

Industry

Distribution of Natural Gas in Serbia

Overview

Serbia's state-owned gas company Javno Preduzece Srbijagas (JP Srbijagas) is the leader in the domestic natural gas distribution sector. The company is engaged in the transportation, distribution and storage of natural gas. JP Srbijagas is the national transmission system operator (TSO) and distribution system operator (DSO), and is also involved in the maintenance of Serbia's national gas system.

The natural gas distribution network of Serbia comprises natural gas mains, telecommunications and information systems, and equipment to provide pressure of at least 6.0 bars. It totals 10,500 km of pipelines.

In line with Serbia's Energy Law, the entities, active in natural gas distribution, committed to maintain and develop the distribution system under a five-year plan, approved by the Energy Agency of the Republic of Serbia (AERS), and according to the needs of the customers. The gas distributors are also involved in activities related to the management of the distribution network and the retail of natural gas.

History & Geography

JP Srbijagas was established in October 2005 in Novi Sad, northern Serbia. It incorporated two units for natural gas transportation and distribution, NIS-Gas and NIS-Energogas, following the split of state-owned petroleum company NIS - Naftna Indusrija Srbije sa Potpunom Odgovornoscju (PO) under Decision No.5 023-4378/2005-1 of July 7, 2007.

Most of the natural gas companies are headquartered in towns in northern Serbia, including Novi Sad, Subotica, Vrbas, Sombor, Ruma, Sremska Mitrovica, Zrenjanin, Becej and Novi Becej.

Major Developments

Regulation

Regulated Third Party Access to distribution networks envisaged in the Energy Law will be possible with the adoption of certain secondary legislation, including pricing methodologies, tariff systems and grid codes, in 2008.

In 2008 AERS adopted a decision which granted all non-household customers the right to obtain eligibility regardless of their annual consumption. In addition, households with annual gas consumption exceeding 50 million cu m can become eligible customers. Thus, the domestic market opening reached 88%.

In line with the Energy Law, AERS determined the minimum annual consumption of natural gas, required for eligibility. The initial eligibility threshold introduced by the Energy Law was 50 million cu m per year, which resulted in 50% market opening.

In May 2008 AERS adopted new methodology for the calculation of costs for connection to the transportation and distribution system for natural gas.

In 2007 Serbia's Ministry of Mining and Energy adopted the Energy Strategy for the development of the sectors. According to the strategy, Serbia's natural gas segment encompassed the activities of JP Srbijagas, local company Yugorosgaz AD, in Belgrade, the capital of Serbia, controlled by Russian state-owned gas company OAO Gazprom, as well as 27 small gas companies.

AERS adopted Tariff System for Natural Gas Distribution System Access and Utilisation on December 2006. The system introduced tariff elements and rates for the calculation of natural gas distribution prices, and determined the categorisation of customers.

The Tariff System established two categories of customers:

- Category 1 depends on the purpose of the facility and is valid for customers of gas distribution networks with pressure of up to 6.0 bars. That category differentiates between household customers and other users, which are legal or natural entities other from households;
- Category 2 depends on both the purpose of the facility and the annual consumption and is valid for customers of gas distribution networks with pressure higher than 6.0 bars but lower than 16 bars. AERS distinguishes between uniform consumption users, who are customers whose consumption in the period from October to April stands below 70% of the total gas deliveries for a year; and uneven consumption users - customers whose consumption in the period from October to April is not less than 70% of the total gas deliveries for a year.

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In 2004 the Serbian Government established Energy Agency of the Republic of Serbia to supervise and regulate the activities in the energy sector. The Agency's main activities include:

- Approval of tariffs for captive customers of electricity and natural gas (including the tariffs for accessing the national transmission and distribution systems and storage facilities);
- Issue of licences in the energy sector;
- Calculation of power and natural gas prices;
- Adoption of rules, regarding the operation of the electricity and natural gas grids, the local energy market and the gas storage facilities.

Companies

In line with EU Directive 2003/55/EC, JP Srbijagas has to restructure its activities and unbundle its transportation operations from the distribution activities.

JP Srbijagas holds seven 10-year licences, issued by the Serbian Energy Agency (AERS), for activities in the natural gas segment:

- for natural gas transportation, issued on October 31, 2006;
- for natural gas transportation system operations, issued on October 31, 2006;
- for natural gas distribution, issued on October 31, 2006;
- for natural gas distribution system operations, issued on October 31, 2006;
- for natural gas trade on the free market, issued on August 18, 2006;
- for natural gas trade and retail for captive customers, both issued on August 18, 2006.

Other

In November 2006 the EU drew up the Gas Action Plan for Serbia in line with Directive 2003/55/EC, concerning common rules for the internal natural gas market. The chapter on distribution of natural gas highlighted the future unbundling of the DSO and the adoption of technical rules.

By September 2008 AERS had granted a total of 102 licences to local companies, operating in the natural gas sector.

Leading Companies

Companies, active on Serbia's gas distribution market:

Natural Gas Distribution in 2007		
	Company	Net Sales Revenue (RSD mln)
1	Yugorosgaz AD (Belgrade, Serbia)	32 868,03
2	DP Novi Sad-Gas (Novi Sad, Serbia)	2250,05
3	DP Drugi – Oktobar (Vrsac, Serbia)	1 514,03
4	DP Grejanje (Zrenjanin, Serbia)	1089,40
5	Interklima DOO (Vrjacka Banja, Serbia)	745,25
6	Gas – Feromont AD (Stara Pazova, Serbia)	657,50
7	JKP Suboticagas (Subotica, Serbia)	633,06
8	JP Ingas (Indjija, Serbia)	494,52
9	JP Vrbas – Gas (Vrbas, Serbia)	405,07
10	Stankom Gas DOO (Belgrade, Serbia)	361,30
11	JP Gas-Ruma (Ruma, Serbia)	360,30
12	JP Srem-Gas (Sremska Mitrovica, Serbia)	313,01
13	Sombor – Gas DOO (Sombor, Serbia)	271,23
14	JP Kovin-Gas (Kovin, Serbia)	254,73
15	JP Gas (Temerin, Serbia)	221,40
16	Boss Petrol DOO (Trstenik, Serbia)	157,85
17	Rodgas AD (Backa Topola, Serbia)	148,21
18	JKP Graditelj (Srbobran, Serbia)	141,82
19	JKP Standard (Ada, Serbia)	132,45
20	DP Polet (Plandiste, Serbia)	127,90
21	JP Komunalac (Novi Becej, Serbia)	127,40
22	JKP Ekos (Zitiste, Serbia)	103,61
23	JKP 7.Oktobar (Novi Knezevac, Serbia)	93,38
24	JP Gas (Becej, Serbia)	88,77
25	JP Elgas (Senta, Serbia)	84,93
26	LP-Gas DOO (Belgrade, Serbia) - in insolvency proceedings	72,50
27	JP Coka (Coka, Serbia)	56,10
28	Resava-Gas DOO (Svilajnac, Serbia)	11,00

Source:Serbian Business Registers Agency (SBRA)

JP Srbijagas' Net Sales Revenue	
Year	RSD bln
2007	50,08
2006	47,10
2005	20,78

Source:JP Srbijagas

2007		
	Company	Share on Local Retail Market (%)
1	JP Srbijagas	84,0
2	DP Novi Sad – Gas	4,0
3	Other 27 gas companies	12,0

Source: AERS

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Employment

Number of Employees in the Industry

Year	2007	2006	2005
Electricity, gas and hot water supply	27 826	26 163	28 250
Electricity Sector	45 000	43 676	45 554
Industry Total	1 432 851	1 471 750	1 546 471

Source: Statistical Office of the Republic of Serbia

Net Salaries in the Industry (RSD)

Month	Aug 2008	June 2008	May 2008	April 2008	Mar 2008	Feb 2008	Jan 2008
Electricity, gas and hot water supply	49 082	47 657	47 343	45 875	44 297	46 131	46 549
Electricity Sector	41 838	40 776	40 188	39 805	38 354	39 696	39 202
Country Average	33 131	32 648	32 147	32 562	30 809	30 982	28 230

Source: Statistical Office of the Republic of Serbia

Year	2007	2006	2005
Electricity, gas and hot water supply	48 701	38 240	24 369
Electricity Sector	41 097	34 321	N/A
Industry Average	34 471	28 267	17 443

Source: Statistical Office of the Republic of Serbia

Workforce of the Three Largest Distribution Companies in 2007

Company	Number of Employees
JP Srbijagas	1 022
Yugorosgaz AD	31
DP Novi Sad-Gas	80

Source: SBRA

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Supply/Market

Production

The activities of Serbia's natural gas sector cover:

- gas production: NIS-Naftagas, the gas production arm of oil company Naftna Industrija Srbije AD, in Novi Sad;
- transmission system operator (TSO) and distribution system operator (DSO): state-owned company JP Srbijagas is the TSO and DSO of Serbia; Yugorosgaz AD is active in natural gas transmission and distribution as well;
- wholesale of natural gas on the regulated market: JP Srbijagas is the sole wholesaler of natural gas on the Serbian regulated market; it imports the quantities needed and supplies all the captive customers in Serbia;
- retail of gas for captive customers: there are 29 local distributors and retailers of natural gas in Serbia;
- trade of gas on the free market: 11 traders of natural gas on the local free market.

Natural Gas Production Forecast (billion cu m)

Year	Volume
2010	0,32
2014	0,40
Source: Ministry of Mining and Energy of Republic of Serbia	

Natural Gas Production (billion cu m)

Year	Quantity
2008*	0,23
2007	0,25
2006	0,26
2005	0,29
2004	0,31
2003	N/A
2002	0,27
Source: Ministry of Mining and Energy of Republic of Serbia	

*(Editor's note: The 2008 figure is forecast.)

Import

Regarding Serbia's insufficient production of natural gas, JP Serbiagas imports mainly Russian gas. In 2007 the country imported some 2.13 billion cu m of gas from the Russian Federation and another 35 million cu m of natural gas from Hungary.

Imports of Russian Natural Gas (billion cu m)

Year	Quantity
2008*	2,38
2007	2,14
2006	2,17
2005	2,27
2004	2,20
Source: Ministry of Mining and Energy of Republic of Serbia	

*(Editor's note: The 2008 figure is forecast.)

During heating season 2007/2008 Serbia imported some 20 million cu m of natural gas from Hungary.

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In December 2007 JP Srbijagas signed an agreement with Hungarian oil and gas group MOL Magyar Olaj- es Gazipari NyRt for the supply of 500,000 cu m of gas, flat on the year, in the period December 2007 to March 2008. The supplies could be doubled in case of lower temperatures.

In May 2006 JP Srbijagas and MOL signed a contract for the delivery of natural gas to Serbia until December 31, 2017. Under the contract the Hungarian company committed to supply an average 10 million cu m of natural gas per day in the winter period and 6.2 million cu m of gas in the summer.

Demand

Consumption

KPMG's CEE Gas Outlook 2008 projects the Serbian gas demand at 5.01 billion cu m by 2020, with an average annual increase of 5.4%.

AERS expects the domestic gas consumption at 3.1 billion cu m by 2010, up 32% compared to Serbia's gas consumption of 2.35 billion cu m in 2007.

National Gas Consumption Forecast (billion cu m)

Year	Volume
2010	3,10
2014	3,40
Source: Ministry of Mining and Energy of Republic of Serbia	

National Gas Consumption (billion cu m)

Year	Quantity
2008*	2,61
2007	2,40
2006	2,46
2005	2,56
2004	2,45
Source: Ministry of Mining and Energy of Republic of Serbia	

*(Editor's note: The 2008 figure is forecast.)

National Gas Consumption in 2007 (million cu m)

Category	Volume
Households	251
Commercial Customers	192
Industrial Customers	1 338
Power Generation	88
District Heating Systems	469
Injection in UGS	15
Total	2 353
Source: AERS	

Share of Natural Gas in the Structure of Energy Consumption (%)

Year	Share
2008*	11,0
2007	12,6
2006	14,0
2005	18,8
Source: Ministry of Mining and Energy of Republic of Serbia	

*(Editor's note: The 2008 figure is forecast.)

Domestic production of natural gas covered less than 10% of the demand in 2006.

The report of KPMG estimated the country's annual consumption at 2.4 billion cu m of gas in 2006, which ranked Serbia 9th among 16 countries from central and eastern Europe (CEE). A total of 180,000 households and 1,000 industrial customers were connected to the national distribution system of Serbia in 2006.

In 2005 local consumption totalled 2.5 billion cu m of gas, supplied to 155,000 household and 1,000 industrial customers.

Distribution Prices

The distribution companies contract the gas supply to the captive customers at regulated prices and to eligible customers at non-regulated prices.

Main clients

The major natural gas consumers in Serbia:

- industrial clients
- households
- producers of electricity and thermal energy

Investments

The volume of Foreign Direct Investment (FDI) in Serbia decreased by 50% on the year to USD 2.19 bln in 2007. The countries with the largest share in Serbia's FDI in 2007 were Austria with 53% of the overall FDI, Greece with 15%, Luxembourg with an 11% share, Montenegro with 9.0% and Italy with a share of 6.8%.

In 2007 FDI in Serbia's electricity, gas and hot water supply sector totalled USD 1.31 bln, up 32% on the year.

Volume of FDI (USD bln)

Year	2007	2006	2005
Electricity, gas and hot water supply	1,31	0,99	N/A
Country Total	2,19	4,38	1,55
Source: National Bank of Serbia (NBS)			

Estimated Investment in Underground Gas Storage Banatski Dvor (USD mln)

Purpose	Amount
Equipment and works	65
Cushion gas	63
Total	128
Source: Ministry of Mining and Energy of Republic of Serbia	

Investment in the Extension of the National Gas Distribution Network (EUR bln)

Route	Length (km)	Amount	2008	2010	2012
1	43	11,48	4,00	4,75	2,73
2	158	42,92	14,00	14,88	14,04
3	91	21,14	4,01	10,00	7,13
4	215	41,75	9,50	17,70	14,55
5	127	22,22	5,40	10,00	6,82
6	160	21,78	6,00	8,44	7,34
7	146	16,71	5,00	6,10	5,61
8	217	21,08	6,00	8,20	6,88
Total	1 157	199,08	54,00	79,98	65,10

Following the scheduled extension works, the installed capacity of the Serbian gas distribution system will reach 6.8 billion cu m of gas per year from the previous 6.1 billion cu m.

In line with the Energy Strategy of Serbia, the country will spend some EUR 140 mln by 2012 on the installation of polyethylene pipes and construction of gas metering regulation stations of the types G-4 and G-25. The project will be financed under the National Investment Plan and from JP Srbijagas' own resources.

Company Investments
JP Srbijagas

JP Srbijagas' investment strategy until 2010 includes the installation of high-pressure pipelines and extension of the distribution network. The company planned to spend some EUR 81.8 mln on the installation of 470 km of high-pressure pipelines in northern Serbia, and to allocate another EUR 143.8 mln for the installation of 752 km of high-pressure pipelines in southern Serbia. The expansion of its distribution network would require EUR 500 mln, most of which would be spent on obtaining steel pipelines and measurement stations.

The company's strategic investment projects comprise:

- completion of Banatski Dvor underground gas storage;
- extension of Nis-Dimitrovgrad pipeline to Kosovo and Montenegro, which will enable imports of Russian gas of up to 1.8 billion cu m per year;
- overall rehabilitation of the national transportation system, estimated at EUR 30 mln;
- implementation of Serbia's National Gasification Plan, which will connect 74 districts to the national distribution system.

The company will receive over EUR 50 mln to carry out gas distribution projects under the Energy Development Strategy and the National Gasification Plan of the Republic of Serbia.

The first stage of the UGS, to cover 11.4 km and worth RSD 220 mln, will be financed from Srbijagas' own resources.

In March 2008 JP Srbijagas contracted with the Council of Kragujevac the construction of a 26-km gas network, encompassing 20 local districts. The project was estimated at a total RSD 50 mln, provided by the local authorities and from the company's own resources.

JP Srbijagas provided financial support for the design of a high pressure gas pipeline, extending 123 km from Nis, southeastern Serbia, to Vranje, southern Serbia, in 2007.

In June 2006 the company announced plans to launch the construction of a EUR 47.8 mln pipeline by end-2007. The pipeline, extending 108 km from Bulgaria to Serbia's southern regions and Montenegro, would serve as an alternative route for the Russian gas to Serbia.

DP Novi Sad – Gas

DP Novi Sad – Gas planned to install a 5.0 km pipeline in the vicinity of the Petrovaradin fortress. The construction works, launched in November 2003, were estimated at CSD 6.0 mln.

Associated industries & factors

Serbia's natural gas reserves in 2006 totalled 48.1 billion cu m, according to KPMG's CEE Gas Outlook 2008.

Production of Natural Gas

NIS-Naftagas is engaged in the domestic production of gas from 110 wells. According to the Serbian Energy Balance, the domestic production of gas declined an annual basis in the last five years. Yet, the Ministry of Mining and Energy of Republic of Serbia forecasts an increase of local production to 400 million cu m of gas per year by 2014.

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Transmission of Natural Gas

JP Srbijagas performs the functions of transmission system operator (TSO) of Serbia. In 2007 the volume of natural gas transit to Bosnia stood at some 320 million cu m.

Underground Storage

The sole underground gas storage (UGS) in Serbia, located in Banatski Dvor, northeastern Serbia, is owned by JP Srbijagas. The company expects to inject some 100 million cu m of natural gas in Banatski Dvor reservoir before the beginning of heating season 2008-2009.

JP Srbijagas will obtain licences for natural gas storage and for gas storage operations when Banatski Dvor underground gas storage (UGS) starts operation at full throttle.

Forecasts

According to the Energy Strategy of the Republic of Serbia for the period 2007-2012, the priorities in the natural gas distribution segment include:

- modernisation of the national gas pipeline network;
- development of new gas deposits;
- extension of the domestic distribution network and connection of new customers.

Positive trends:

- alignment to the EU legislation

- introduction of threshold consumption for different categories of customers, which leads to greater market opening

- adoption of national strategy for investment and development of the distribution network

- presence of a large number of companies in the distribution segment as a prerequisite for increasing competition and improving the management of the distribution system

- functioning of an underground gas storage, which will secure domestic supply

Drawbacks:

- dominant position of the state-owned company

- ineffective market opening – despite the market opening of 88%, only one customer has acquired eligibility status

- strong dependence on gas supplies from the Russian Federation

- underdeveloped distribution network in southern Serbia

- underground gas storage still not fully operational

- outdated distribution system

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