

The undisputed dominance of EPS in the Serbian electricity market

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In Serbia, electricity market for households has been liberalized for almost four years, while for the high and medium voltage consumers it was liberalized from 2013 and 2014, respectively. However, Elektroprivreda Srbije, EPS, still covers its most significant part. EPS practically holds a monopoly, as it supplies about 98 percent of the total market. In addition, when it comes to household supply, this largest public company in Serbia covers almost the entire supply.

Although the legal framework for electricity market opening has been prepared, it takes time for other suppliers to strengthen their market position.

In addition, it should be borne in mind that the regulated supply price in Serbia is below economically justified, which means it is far below the price other suppliers could offer.

In Serbia, suppliers who buy electricity from the neighbouring countries are currently operating and thus supply domestic consumers, which is why they are in a rather undesirable position. It is hard to expect that in such circumstances they can seriously compete with EPS.

According to the list of participants on the Serbian electricity exchange, SEEPEX, 19 traders participate in the day-ahead market transactions. Founding members are Slovenian GEN-I and Interenergo, Energy Financing Team, JP Elektroprivreda Srbije, Alpiq Energy SE, Croatian HEP, MVM Partner Serbia, German Branch Statkraft, Statkraft Markets and Elektromreža Srbije, EMS.

SEEPEX members are Slovenian Holding Slovenske elektrarne and Petrol Ljubljana, ERS (Elektroprivreda Republike Srpske), Danish Centrica Energy Trading A/S, Danish Commodities A/S and Energi Danmark A/S, Bulgarian Energy Supply, Oil Industry of Serbia, NIS, British Freepoint Commodities Europe LLP and AB ENERGO Belgrade.

As expected, SEEPEX liquidity is limited due to the EPS monopoly and lack independent producers, with the exception of NIS, generating some 5% of the total volume of electricity on the market. Consequently, the volume of transactions is lagging behind the leading regional exchanges - HUPX, OPCOM, and even BSP.

This means that for traders/suppliers in Serbia, as a rule, it is expensive and risky to participate in the local exchange. The SEEPEX turnover mainly serves to balance the local portfolio and the day-ahead transactions between electricity traders. Currently the most developed market in Serbia is a bilateral market.

According to the official data of the Energy Agency, AERS, there are 66 electricity supply

companies, and 50 wholesale supply companies. This number varies from year to year, but not all suppliers are active.

Thus, according to the regulator's data, at the end of 2017 there were 60 active suppliers in Serbia (of which 106 had a license at the time). Out of this, only 12 suppliers were supplying end-customers. The function of the guaranteed and last-resort supplier was taken over by EPS.

When looking at supplier activities in 2016, the volume of transactions amounted to 14,179 GWh. 12,474 GWh was sold on the free market, whereas the trade between the suppliers amounted to 5,190 GWh. 3,578 GWh was exported, with 2,170 GWh imported. Since it was SEEPEX's first year of operation, the volume of sales/purchases reached only 533 GWh, or 527 GWh.

Total production of the same year was 36.8 TWh, gross consumption 34 TWh, and final consumption 29.2 TWh.

It can be concluded that the characteristics of the Serbian electricity market are high concentrations slowly declining, with a large share of a small number of participants.

The list of companies that are considered the largest regional players present in Serbia includes EFT, GEN, Energia Gas and Power, Rudnap, Alpiq and others. EFT owned by Vuk Hamovic and the Slovenian GEN-I were present in Serbia as electricity traders for years before the market opened.

The first electricity purchase contract in the liberalized market, not including EPS, was signed in February 2013 between GEN-I and Messer, one of the largest high-voltage customers, with a share of around 3.5% in total deliveries.

According to the 2017 data, the second largest and, consequently, the leading private supplier in Serbia, was Energia Gas and Power, one of the most serious regional suppliers. During 2016, the company supplied Michelin Tigar Tires and Elektromreža Srbije in Serbia. Among the customers are Apatin Brewery, Ball Packaging Europe, Swarovski Subotica, Metro Cash & Carry, Neoplanta and the entire Nelt Group, Philip Morris, Mona Group, Strauss Adriatic, DDOR, Japan Tobacco Senta, Mozart, Aroma Markets etc.

During 2016, Energia Gas and Power delivered five times more electricity to the final consumers than the previous year, while the amount of electricity contracted for 2017 increased by an additional 40%.

In the wider region, Energia Group is present in wholesale markets as well as on electricity exchanges. Only in the region of Southeast Europe (mainly Greece, Serbia, Turkey and Albania) wholesale deliveries amounted to about 2.5 million MWh in 2016. The Group's portfolio also includes KAP (Kombinat alumunijuma Podgorica), the largest consumer in Montenegro and one of the largest in the region, with a consumption of about 550 MWh per year.

At the end of 2017, EFT announced that it would supply 12 legal entities in Serbia with less than 200 meters.

The company explains that the main reason for the fact that EPS controls as much as 98 percent of the commercial customers market is aggressive price approach of this company towards domestic customers.

This means that EPS is determined to keep its dominance in such a way that it offers low electricity prices regardless of the fact that this brings lower profit. With Serbia's EU accession getting closer, EPS will be obliged to finally separate the generation and supply, thus creating conditions for a more competitive market. This does not mean that the price of electricity would decrease or increase for the end customers, rather that they would always get the most competitive market prices, EFT notes.

In November 2017, the news that Kraljevo and Valjevo would purchase electricity for public lighting and traffic lights from Croatia received great media coverage. The city of Kraljevo, according to the media, signed a contract with the Hrvatska Elektroprivreda, HEP, in August 2017 on the supply of electricity for public lighting, valued at RSD 80 million, over a period of one year.

The City Administration of Valjevo also accepted HEP's offer for supplying public lighting and traffic lights at the tender announced in April 2017. Officials from both cities explained that th HEP's offer was lower than EPS'. Hrvatska Elektroprivreda has previously announced that it already supplies one company in Serbia, Cimos.

After this news, the Minister of Energy, Aleksandar Antic, announced that the supplier in this case cannot be changed, until these two cities pay their huge debts to EPS for public lighting.

Given that suppliers can offer better conditions for large consumers, EPS dominance could precisely be most vulnerable in this segment. Also, it might be more profitable for households consuming more than 450 kilowatts a month to change their supplier.