

# The electric power industry, our legacy to future generations, Prof. Milenko Dželetović, PhD, on current challenges faced by EPS

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EPS is of critical importance to the country's economic development given that more than 60% percent of generated electricity is consumed by households. This implies that once the industry and economy recover, we will certainly experience problems with electricity supply.

The growth in energy consumption and lack of investments in the energy and mining sector for over 20 years on the one hand, and a systemic corruption on the other, plunged Serbia into economic and energy crisis. This is one of the reasons why I advocate, from the standpoint of economics but also of politics, that energy and mining system should be transformed from a neglected sector into a viable sector that would meet the needs of future generations. In the interview for our magazine, Milenko Dželetović, an associate professor at the Educons University in Sremska Kamenica and a vice-rector for Finance affairs, used these words to describe a current position of the "Electric Power Industry of Serbia", the most valuable public enterprise in our country.

**In the past year, the electric power system of Serbia has shown an outstanding vitality. In spite of extremely low temperature, it managed to maintain record-breaking production levels for weeks. During the last summer's unprecedented draught and low inflows, it also managed to meet all large demands of consumers. These facts demonstrate that we lack new production facilities. How to respond to these challenges?**

Everyone has to be aware of the fact that Serbia doesn't have enough energy and energy resources. Energy consumption is growing at an average rate of 1.6% per year. Since we

don't produce enough energy from our own resources, we highly depend on imports, which currently account for 40% of total energy needs. To be perfectly honest – Serbia is wasting energy. Serbia stands at the bottom in the EU ranking on energy use per unit of GDP, while it stands among leaders in energy consumption per capita. Today, the Serbian energy sector is a bottleneck of the development not only of our country, but also of the entire region. Perhaps someone may not be happy to hear this, but in my opinion, it has been dominated by corruption. EPS has become a hindrance to the country's development. More than 60% percent of generated electricity is consumed by households. What does it mean? We will certainly experience problems with energy supply as soon as the economy and industry recover.

### **Could this situation have been prevented?**

Of course, it must have been prevented. We still cannot find out where ended roughly 20 billion euros (grants, soft and commercial loans, own assets...) that entered the energy sector since 2001 up to the present day. Electricity price has increased by 628%, gas price for more than 450% and price of petroleum products by 520%. The revenue that has been lost because we haven't constructed any new energy facility, especially a power plant, is estimated at 1.5 billion euros per year. Serbia annually allocates on average 3 billion euros for imports of energy and energy products or an amount which equals, for instance, the investment value of at least 3 power plants or 15% of the country's total debt.

### **Where do you see another “bottleneck” of EPS?**

The mining sector, once considered a propulsive sector, now puts a brake on the development of the energy power industry, because we haven't opened a single mining field in the last ten years. Therefore, if we don't react promptly enough, Serbia would have to import coal needed for operation of its thermo power plants, thereby further burdening the budget for at least one billion euros. Public enterprises, which some time ago served as a model for the European companies, have become the cradles of corruption, and their economic and energy efficiency indicators have dropped in value.

### **According to your opinion, where is a possible way out of this gloomy situation?**

The goal of the new Government is to enable the Serbian energy and mining sector to become a strong, reliable and distinctive partner of national and international companies. Since Serbia is short of energy resources, with the largest domestic deposits of coal available in Kolubara and Kostolac basins, it should consume this natural resource in more rational manner. Construction of new facilities will be possible only in compliance with EU standards and use of the so-called “clean coal technology”. I don't see any reason why we should not start the process of regulating and resolving the energy-economic relationships in Kosovo and Metohija, taking into account the fact that the largest deposits of coal in Europe are located there as well as that the value of EPS' plants in Kosmet is estimated at 3 billion euros.

First, it is necessary to build several power plants. Besides, due to the geostrategic position of Serbia, its main competitive advantage, the country could become a transit corridor for oil,

petroleum products, gas, liquid petroleum gas and electricity as well as energy storage. In this way, we will be able to provide enough energy to fulfill both domestic and regional demand. This should be set as the primary goal of our long-term energy strategy.

**Do you think that the state should be the principal holder of these processes, or it is also possible to envisage a particular privatization model or strategic partnership with some of the most powerful European energy companies?**

To be honest, without going into details on the ownership, I advocate, in the first place, the change in the company's management practice, and later the increase in its efficiency. I also advocate raising the value of EPS as well as of the other companies in this sector, but not through their privatization. It is realistic to expect that the value of EPS could rise up to 10 billion euros in a relatively short period, for instance, in four years.

**How can it be achieved?**

I think that it is necessary to open new mining fields and to construct new electric power facilities on the one hand, and on the other, to eliminate corruption from business activities, to reduce costs by 20%, to bring distribution losses into line with the European average, to establish new organizational schemes in accordance with the Energy Law, to increase labor productivity per unit of generated kWh, as well as to improve safety at work by implementing new technology.

**The fact that EPS is a state-owned enterprise is considered an almost unforgivable sin. Why is there so much animosity towards the state property and how is it possible that the state itself is ashamed that its own company is profitable and able to provide some extra funds for further investments?**

I don't think that the ownership of electric power industry is a key factor of its success. On the contrary, there are a large number of world examples where the state has proved to be a good owner. In my belief, EPS certainly should not be sold because of its strategic importance. We especially should not sell the majority stake. The current state of the energy sector is a result of decades-long wrong policies regarding energy. The electric power industry as a strategic industry has to become a driving force for development, rather than lagging behind the economy and society as a whole.

**Electric power industry and mining industry (open cast mines) constitute an inseparable whole, but according to a new conception of government and ministries, they have been separated and fallen under competences of two ministries. What would be the most suitable organizational set-up for these two areas? Truth to be told, this issue usually should not be of a paramount importance, but in the situation where the economic and market rules are not established, it certainly gains relevance. What do you think about that?**

I agree with this assessment. The market rules are definitely important, but if they are not established by the state or are changed frequently, we actually can get an impression that it is particularly important whether one or two ministries have competence over a public

enterprise such as EPS.

### **Why does it happen?**

The problem is that the tasks and responsibilities are highly personalized in our society. I don't see any reason why the prospects or development projections of EPS should be associated with the name of a particular minister or with the company's top management. These areas have to depend solely on strategic objectives and development programs, regardless of managers' attachment to some political party or political background of CEO. Although EPS is a strategic enterprise and in many respects is equal to other public enterprises, I can see no reasonable grounds for the proposals that seek to regulate its business operations by some special rules. Favoring EPS would not be fair to others. Finally, while projecting the future of EPS, it is sufficient to look at the way of functioning of some successful energy companies such as CEZ and RWE. They are, more or less, state-owned enterprises, but they create great profits to their owners. That's why I opt for the idea that EPS should be gradually released from its social obligation, i.e. from unselectively providing low-cost energy supply to all social classes of the population. As socially responsible state, we cannot ignore the fact that there are citizens who are not able to pay a full economic price of kWh. However, the reality seems to be even more difficult because they can't even afford to pay a current price which is, unless I'm mistaken, 4.8 euro cents per kWh. According to some projections, not only because of investments, but also as a consequence of electricity market liberalization, prices will have to rise at least up to a regional average level.

**Large debts to EPS have also resulted from the wrong government policies of debtor protection and preferential consumers (including the embassies of some countries, theaters, heating plants and other municipal customers, shelters and other institutions for socially disadvantaged groups, etc.), which have protected a very diverse concentration of debtors from electricity cutoff. How can the state protect EPS from them and help the company to collect a permanent monthly consumers' debt which constantly accounts for approximately 100 billion dinars?**

The state, as I previously said, cannot completely renounce its social function, but that doesn't mean that we should maintain a bargain price of kWh. By conducting such a pricing policy, we subsidize the categories which consume electricity lavishly, warming sports halls and swimming pools, not the vulnerable categories. The new Government should as soon as possible start making some kind of social maps, or at least complete the records of households which are unable to pay their electricity bills. This, of course, should not be applicable to the level of consumption of a few thousand kilowatt-hours. An acceptable social minimum must be determined. I am sure that EPS would be able to give up a small percentage of its output when all categories that don't belong to an inferior social status start paying electricity at an economic price which also accounts for investment and development costs.

Personally, I would not oppose to the pricing policy that would exclude all social components from energy price because the very aim of EPS is to produce and sell as much electricity as possible and enable the realization of the strategic energy plans, but I am afraid that our

society is not ready yet to face the challenges posed by the inherited poverty.

As to the “protection” of EPS from bad debtors, I think that a solution to that problem lies somewhere in the triangle which consists of government, wrong policy and legislation. Finally, there are also elements of systemic corruption and abuse of authority. Who has the authority to allow some embassies or owners of villas and palaces in Dedinje to avoid paying their electricity bills for years? To conclude, there must be something wrong with us and our tendency to avoid implementation of what has been agreed.

### **Between the lines:**

We should not sell EPS

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*Source Kwh*