

Serbia exclusive: Gas market analysis, End of the Srbijagas monopoly in gas supply

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According to the Energy Law, the opening of the electricity and gas market in Serbia began on January 1st, 2013th. Pursuant to the Law provisions, large consumers connected to the electricity and gas transport network had to look for suppliers in the market. Thus, it was open 9.5 percent of the electricity market, which includes 27 large industrial customers, as well as 40 percent of the gas market. This means that 60 final gas customers had to seek a licensed supplier in the open market. One of the expected effects of the market opening, in addition to increased competition, also is the efficient collection of receivables.

As planned, 82 percent of the gas market should be open in 2015th. In fact, from January 1st, 2015th, only households and small gas customers will be eligible for public supply, and at the same time they acquire the right to freely choose their suppliers on the market. Customers who are not eligible for public supply, buying gas from a licensed supplier. During the opening of the market, a buyer who is not eligible for public supply and has no current supply contract, is entitled to reserve supply for a period of 60 days, at a price that is, as a rule, higher than the market. During this period, the buyer is obliged to find a new supplier.

When the opening of the gas market was announced, in Srbijagas explained that even earlier existed qualified buyers of natural gas, which had supplied by unregulated prices, higher than regulated. Privacy of regulated low prices motivates the customers to get back to these prices, and some were even reselling gas in the region. In this company assessed the Law on Energy as one of the most liberal in Europe, even more liberal than the Law in some countries that already had the open market. Srbijagas informed their eligible customers that their right to a public water supply was ended, as well about the price and conditions under which they could be supplied in the future. A draft contract for future supply of large customers has been posted on the Srbijagas website.

The next step in the gas market liberalization came in September 2013th, when, in addition to the prices of petroleum products, also the gas prices were adjusted to the market. To remind you, the prices of petroleum products for the last five years were formed on the open market, depending on the movement of crude oil prices and the dollar on the world market. Since September last year also the gas price was determined by the market. The price determined by supplier realistically reflects the cost of the natural gas market and covers all the costs of its procurement both from import and domestic sources. This means that the price can decrease, but also increase, depending on market trends. Through social map, or the adoption of the Regulation on energy-protected consumer, incentives to pay bills for electricity, gas and district heating are provided to the poorest citizens.

There are 33 licensed public gas suppliers in Serbia, and they purchase gas from Srbijagas, which a state chose in the tender as their supplier. Under the terms of the tender, the

wholesale gas price will continue to change when there is a change of import prices and quantities of domestic gas and it will be also adjusted to the dollar exchange rate. Gas prices are different in public suppliers, because of the different costs of distribution systems, or network fees. The Energy Agency issued the licenses for gas suppliers, which currently there are 26, and for the public gas suppliers.

The expansion of the pipeline network in Serbia

Srbijagas has invested 300 MEUR in gasification in the past five years. However, because of expensive gas and the high connector cost, which ranges from 600 to as much as 1,500 EUR, the number of new connections is far below expectations. The cause of the large and economically unjustified range of gas connection prices is that no one directly approves determined costs, because there is no legal basis for this. In a situation where even many households that have connections do not use gas for heating, since the other fuels are cheaper, the gasification process will continue as planned. General Director Dusan Bajatovic explains that "the reason why the demand for gas is relatively low today does not mean that the gas will not pay off tomorrow."

The gasification process in the country was in the spotlight of the public for alleged non-transparent funds allocation for the pipeline construction. Since 2008th Srbijagas has accepted to finance the gas pipeline construction, hiring private companies as contractors. These companies formally proclaim themselves as strategic partners, but do not bear any risk, that their earnings do not depend on the number of implemented parts. According to this model, tripartite contracts between Srbijagas, municipality that is gasified and contractors are signed.

In the past few years, Srbijagas has contracted work with private firms on the gas system worth 240 MEUR. Multimillion jobs are often contracted without a tender and Srbijagas paid 20 percent higher price for the construction of certain pipeline than it was anticipated by official plans. In addition, Srbijagas financed these activities from the loan, by which the company's debt, which exceeded the astronomical sum of one billion EUR, was further increased.

The example of Pozarevac is the best illustration of this model. In 2006th the city entered into an agreement with the company Gas Invest under which this private company itself financed the pipeline construction. It is planned to start the job when the market be insured, or when at least 60 percent of households subscribe for connection. Due to low interest, gasification did not move and in 2012th was signed a new tripartite agreement between Srbijagas, Gas Invest and Pozarevac, according to which Srbijagas funded job regardless of the stakeholders number.

Similar problem also has existed in Krusevac. Although the decision on gasification was adopted in 2006th, and somewhat later the first gas station was officially put into operation, only some of the village received the opportunity to connect to the pipeline. The former company responsible for the gasification of Krusevac, "Tehnoenergetika" was transformed into the company "Racine Energogas" in 2010th and in 2012th was adopted decision on strategic partnership for the city gasification. The contract value is 31 MEUR.

That a tender could provide favorable conditions for the pipeline construction, said the lone example of the municipality of Kula. The municipal government has rejected the proposal of Srbijagas to enter into a strategic partnership agreement with the company, which offered a price of 2.1 MEUR. A tender was conducted subsequently and selected contractor who do the same job for 1.6 MEUR, namely for the half-million cheaper.

Since the gasification of some municipalities in Serbia is carried out with minor or major problems, the deadlines breaking for the job is not rare. So the city government in Pancevo decided to extend the deadline for the gasification completion by 2015th and the authorities expressed concern that there could be a breakthrough of the newly appointed deadline. This means that the project will be delayed at least two years from the original plan. As the cause of the delay are cited unresolved property relations and the slow issuance of the necessary permits.

Construction of the gas pipeline network in Kragujevac and Fiat has come under the public scrutiny, but also the state auditor. After the bankruptcy of the company "Partner Engineering", which was responsible for the gasification of Kragujevac, in 2012th the job took Srbijagas in order to fulfill their obligations under international agreements. Although Srbijagas had the Government approval for the speedy completion of the Fiat project, the state auditor raised objection that in this case was rather applied the summary procedure than to go into an open procedure.

Gasification of village Rekovac is another controversial topic discussed in the local media. The village which has no city water, no sewage system, and the population has halved, will get gas in the next few years. The first gas station should be built by the end of the year. Network through Rekovac is 200 kilometers long and the works value is 1.2 MEUR, which assessed by some media, is failed investment.

On the other hand, most households in Vojvodina, about 200,000 use gas, as well as a large number of industrial facilities. Vojvodina is one of the most developed regions in the Balkans when it comes to expanding the network of gas pipelines. Construction of the network has begun more than 15 years ago, so that today it is not covered only a small part of the province.

Undoubted importance of the gasification process of municipalities and cities in Serbia should not be an excuse that economic reasoning falls in the last plan. The current system pipeline, with Srbijagas as the sole investor, without tender, without market insurance and the additional borrowing of the largest domestic loss is difficult to justify with the potential future profitability of huge investments.

Undoubted importance of the process of gasification of municipalities and cities in Serbia should not be an excuse to economic reasoning falls in the last plan. In a situation where the gas price rises slightly, and for the connection and related equipment, such as boilers and domestic installations is necessary to allocate at least five average wages, it is not surprisingly weak interest of potential consumers to connect to the network. In the short term, taking into account Ukraine's crisis and fears that the gas could be turned in the middle of winter, it is hard to believe that in the near future the households will massively

turn to the gas. Situation in the field, presumably, will not significantly change until the game of nerves lasts in relation to the South Stream project, which ultimately depends least on Serbia.