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Serbia is in complex foreign policy and economic conditions, but conditions have always been complex. If we go back, we also had sanctions and bombing and destruction of plants, but we have always succeeded in managing the system. EPS is the biggest technical and technological as well as financial and economic system in Serbia. We are at the top of the European list of countries when it comes to the participation of coal in electricity production, right behind Poland, where it amounts to 92 percent. For instance, it amounts to only four percent in France. Thermal power plants in Serbia using lignite are among the highest ranked in Europe in terms of the coefficient of utilization, which is unusual, since we are not too good technologically. This state is forced, because our energy potentials for electricity generation have been operating with the existing installed capacity for more than 20 years, and electricity consumption increases every year, the systems in Europe which operate with lower levels of utilization and in a much more relaxed manner, which is also important for maintenance.

In our region, the period of intensive construction of energy capacities was during the '70s and the '80s of the twentieth century, when, in the former state, new plants with 2.300 megawatts of installed capacity were commissioned. From 1990 to 2000, we had a period of exhaustion of operating capacities, because the electrical power sector operated in an isolated system and we were exploiting without investing much into revitalization, whereas, during the first decade of the twenty-first century, there were investments into revitalization, but no new megawatts were „opened“.

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Such low utilization level of capacities means that resources are used in a bad manner. Within the last 10 years, revitalizations have significantly increased the utilization of capacities, both in TPP Nikola Tesla and in Kostolac. Since the year 2000, the capacity has been doubled with respect to the previous period, without building new plants, which means that we have been exploiting blocks with maximum power over a maximum period. The production curve has been in constant increase in thermal power plants, and in 2012, we

even reached a peak of 30 million kilowatt-hours produced.

Strategic objectives of EPS are to provide the security of electricity supply for the domestic market and to develop the electricity market.

For this, we need to reconstruct thermal power plants, to build new coal-powered capacities, to build hydro-power plants, gas power plants and to build the transmission and distribution network, with the import dependence of 33.5 percent in 2010, Serbia does not stand out from the surroundings, but that our big problem is that we are late with the construction of capacities. The construction of new capacities also depends on what portion of electricity price is allocated for investments.

We cannot invest from our own funds, and without investments, with the operation of 24 hours a day, seven days a week, we can hardly even maintain the capacities, let alone repair them. The average age of energy capacities in Serbia is 24 years. There are also demands that EPS should protect the environment, which causes big financial commitments. Surely, this is in the interest of both EPS and the state and its citizens, but it should also be known that, today, the biggest funds are used for improving environmental conditions and this must be taken into account when talking about the price of electricity. It is true that there is some space for internal savings, fixed costs are high, inefficient business operations probably exist, however, when it comes to production, it is difficult to work with old capacities.

Making the 350-megawatt unit of the thermal power plant Kostolac B3 is the first new capacity built in Serbia since 1991, this unit is being built on the basis of the intergovernmental agreement with China. The intergovernmental agreement on revitalization has been concluded with China, and now it is entering the second phase which is the erection of a 350-megawatt unit for which commercial contracts have already been signed with the Chinese partner. This unit will be supplied with lignite from the mine Drmno. Therefore, coal production in Drmno will also be increased to 12 million tons, so that it could satisfy the needs of the new plant.

Kostolac has a west field which is being explored and the estimates say that there are more than 400 million tons of solid lignite. Above it, there are large reserves of gravelly material which also has commercial application. This is a resource on which a high-power block, of more than 700 megawatts, can be built. In addition, this site has a favourable location between two rivers and there are no big cities in the vicinity, i.e. there are no infrastructural obstacles for construction. All of this takes place in the situation where it is uncertain when the two big flooded mines in MB Kolubara will be put into operation. Without them, EPS has 30.000 tons of coal less on daily basis, i.e. the lack of coal amounts to around 15 percent on annual basis.

Li Xie Qang, the branch office director of the Chinese company CMEC (China Machinery Engineering Corporation), which is the partner of EPS for the construction of the third block

in the TPP Kostolac B, stresses that coal should be the primary energy source in Serbia, whereas water, gas and other should be secondary sources. He supports this with data, primarily that 85 percent of electricity is produced from coal.

„If, by any chance, you lost these sources, complete electric power structure would collapse. CMEC will help Serbia to provide a high level of energy security “, said the representative of the Chinese company.

Although coal is considered the dirtiest energy source, Qang points to the data that less than 10 milligrams of CO<sub>2</sub> per cubic meter, less than 150 milligrams of sulphur-oxide per cubic meter and less than 200 milligrams of sodium-oxide per cubic meter are emitted during electricity production from coal in Serbia, which is within the European standards. Such emission of carbon-dioxide is even equal to the emission during the exploitation of natural gas.

On the other hand, says Qang, the low price of electricity has affected the financial capacities of EPS and their possibility to restore plants. The price in Serbia [was] much lower than within the surroundings, the representative of CMEC concluded.

With respect to the complaint that intergovernmental agreements are to our detriment, that they are not transparent and that domestic industry does not participate in these projects, as well as that the country's non-renewable resources are given to foreigners, Jovanović stressed that the commercial contracts with the Chinese party were public, feasibility studies had undergone public debates, and that the new block was financed from the loan guaranteed by the Serbian Government, so it would remain in the ownership of EPS, therefore there was no giving of resources. However, the fact that this project happened through an intergovernmental agreement means that there was no tender to which other bidders could apply.