

Exclusive: Energy investors in Montenegro, the government to connect TPP Pljevlja and Coal mine in joint company, what does it mean for investor in new Pljevlja power gen unit and how it will affect A2A?

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The Montenegrin government, by the end of the year, would separate thermal power plant "Pljevlja" from Electric Power Industry and merge it with Pljevlja Coal Mine company.

Analysis shows the advantages of such a move in technical and organizational terms. What is the most important is that combining the TPP and the Mine is a basic requirement from the investors so that investments in the energy sector could start.

Newly formed joint venture besides the Mine and the first block of thermal power plant Pljevlja would include the planned second block, and the ownership structure would be determined after exact cost of building the second block is determined as well as other investments in opening new pits in Coal mines. According to reliable information of the a Czech company shows interest in the construction of the second block besides the Chinese. It was impossible to get the details of the Czech bid and the name of the company from the Government out of respect for the Chinese bidders who submitted the offer first.

It is certain that the Chinese are much closer "to the job of the decade in the north of Montenegro", since they already have money secured from their ten billion worth fund for investments in Europe. In addition, representatives of the China Gezhouba Group Corporation (CGGC) will visit Montenegro in mid-November, when they will clarify the technical details of the offer. From the Government it was already estimated that the Chinese offer is very good.

According to preliminary data from the Chinese offer, construction of the second block will cost somewhat less than 300 million, and the work will take at least three years. This new energy source will produce 1.3 billion kilowatt-hours (kWh), and that is how much is missing in the energy balance of Montenegro. Technically speaking, if they accept the Chinese offer, there would not be a tender for the construction of the second block instead it would be arranged in the form of an agreement between the two governments. Chinese companies abroad only operate based on state agreements, which means that both the Government and the Parliament should have a say regarding the agreement on the construction.

The Chinese did not hide that merging the TPP and the Coal Mine is more acceptable to them, justifying it by world practice. Indeed, there is a trend in the world of functional merging of the mines with the thermal capacity. Almost all coal mines in the region are part of power plants. Thus, Gacko coal mine and power plant of the same name are within one company, coal mine and TPP "Ugljevik" are a single enterprise within "Electric Power Industry of Republic Srpska". Similar situation is with the coal mine "Kolubara" which operates in unison with power plants within Electric Power Industry of Serbia.

Thus, referring to the European and international experience advantages of merging the Coal Mine and TPP in a joint venture are undeniable. This creates conditions for development and investment in new facilities, either independently or within joint ventures with foreign partners.

Technically, with merging of the mine and TPP they will get a more efficient company, which will have a lower cost of coal than the current 26 per ton, and competitive electricity prices.

In the past, coal mine and power plant had serious problems in the way of compliance of coal prices, which created pending debtor-creditor relations between EPIM and coal mine. These uncertainties were due to different billing rates of a ton of coal in financial reports of TPP Pljevlja and the coal mining company in the period from 2003 to 2004. These unresolved debtor-creditor relations burdened relations between EPIM and the mine until last year, when the situation was resolved by settlement.

Such a move would allow EPIM, since it would retain ownership of the two hydropower plants, and due to low production rates of 1.5 cents per kilowatt, to have positive business results!

Furthermore, the leaders of A2A, which is a strategic partner in EPIM, from the beginning of their arrangement in Montenegro, were not interested in developing thermal potential and were not even enthusiastic about the agreement with KAP. On the contrary, according to the recent decision of the Italian management the power supply for KAP got reduced by 50 percent because the Italians will no longer tolerate huge, long over due debts from this company.

In Western countries, there is not a single energy company that operates with losses, and that is why the Italians support the separation of production, because then they could take over the management of hydro capacity of EPIM that produce cheap energy.

This year's poor results of the Electric Power Industry show that there is really no more time

to wait. According to them the driving force of the Montenegrin economy lost 14.9 million Euros in the first nine months. Bad result is interpreted by lower cost of electricity, expensive imported energy, and low return on investment that was approved by the Energy Regulatory Agency. The Coal mine operated no better, so in the first half of the year they lost 3.45 million Euros.

That is why it is up to the Government to implement the decision on the merger as soon as possible so that much-needed investment in the energy sector of Montenegro could start realizing.

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