

The quantity of the lacking electricity is very questionable issue, because the possibility of the MB Kolubara's mines regarding the lignite delivery is still unknown. Mining Basin Kolubara produces more than 50% of Serbian coal which is supplied to thermal power plants which produce more than 50% of Serbian electricity. Importance of this interdependency is crucial for energy system stability. The Serbian government (see the box with answers) does not know how much the shortage of electricity will be in the winter. World bank representatives recently said that the damage on the mining equipment and open pit mines is disastrous, so "we will have to import the electricity until the end of March next year". Informal information from EPS and trading circles says that EPS spent already 200MEUR and expecting to spent 300MEUR more on electricity imports.

When asked what to expect this winter, official response from EPS was: "We still perceive all the measures that can be taken so that the consequences of flooding can have less impact on the stability of electricity supply and management of EPS".

From such poorly statement little can be seen, therefore, Aleksandar Obradović, the General Director of Electric Power Industry of Serbia (EPS) has sent a reassuring message to the public: "For a while, we have been working secretly, but, since our plan was adopted, I can talk more freely. The main point of my plan is that there will be no power cuts this winter." On this occasion, Zorana Mihajlović, the Government representative, says: "I sincerely hope that the assumption given by EPS will be accurate and that early next year we will have the solved problem. However, there are some other assumptions that say that we will need a little more time to do so".

The other assumptions include the opinion of the well-informed insider from the electric power business circles, who claims: "Due to lack of coal caused by the floods and flooding of the open pit mines in MBKoubara, the largest part of the Thermal Power Plant in Obrenovac will not operate for a year, perhaps even longer, depending on the organization of the water pumping, announcing of the tender for the pumping, removal of sludge and cleaning of the machinery. So, at least a year from now- as there will be no Obrenovac. In EPS, they say that TPPNT operates now, but that is theoretically, that is puttering.

There is a reason why all the eyes are set on the Mining Basin "Kolubara" - 70 percent of the electricity in Serbia is obtained from coal, out of which the Mining basin provides a half. At the moment, MB Kolubara is still "drowning" under the water which flooded the mines at the time of the catastrophic May flooding. Quietly and away from the public eye, the battle of the miners and mechanics continuous in order to enable the large and expensive ECS (excavator-conveyor-spreader) systems, to get to the layers of lignite and, as soon as possible, to enable MBKolubara to produce daily 90,000 tons of coal. In June, immediately after the floods, the open pit mines "Field B" and "Field D", which had not been flooded as much, were enabled, but their capacities are not large. Thus, in late June, the conditions were created for MBKolubara to daily excavate 45,000 tons of lignite. Nevertheless, the

problem were the open pit mines (smaller) “Veliki Crljeni” and especially the bigger “Tamnava-West Field”, which, until the flooding, was the backbone of the coal production and the operational key for the Thermal Power Plant in Obrenovac (in 2013, at the Tamnava’s mines, over 19 million tons of coal was excavated, or two thirds of the total annual production of the open pit mines). At the open pit mine “Tamnava-West Field”, ten bucket wheel excavators were flooded; six of them are completely under the water and that is why, the Director of MB Kolubara, Mr. Milorad Grčić claimed that the pumping of the water from that mine is the crucial operation for the survival of MB Kolubara and EPS. All Serbian companies (but some foreign companies as well) came, with the pumps for water, to help MB Kolubara, but their capacity was far too small - initially, barely enough to drop the water level by 14 centimeters daily. Pumping water out from the open pit mine “Veliki Crljeni” is still in progress and the water level is significantly dropped, which made the director Grčić to express his expectations that the open pit mine will “be operating approximately by September 1st and from there the coal production will be provided in order to reach 70 percent of the production envisaged for 2014”.

On 9th July, Adviser in the Ministry of Energy and Mining, Mr. Ivan Janković said that “the water is being pumping out from the open pit mine “Veliki Crljeni” with the 33 pumps and that the water level has dropped under the bucket wheel excavator, so it has been expected that the production will start in the second half of August, with 20,000 tons of coal daily. Consequently, the coal production in MB Kolubara will be raised from 45,000 to about 65,000 tons or approximately 70 percent of the regular production”.

However, the largest coal mine “Tamnava-West Field” still remains the problem. Even though, on 18th and 23rd June, the director Grčić and Mr. Životije Jovanović, Deputy of Acting Director of EPS, promised that “in the next ten days, the tender will be announced in summary procedure” for pumping the water out - the excavators and coal are still under the water. The optimistic assessment of Mr. Jovanović was that “in the winter season, Serbia will have a lack of electricity production from 15 to 20 percent”, but Mr. Grčić has relativized and “cooled down” that optimism with the words: “It is unrealistic to expect that MBKolubara will welcome the winter 2014/15 completely revitalized”.

When asked when the standard procedure will be stabilized, the management of EPS responded: “Returning to the production of 90,000 tons daily is expected in the first trimester of 2015”.

The slowness in announcing the tender for pumping of water from the Tamnava’s mines has caused the unpleasant comments in public. It is believed that the delaying of the tender results in the uncertainty of coal supply for the thermal power plants in Obrenovac whose warehouse of lignite is still menacing empty. Furthermore, this means that TPPNT will not be able to produce and deliver to Serbia the sufficient amount of electricity this winter. However, EPS officially informs us that “the tender for pumping water out from Tamnava-

West Field is not delayed and the legal procedure is in progress, since EPS operates in accordance with the law. On 4th July, the Government of Serbia approved the amendments to the business plan and funds for rehabilitation from the flood damages, which was the requirement for announcing the tender for pumping of water from the open pit mine Tamnava-West.

Immediately after that, EPS asked the Public Procurement Office for the consent for the purchase on an expedited procedure. The best bid will be selected on the tender”.

Be that as it may, looking from the summer perspective, EPS will have to import the electricity for the following winter so that Serbia could avoid the restrictions.

How many electricity would have to be imported?

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Even if all the money required for the import of the lacking quantity of electricity is provide, EPS will have to face with the unpleasant issue of bandwidth of Serbian transmission network to “transport” the necessary amount of electricity in winter. “Electric highways” of this kind are designed to meet the needs of both the transit of electricity towards the traditionally deficit markets, such as Montenegro, Albania, Macedonia and Greece and domestic needs. As soon as the needs are bigger in the winter, the traffic on the transmission lines blocks and the problem arises how to deliver the purchased energy in the Hungary, Germany, and Austria to the end consumer in Serbia. For example, this is the reason for the ten-day restriction in 2012 when the schools and the industries were “cut off” from the network in the middle of winter.

Domestic system-operator of Electric Network System of Serbia (ENS) operates within and under the rules of ENTSO-E (URL), pan-European Union of system-operators. The transmission capacities for the energy flow, through the state members of ENTSO-E, are assigned, according to the established rules, to all licensed and interested participants on the market (system-operators, electric industries and traders), mainly according to the auction model. For example, transmission capacity from Hungary to Serbia could be bought at the auction of the Hungarian system-operator MAVIR or at the auction of the Serbian system-operator ENS. The capacity is physically limited- in the case of Hungarian-Serbian border, the total available amount is 700 megawatts, out of which, the 300 megawatts is already granted to the participants at the annual auctions, MAVIR and EMS, while the rest is sold at the auction on the monthly, i.e. daily basis. In case of BandH-Serbian border, the

available amount is 600 megawatts.

The problem arises when Serbia needs to import the electricity. However, since the transmission capacities are limited (the long-term capacities are mostly connected with the long-term supply contracts), the lack of electricity appears which, some people in EPS traditionally try to solve by raping the market- the “withdrawal” of the already assigned transmission capacities is wanted, mainly from the electricity traders. “Fortunately, ENS can always defend itself from such ideas, whose implementation would not only impact the normal supply of the neighboring countries, but it would certainly lead to some lawsuits for damage compensation”, says a trader who operates on the electricity market for a long time and who guesses that there should not be a problem to import the necessary amount of electricity if the winter is not harsh and if there is no damages in some of our outdated power plants. “Last year, EPS didn’t have capital repairs of the thermal power plant for the first time, so it could happen that the normal supply of the consumers is under great pressure”, estimates the interlocutor for “Novi magazin”.

One of the last press releases from EPS: “Providing the additional electricity that we will need during the winter season will depend on the quantity of electricity we produce and the speed of stabilization of coal production process in MB Kolubara, as well as on weather conditions.”

A well informed trader in the electricity market claims that at one moment EPS planned to import 600 MW of electricity (that is the strength of Block 3 and 4 in TPPNT), to be more precise 5,184,000 MWh (that is the quantity), but in the end the decision was made to buy - arrange 300 MW from some 15 trading companies: “It is realistic that EPS will need more than 300 MW. Apart from that quantity, by the end of the year, they will have to buy more - 500 MW. The guys from EPS know their job very well, they perform it skillfully and they cleverly use the benefits and advantages of their system. Even 10 days pass without EPS arranging the additional quantities apart from those that were fix bought.”

The data from the stock markets show that EPS buys electricity in two ways - from the current transactions and forward purchase (it now arranges and pays for winter deliveries). Aleksandar Obradović says that the EPS management decided to import as much electricity as it can now in order to save the coal and store it for the winter. “The electricity is the least expensive at the moment, the consumption is at the lowest level and it is logical that we import more electricity now and save the coal for winter since the import of electricity is the most expensive then. We think that is a good strategy, even though in the media they attack us saying that we are working for the benefits of importing lobby, but I haven’t succumbed to political pressures. We make logical, not demagogic decisions,” Obradović says and he exclusively reveals that EPS is now arranging the forward delivery for the winter. “However, there is a small risk that we are all aware of. If the winter turns out to be terrible and the Ukraine crisis continues, then each country is entitled to declare Vis Major, forbid the

electricity export and then all the contracts on electricity bought and paid in advance become null and void. That is why it is important to me that we save the coal and to meet the winter with as much coal as we can.”

One of the biggest electricity traders recommends that “EPS should inform the traders about its needs as soon as possible, so that the traders have more time to prepare to provide cheaper electricity. Competition is the best defense from high prices. If I as a trader, who knows what the needs of EPS are one year ahead, then each month I will save a certain quantity of megawatts so that in the end I could make the best offer for EPS. Besides, such practice of informing the electricity traders each year is applied by CEO and commercial director of Elektroprivreda RS.”

One of the key issues is: How much will the electricity import cost?

At the moment, it is difficult to answer that since we don't know how much money will be raised for damage recovery by the donors, and how much the Government will be able to provide from the budget and eventually - how much the electricity price will have to grow. EPS said from 15th May. i.e. from declaring an emergency until the beginning of July, Electric Power Industry of Serbia provided 488 million kWh of electricity in the open market, for which the amount of 20.18 million EUR was necessary.”

Few days ago, the media released Zorana Mihajlović's statement which confirmed that EPS plans to import 150 million EUR worth electricity in the period to come.

When asked about the price of that import, a well-informed trader says: „EPS will spend some 200 - 250 million EUR which it would not have spent if Obrenovac had worked in its standard regime. At the moment, they are just buying, but still not paying and they are not offering any bank guarantees. That is why they have 20 bidders instead of 50. So, the electricity has to be bought, but if they invest cleverly they will spend 200 million, and if they invest witlessly they will waste all 300 million EUR. EPS can risk and not pay for the electricity bought one month, but after that no trader will give them electricity unless they pay in advance. However, the consumers have to know now - there will be electricity if there is money.“

Aleksandar Obradović observes the situation much wider and, it appears, he uses the opportunity caused by the floods to finally introduce some order in EPS. „At this moment the increase of prices does not solve the problem in this year. The increase in price would solve only one third of the problem. The other two thirds are problematic for many years now. That is the chaotic state in distributions because we have poor collection and great losses and if we could quickly do something in that area we would get the same effect as the increase in price would have. The third problem is cutting the other costs, bad administration, everybody's doing whatever they want and how they want in EPS, there is organizational chaos. We cannot solve our inefficiency by increasing the prices.“

The Acting Director of EPS points out to one more long-term bad phenomenon which is,

eventually, connected to electricity price. „How come the winter season is such a problem for us - because EPS is the biggest heating plant in Serbia, and that is absurd. We produce 70 percent of our electricity from coal, that is raping of our environment, instead of using other sources for heating due to low electricity prices we use the electricity for heating and make huge losses turning coal into heating power. In winter, 2.5 thousand megawatts in EPS are reserved for heating only, that is more than one third of the company's capacity. If EPS had not been the biggest heating plant in Serbia, it would not have had such a big problem with Kolubara and the floods. The question is - How can we convince people, in such short period, not to use the electric heaters from October, and our people usually buy the least expensive heaters which waste the most energy? The price is the only tool which would help us to reduce the motivation for wasting the energy for heating and to be more energy efficient. Not even Jennifer Lopez inviting the people from billboards not to use electricity for heating could help us. So, the media have to some extent raise the attention on the story about electricity price increase being the magic stick which solves all the problems. We will not solve them until we run corporatization,“ says Obradović.

When asked why the corporatization had not been done when the Government had made a decision on 16th November 2012 about the reorganizing of EPS, Obradović says:

„That was not performed at all, the founding acts have not been implemented. If that had been done, we would have had at least one problem solved. And now, we are entering the winter without one single problem solved.“

Minister of Energy Aleksandar Antic statements on complete situation

What is the assessment of Ministry of Energy, will we really have, and under which conditions, the electricity shortage in the winter to come?

„In accordance with the Energy Law, the Ministry of Mining and Energy is doing all the essential activities and performing all the necessary measures in order to prevent the electricity shortage in the following period, and all that in order to provide the stable and secure electricity supply for all the end users.“

What is the Ministry doing in order to enable the national capacities?

„The Ministry has taken a series of activities which include the cooperation with national and international institutions in order to remove the consequences of this disaster as soon as possible and to put the production capacities again in service of production system. I would like to mention that during the emergency the Ministry took a series of activities for solving the current problems. The situation now is conditioned by cooperation with relevant faculties in order to find the best scientific solution for the problem, all that in association with the employees in public companies.“

Do you plan to arrange the greater quantities of imported energy than you did in the previous years?

„I think that the answer to this question is within the business decision of EPS, and that the

obvious imbalances in energy balance will certainly cause the need for the procurement of energy, but I would like to stress that the priority is putting the production capacities back in function as soon as possible.“