same time, with the change of the deadline for the further opening of the market (the current law stipulates that the liberalization of small customers and households shall begin on January 1st, 2015), the activities of the possible change in the tariff system have begun, which would further enrich the power system as a whole, but also in parts of the regulated and open market. On this occasion, we spoke to Mr. Željko Marković, Director of EPS Department for Electricity Distribution and the Company "EPS Supply".

"Electric Power Industry of Serbia" and its subsidiary companies are not required to create and develop the electricity market, but they are obliged to behave in accordance with the standards and regulated rules. What is expected of EPS in the third phase of the liberalization of the internal electricity market?

Following the principles and rules of the opening of the electricity market in the first two phases, which were conducted in 2013, and during the year EPS hasn't changed only its attitude towards the electricity consumers, building a market position towards the customers, but also its own organization and structure, thus providing the preconditions to preserve its share in the market and in terms of the legitimate competition of other retailers and potential suppliers.

The separation of the distribution from the supply was a major step in that direction. The company "EPS Supply" was founded which deals with commercial and public supply. At high voltage, where there are major consumers of electricity, EPS has actually maintained its dominant role in supplying major industrial customers. The same thing happened at medium voltage, i.e. in the rest of the market, which includes all customers except the households and small customers. However, according to the decision of the Republic of Serbia, EPS was given not only the role of public supplier, but also a reserve one. In this way EPS "Supply" has actually accepted almost all customers at medium voltage who from 1st January obtained the right to choose a supplier. I believe that the third phase of the electricity market liberalization, whenever it starts, during this year or in the beginning of the next year, will not make significant changes regarding the participation of EPS in this segment of the market.

Here we are talking about households and small customers, so called small businesses, such as craft shops and stores, with annual consumption of less than 30 thousand kilowatt-hours. All of them can continue to exercise their right to public supply, but also to choose their suppliers in the market if they want. "EPS Supply" is ready to meet them whatever they decide. Here, you must have in mind that the small customers that don't fulfill the condition of the certain consumption will have to choose the supplier, because they won't be able to stay on public supply.

It is said that a great number of those who use electricity for heating will choose the market price rather than regulated one, due to the expensive "three color tariff". Is such a calculation reasonable?

The possibility that households and small customers will be able to choose the supplier is important in view of the retail electricity market formation. This will mean that the internal market is fully liberalized. However, it cannot be expected that this liberalization step will bring lower prices for households, as it is the case in the neighboring countries. Regulated price of electricity for public supply in Serbia is not influenced by market laws, and it is lower than the price which is realized in the open markets of the neighboring countries. This relationship can be expected in the following period, although the regulated electricity prices will grow with the growth of the living standard in Serbia.

Other suppliers, except for the public one, can count on the customers from the households category that will use the electricity for heating. For this customer group in the heating season, the average price of kilowatt-hour reaches and even exceeds the amount of the market. Thus, for example, with the consumption of more than two thousand kWh per month a bill amount could be more favorable by market prices than it would be in the public supply within the current tariff system.

If one distribution system operator is not constituted, customers in Vojvodina and in the territory of Belgrade will be in a better position because they will have fewer expenses for the distribution costs. In the territory of "Elektroprivreda Vojvodine" and „Elektrovojdine“ and EDB, a market game could start right after the implementation of the third phase of liberalization. However, it is a small number of customers compared to every other customer, that is not heated by electricity, and for whom the regulated price will still be better than the market one.

Is the foundation of the one distribution operator a condition for the standardization of the initial position of the customers or there are different options?

As it is known, due to the different prices for the distribution system access, which is regulated by the Energy Agency starting from different degrees of ED systems development in the distribution companies and therefore, different costs of electricity distribution, the Serbian government adopted a decree according to which this problem is temporarily overcome, but not resolved.

As a permanent solution, it is necessary to form one distribution system operator instead of current five and to level and equalize the distribution costs in this way in the entire territory of Serbia. We have been considering in EPS and the relevant ministry for a long time the possible options of the distributive system operator's function organization, and it has been proved every time that one operator is a better solution than five of them. Similar conclusions have been made in Slovenia and Croatia, which liberalized their markets, and both of those countries chose to have one distribution system operator owned by the state. In short, if we do not have one distribution system operator, it may happen that the amount of distribution costs in the liberalized electricity market blurs any discussion on supply and

prices of electricity.

The change of the tariff system, which will be valid for public supply, was announced. Can it be expected that the differences between the prices of kWh in the existing three zones will be mitigated?

Energy Agency of RS is responsible for the change of the tariff system and within the Agency there is a committee that occupies with this issue. Agency is also opened for all propositions, so the committee was formed within EPS which should consider all disadvantages of the current tariff system and suggest any possible corrections.

Will other suppliers will be able to offer a single price in the open market regardless the kWh consumption period?

The tariff system exists to protect the power system from the impact of high consumption, i.e. to ensure consumption uniformity over 24 hours. The public supplier is obliged to apply a tariff system in the public supply. All other market participants have no obligation to apply a tariff system which is necessary for a public supply and can make their tariff packages in order to get closer to the customers and adjust their offers to their needs. This also applies to "EPS Supply", so that our active participation in the market competition regarding new tariff packages within commercial supply can be expected with certainty. After the completion of the introduction of the origin guarantee, "EPS Supply" will come out with the packages within which the energy from the renewable sources will be offered.

Since "EPS Supply" performs the activities within the public and commercial supply, should the appropriate organizational changes be expected in this company with the open market expansion?

Of course, the relevant ministry has announced that the structure of "EPS Supply" will be reviewed and redefined in the following period, having in mind that this company currently has a function of both commercial and public supply.

Cheaper is not profitable

If we exclude households that use electricity for heating, nothing will change significantly for all other citizens after the implementation of the third phase of the market liberalization. This is because at the moment we can not expect any supplier to offer a price below the one determined by public supply. According to current market prices, it is not economically profitable - says Mr. Markovic.