

Total losses of Elektroprivreda Srbije (EPS) and Srbijagas during the 2021/22 heating season. they amounted to about one billion euros, and one of the measures to heal those companies is to increase the price of electricity and gas, stated the Fiscal Council, in the analysis published today Structural problems of Serbian energy in the light of the global crisis: causes, costs and possible solutions.

“One of the conditions for the recovery of EPS would be an urgent measure to increase electricity prices for households by 15-20 percent, with a similar increase for the economy,” stated the Fiscal Council.

He pointed out that the price of gas for households should increase by 65-70 percent, which at first glance seems like a big increase, but it would not be a precedent since similar prices were valid during 2013-2015. Central heating prices should increase in the range of 10-40 percent, depending on the share of gas costs in the total costs of heating plants.

“Of the losses incurred by EPS and Srbijagas so far, approximately half, about 500 million euros, has already been financed by the state budget with subsidies to Srbijagas,” the analysis stated.

The remaining EUR 500 million was paid for by EPS, mostly by taking loans for liquidity. The question is, however, whether this debt of EPS will also fall on the taxpayers at some point, because the current operations of EPS are unsustainable.

New big losses of EPS and Srbijagas could be made next winter as well, if there is no quick and strong turnaround in the business of those companies.

These losses in that case would probably be only slightly lower than one billion euros and could not continue indefinitely, because at some point they would become an unsustainable burden, not only for the companies themselves, but also for the entire public finances.

What currently represents an additional danger for Serbia, according to that analysis, is that the stable supply of electricity and gas in the next heating season will once again depend on the available infrastructure and energy sources from abroad, which are not guaranteed.

“All this could and had to be avoided by better management of public companies in previous years. The current way of running EPS (and EDS) must no longer be tolerated,” stated the Fiscal Council.

Major errors in the management of EPS and Srbijagas came to fruition, as stated, during the world energy crisis, which was the trigger that exposed the domestic crisis of state-owned energy companies, which had been simmering for a long time.

According to the assessment of the Fiscal Council, these two global and especially domestic crises have led to the fact that from the fall of 2021, the main problem of Serbia has become the question of how to finance and ensure the proper supply of electricity and gas to the country.

“EPS can no longer produce enough electricity for domestic needs because it did not invest

in its coal mines in time, so now it has to import a shortage of both coal and electricity, at record high prices. Unlike EPS, which should be the backbone of the domestic economy and to not only cover domestic consumption with its own production but also to export, Srbijagas is systematically dependent on imports,” stated the Fiscal Council.

It is added that the big failure of Srbijagas is that it has not yet built a gas storage facility with sufficient capacity, which was supposed to be completed a long time ago.

That storage would enable, as the analysis showed, a stable supply of the country during the winter, when consumption is the highest due to heating. Due to the lack of storage capacity, and partly due to poor management of the existing warehouse in Banatski Dvor, heating gas had to be largely imported on the market during the previous winter, at extremely high prices.

EPS production, as stated, has been declining for many years and is now significantly lower than domestic consumption, and losses and thefts on the distribution network are huge, over 12 percent, which is twice as much as comparable countries of Central and Eastern Europe (CEE).

The business of EPS and EDS is burdened, as it was pointed out, by the surplus and poor qualification structure of employees, too high salaries for jobs with general qualifications, dubious public procurement processes, too low price of electricity for households, below production costs, high environmental pollution, delay in energy transition and numerous other problems.

“EPS operates under strong political influence, it is used as a source of financial resources to cover numerous failures of the domestic economic policy, and its social role is extended to include social goals, both in terms of low electricity prices and in terms of employment,” stated the Fiscal Council. .

It is added that EPS has been covering the losses of the City Transport Company, Jumko and other unsuccessful companies for many years.

state enterprises, tolerating non-payment of obligations and implicitly finances non-privatized enterprises that previously separated from the system, Pro Tent, Kolubara services and others.

An increase in electricity prices of 15-20 percent for buildings is, according to the Fiscal Council’s assessment, a necessary, but by no means sufficient, condition for the recovery of EPS, which would not only stop the current financial “bleeding” of the company, but is also economically justified, since the current the price for households is not at an economically appropriate level, and it also encourages irrational consumption, that council assessed.

He stated that even with such an increase, the price of electricity for households in Serbia would remain among the lowest in Europe, along with Georgia and Ukraine. “The increase in prices alone, however, is not nearly enough to heal the EPS, but should temporarily freeze the mass of wages, increase the control of public procurement, as well as start

numerous other reforms that will be completed in the medium term”, assessed the Fiscal Council.

As the analysis showed, there is certainly room for internal improvements in the operations of Srbijagas, and their implementation must be insisted upon, along with the construction of the necessary warehouse.

“However, on balance, these improvements are far less than the cost of gas procurement. The price of gas for the economy would have to increase by about 75 percent, as much as it jumped in other CEE countries in the second half of 2021, while the price in Serbia remained practically frozen”, stated the Fiscal Council.

It is added that due to such an increase in the price of gas in the region, maintaining a low price for domestic companies, especially in the exchangeable sector, is economically unjustified and means that all taxpayers are subsidizing extra-profit companies that have significantly lower energy costs than their competitors.

According to the analysis, approval of temporary state aid in accordance with European practice should be considered only for individual companies from energy-intensive activities, which produce for the domestic market.

It is necessary, as stated, to reform and multiply the coverage of the energy protected customer program.

“Serbia needs a fundamental change in the policy of forming energy prices for households (gas, electricity and central heating) and instead of all consumers having low, non-market energy prices as before, the state should financially protect only the socially vulnerable, and the rest would have to pay the market price of the energy they consume, in proportion to their consumption,” the Fiscal Council assessed.

A prerequisite for the implementation of such a large and important turn in the domestic economic policy is the reform of the existing program of the energy protected customer, and the main weakness of the existing program is its low coverage.

Although, as stated, there are more than 250,000 energy vulnerable households in Serbia, only 68,000 households receive state aid. The increase in coverage could, as proposed by the Fiscal Council, be achieved by including the costs of central heating in the program, by introducing the principle of automatic aid allocation, instead of based on the initiative of the citizens and local governments themselves, and by possibly easing the criteria for granting aid.

“The fiscal cost of increasing the coverage of the energy protected customer program by four times, including central heating, could be increased from the current ten million euros to 50 to 80 million euros, which would be a justified measure,” stated the Fiscal Council, Beta reports.