

Serbian public power utility Elektroprivreda Srbije will have to comply with all EU environmental standards concerning its coal-fired power plants, EPS' supervisory board chairman, Branko Kovačević, PhD, tells Balkan Green Energy News. The long-serving university professor believes that EPS' electricity production will be based on coal and hydropower, as well as renewable energy sources, until 2025. Asked, however, if EPS knows where its path will take it beyond coal, the president of the Academy of Engineering Sciences of Serbia says the question is difficult.

EPS would have enough money for investments in network modernization, digitalization, and renewables, as well as human resources, if it did not have to transfer up to 70% of its profits to the state coffers, he says, also noting that EPS faces a shortage of thousands of production employees due to the ban on fresh hiring in the public sector.

In the interview with Balkan Green Energy News, Kovačević also discussed what is hampering the transformation of EPS' legal status to a joint-stock company, why a new tendering procedure is being prepared for the smart metering project, and why political party staff are generally not good managers.

Is coal vs. renewables a dilemma?

EPS' electricity generation is about 70% from coal and around 30% from hydropower, which is a renewable energy source. We have started developing other forms of renewables - the plans include the Kostolac wind farm - but as renewable energy is generally not as cost-effective as classic sources such as coal and hydropower, state subsidies are in place. The feed-in tariff is a thing of the past in Europe, as renewable energy production has developed significantly, fostering competition in the sector. Serbia has only just started developing production from renewables, and the feed-in tariff is needed to attract investors.

Does EPS intend to increase investments in renewables?

Yes. We are also interested in public-private partnerships, for example for tapping into geothermal energy. Serbia has a strong geothermal potential, especially in the south, in the Kuršumljija area, and in Vojvodina in the north. Russian and Chinese companies have been interested in cooperating with EPS on such projects.

Have there been concrete agreements on the matter?

No. The problem is that investment in geothermal energy is somewhat more capital intensive in the beginning, but this is green energy and maintenance is not costly. EPS is now concentrating on what it already has, which is coal and hydropower, but the company has to meet environmental protection standards.

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make it uncompetitive.

Will EPS be able to do it?

It will have to. The investment need is great. Nowadays, newly constructed coal-fired power plants come with built-in environmental protection technology. But our technology is some 40 years old. The modernization of such technology can be more expensive than the construction of new power plants. The dilemma now is whether to shut down or modernize the old plants. I would always opt for shutdown - perhaps that is more expensive at the outset, but will pay off in terms of energy conversion efficiency. New power plants have an energy conversion efficiency of over 40%, while the ratio for EPS' top performing plants is around 30%. Some of EPS' existing plants will be modernized, while some fairly old ones will be closed and replaced with new power generation facilities. The new Kostolac B3 power plant unit will meet all environmental protection standards.

Has that been agreed?

It will have to meet them, or it will either face closure or a decrease of production to the extent that will make it uncompetitive. The Chinese company building it has state-of-the-art technology complying with all standards.

It seems, though, that the vision of what EPS will do beyond coal does not exist at the moment. And the future beyond coal is not that far when it comes to the energy sector. That is a difficult question. The main sources are coal, hydropower, and nuclear power, which is not popular now, but is a technology that keeps developing. Serbia has enough coal for about 50 years.

Will Serbia be able to use it given the standards it will have to meet?

Yes. It is not economically viable to give it up. The power generation of Poland, for example, is completely based on coal.

However, the EU standards, which Serbia will have to meet, are such that they don't spell a bright future for coal.

These standards concern climate change - EPS is working on this in cooperation with the Energy Community.

Are we thinking about what comes after coal?

Coal, alongside hydropower, will certainly remain until 2025. There is a strong hydropower potential in the Morava, Ibar, and Drina rivers and small hydropower plants. EPS needs another pumped-storage hydropower plant, and two such projects are envisaged - Bistrica and Đerdap 3. It would be cheaper to build Bistrica, as Đerdap is subject to international treaties with Romania.

What has been done so far concerning Bistrica?

Preliminary design plans have been produced... This capacity is important because EPS has to secure power transmission for all electricity producers and traders in Serbia. The transmission network has to be modernized in order to reduce both technical and non-technical losses. The investment need is great, and everything is expensive in the energy sector. However, EPS is operating well and has satisfactory profits. If we resolved the issue of transmission losses, the savings would be worth hundreds of millions of euros.

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The need to reduce transmission losses has been discussed for years, and yet not much has been achieved. What seems to be the problem?

The technology is old and needs to be modernized, with the introduction of smart meters, network digitalization, and new materials.

What is preventing EPS from investing more in network modernization and digitalization, something that is the future of the business?

EPS has started investing. The replacement of meters was launched a few years ago, but unfortunately, the tendering procedure was aborted over certain lawsuits, investigations... The process has been unblocked, but a lot of time has passed, and we need to launch a new tendering procedure, as technology has advanced in the meantime.

There is going to be a new tendering procedure?

Yes. I would prefer domestic companies to get the job, even if only as members of a consortium with a foreign company. Such tendering procedures are unfavorable for domestic firms as terms depend on creditors, which insist on entrusting such projects to major companies with large revenues and installation numbers, and the Serbian market is small...

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EPS can't change this?

It can, but negotiations would be needed. Serbia is in talks with the International Monetary Fund and the World Bank. They are now present at EPS. The company's reform is being implemented in cooperation with the two institutions.

So, EPS has money for investments?

It can invest from own sources, as well as repay loans, provided a fair division of profits with the owner.

Why isn't it investing then?

It is investing, though insufficiently. The consent of the owner, the Serbian government, is

required. We share the profit with the owner, which has the right to take 50%-70% and has unfortunately exercised that right. EPS has served for tackling social welfare issues and bolstering the state budget.

Then there is no money?

Not if it is taken away. They should leave more money for EPS to be able to invest.

How long will EPS be seen as a tool for resolving social welfare issues?

This is not a new state of affairs - it has been so for 70 years now! Prices of electricity and bread have been averting social unrest for 70 years now. Every single government has resorted to that solution. For its part, the West goes between criticizing such policy and turning a blind eye to it. EPS is now competing on the market for large commercial buyers and has a share of more than 90%. But this segment refers to only about 10,000 buyers, whereas the guaranteed electricity supply tariff refers to over three million households and small firms. There is pressure to liberalize that segment as well, and EPS would have nothing against it. However, the low price is set by the Serbian government, due to the low living standards, the country's small GDP, and the fact that Serbia is one of the poorest countries in Europe. The Serbian government should not implement the social welfare policy through companies competing on the market, but should rather have special funds for such purposes.

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It will then all depend on whether the state will decide to let EPS use its profits for development and investments?

The problem is not in that the state is the owner, the problem is in that the state is not a good enough employer. It should not manage, but should rather have professional management in place - ensuring qualified people are doing the job at hand. The problem with EPS is different. The previous general manager was appointed through a public vacancy procedure, but was later dismissed by the owner, the Serbian government, which then named acting general manager, who has served beyond the envisaged term. Even though the public vacancy procedure has twice been launched within the legal deadline, it has not been concluded, which is not good for EPS or its acting general manager.

Lex specialis needed to form a joint-stock company

The deadline to transform into a joint-stock company expired in July 2016?

The problem with forming a joint-stock company is in that it requires an asset inventory, to be followed by assessment. Serbia currently has laws that are in collision. For example, Kostolac is home to both the Viminacium archaeological site and EPS' facilities, which

means that part of the competencies are with the Ministry of Culture. The state should cut this Gordian knot, which has existed for decades, including through a *lex specialis*. Once it transforms into a joint-stock company, EPS will be able to manage its money and assets. Do you think EPS' position with the state will improve once it becomes a joint-stock company?

It certainly will. The general manager will be selected through a public vacancy procedure, which will be the first step toward introducing professional management. This means that expertise will be above politics, which is very important for a successful transformation of EPS into a joint-stock company. The new deadline is July 2019. This is why the IMF has stayed and is assisting EPS alongside the World Bank.

The decree banning new employment has debilitated us. The workforce shortage in production is measured in thousands

Apart from money, human resources are also important for EPS' future. We are witnessing a human capital flight from Serbia. What is EPS doing to attract human capital?

The decree banning new employment has debilitated us. We can't even ensure simple reproduction - when an employee retires, a new one cannot be hired. We are experiencing a workforce shortage, especially in production, including university and high school degree holders. The company is losing middle-aged staff, which is supposed to mentor younger generations. The workforce shortage in production is measured in thousands. If it were allowed, EPS could hire about 2,000 people with technical degrees now. That would also be a good measure against a drain of young people. The age structure at EPS is not satisfactory.

Does this pose a threat to the future of EPS?

It does. As a public company, we are required to observe salary ceilings. The company is not allowed to freely distribute what it earns. Therefore, the question is whether EPS can compete in such circumstances. Around 30,000 people work at EPS, who, together with their family members, represent more than 100,000 people whose livelihoods depend on the company. The number is even greater when we consider as many, or more, employees at small and medium-sized enterprises that are EPS' suppliers. EPS is the most significant company in Serbia - the country's entire economy, but also success in stopping a drain of young people and meeting EU membership requirements, depend on the company.

Taking all the problems into account, is it possible that Serbia will have to shut down its coal-fired power plants and remain without domestic electricity generation?

No. Shutdown is not economically viable for countries using coal as a basic source of energy. The idea of plant shutdowns is promoted by Western politicians and can represent



Serbia; All of EPS' coal-fired power plants will have to meet EU environmental protection standards

an attempt to eliminate competition on the market.

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