

Bosnia exclusive: Financial risk analysis of TPPs Tuzla and TPP Banovici, construction costs are volatile and may increase

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If the construction costs for the Unit 7 of TPP Tuzla rise up to 50 MEUR or more in the further process of negotiation, which is a very likely scenario, the project would be economically unsustainable. The same will happen if it turns out that the proposed prices of coal or electricity used in the calculation of the Electric Power Industry are wrong. Chinese bidders are selected for TPP Tuzla and TPP Banovici new units, but financial costs risk analysis shows that not all aspects are taken into consideration.

The deputies of the Parliament House of Representatives of BiH Federation have voted at 32nd sessions and with a slim majority adopted conclusions on Information about activities in the selection of strategic partners for the financing and construction of TPP "Banovici", of Unit 1-300 MW, Information on the choice of project partners for joint investment in the construction of Unit 7-450 MW in TPP "Tuzla", and the Interim Guidelines of the Federation power policy.

Also, the House of Representatives has given its consent to the proposed election of a consortium China Gezhouba Group Co Ltd. CGGC - Leader and Guangdong Electric Power Design Institute - GEDI for the preferred bidder for the selection of project partners for a joint venture in the Unit 7 of TPP "Tuzla".

The authorities have announced that the construction of the new unit will bring new jobs, but from the Environmental Association "Ekotim" expressed concern that this could bring new charges.

As they explain, Gezhouba consortium has offered two options, the first option is a credit arrangement known as a "Preferred Buyer's Credit", with a price of 785.7 MEUR, excluding VAT, and other variants of the credit arrangement "Buyer's Credit", with the cost of 835 MEUR excluding VAT.

Tender Commission of BiH Electric Power Industry in cooperation with the Financial Consultant - U.S. company Delphos International Ltd. Washington, conducted the evaluation of the submitted financial bids for the construction of Unit 7 in TPP Tuzla. The conclusion of this evaluation is that the financial offer, which includes the Project using preferential loans to customers - PBC and the contract price of 785.7 MEUR, was generally acceptable and cost-effective for BiH Power Utility Company. Funding for the project through Loans for customers - BC with contract price of 835 MEUR, according to the parameters for the bids evaluation, it is not cost-effective and as such is not eligible for PE BiH Electric Power Industry.

Besides, he added, it was concluded that the Project would be financially viable only if the

EPC contract be financed through preferential loans for customers - PBC and EPC contract value of 785.7MEUR. In accordance with the above, it is proposed to enter the next phase of the project through finalizing negotiations with bidders related to EPC.

How did the price of TPP Sostanj Slovenia rose from 700 million to nearly billion and a half?

From "Ekotim" recall that experiences from the region indicate that things are not so simple and that the difference between 785.7 and 835MEUR, apparently look great, but in the world of construction coal thermal power plants, it is not a lot and the currently anticipated 785, 7 can easily and quickly grow to 835 MEUR or more:

"The most drastic example is a thermal power plant unit 6 in Slovenia, whose costs have increased from 700 MEUR in 2007th at the estimated final cost of 1.44 billion EUR. The fact is that the analysis presented in the document of the BiH Electric Power Industry took into account the view of the price construction of thermal power plants throughout the region to assess whether the offer of Gezhouba consortium was reasonable, but the analysis easily rejected "Sostanj" as incomparable and the enough attention is not paid to the problem essence that led to a drastic increase in the construction cost, such that a similar scenario could happen in the case of Unit7 of TPP Tuzla".

From "Ekotim" added that even projects with less dramatic price increases showed the tendency of growing by tens MEUR for development projects:

"For example, in the last three years, the predicted price of building Plomin C in Croatia amounted to 800 MEUR, but in May of this year, the price suddenly jumped to 827 MEUR and before it was elected the best bidder."

IMF and similar organizations do not support thermal power plants because they pollute

If the construction costs for the Unit 7 of TPP Tuzla rise up to 50 MEUR or more in the further process of negotiation, which is a very likely scenario, according to the analysis published on the "Ekotim" page, the project would be economically unsustainable. The same will happen if it turns out that the proposed prices of coal or electricity used in the calculation of the Electric Power Industry are wrong.

"Representatives of the BiH Electric Power Industry are obviously aware of this problem, and in its documents state that the current electricity prices in the EU are lower than expected prices for the Unit7 in TPP Tuzla from 56.75 EUR/ MWh. Moreover, the coal price from the mine "Kreka" envisaged by the project is lower than 2.4 EUR /GJ but if the actual cost is higher, "the competitiveness of existing production and construction cost of new units will be affected", writes in the document of the BiH Electric Power Industry", referring to the analysis of the deleterious effects of investment in coal:

"So, instead of coming to the same conclusion as most manufacturers in Europe - that investment in coal is very bad idea - BiH Electric Power Industry has only reaffirmed its commitment to the Unit 7 in TPP Tuzla hoping that before the Unit 7 starts its production, the electricity price will be above 56.75 EUR / MWh. Yet to recall that the global financial institutions, MMF, IFC, EBRD, KfW have a strict ban on financing construction of power plants due to pollution".

Will we be guarantors to the electric power industry?

"To ensure the planned electricity cost, the document mentions the signing long-term agreements for power purchase, which would increase the stability of the investment. However, there is a danger that such an agreement could be inconsistent with the commitments of Bosnia and Herzegovina in accordance with the Energy Community Treaty, which does not allow state aid", they warn, adding that the proposed model can result in a bad financial situation:.

"The proposed funding model as a repayment guarantee among other states and sub-sovereign guarantee of the BiH Federation Government or just the Government would be simplified guarantor to the Public Enterprise BiHElectric Power Industry, and we all know very well how pass guarantors in our system. So our government will be guarantor to the BiHElectric Power Industry, whose workers have an average monthly salary of 816 EUR (the largest in the Federation according to the Federal Bureau of Statistics, May 2014th) and the most probable is that their loans will be back with our money", they say, and conclude:

"We ended up where we started, with the proposed coal thermal power plants, which may or may not be cost-effective, unfortunately, no one knows, and with the question whether the elected representatives of the FBiH House of Representatives will realize, before it is too late, that the foundations for such a large project are too weak, or we will soon have another "Sostanj" 6?"