

Montenegro: Power utility EPCG & A2A projects HPPs Moraca & Komarnica, investors expected?

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From the aspect of foreign investment, when it comes to natural resources exploitation, BOT is the least favorable option for the host country. The situation is qualitatively different in the construction of infrastructure, which is just after the construction placed in the position of state interest. When it comes to hydro power plants, the state would have to wait 30 years and possibly longer, to be able to use them for their own purposes.

The campaign for HPP Moraca construction was led under the banner of resolving the electricity deficit in Montenegro. This is a strong argument. The logical conclusion is that HPP Moraca should be built to solve the electricity deficit. And it would be logical that Draft Concession Agreement in the preamble defines that HPP Moraca should be built to solve this problem, and in the text also should be clearly indicated that the electricity be produced for needs of Montenegro, and that, eventually, only the excess can be exported. It does not write in the draft – according to the text the concessionaire can export all electricity. Confirmation that there is intention to export electricity from HPP Moraca may be found in the analysis done by the University of the Mediterranean, from where it can be seen that “the most important effect of the power plant construction is the electricity export that would reduce the trade deficit”.

When recent events are connected, it is clear that this is a goal of HPP Moraca construction. Agreement on setting up a submarine cable between Montenegro and Italy clearly indicates from whom HPP Moraca will produce the electricity. It is well known that Italy has a problem with the EU regulations on the CO₂ emission and that has to provide a certain quota of renewable energy. Since the problem is to build a hydropower plant in Italy, it is easier to devastate the river somewhere else. Montenegro is the logical choice.

What is the problem with export from the Montenegro point? If the campaign for Moraca HPP is based on the argument that Montenegro must build HPP Moraca to solve the deficit problem, the question is – how to solve the electricity deficit by its export? Probably it is exported something which has a surplus, and not something that is in deficit. The main problem of the HPP Moraca project is that, from Montenegro aspect, it is implemented on an evil premise: to meet the needs of foreign concessionaires to import electricity from Montenegro, and not to solve the energy deficit of Montenegro.

This strategy opens up a host of problems. If the company exporting the electricity will be registered in Montenegro, but will be under the company control, in which way such export can alleviate the trade deficit Montenegro? Income from exports will equally belong to Montenegro as the beneficial ownership in the company of Montenegro really is. Furthermore, if the draft concession says that the electricity price is formed freely, it means that the electricity in Montenegro can be exported at a price significantly below market

value, because the main interest of a foreign concessionaire is not profit, but to get electricity from import at low price. This would inflict damage also to that small part in Montenegrin interests represented through EPCG. This would be directly reflected in the fee of two percent which would be paid to Montenegro on the basis of the profits from the electricity sale.

Is there a better solution? Of course. Not one, but several. A better solution is related to priorities. HPP Komarnica and HPP Moraca are at the same level of priority in the Energy Development Strategy until 2025th. The strategy provides a clear answer that the project should be given priority. In the section on HPP Komarnica says: "Project includes only uninhabited and barren areas, does not threaten industrial facilities, roads, fields and homes, a reservoir would flood the inaccessible canyon of Komarnica." And further: "EPCG could finance this project with its own funds and from commercial loans."

In the section on HPP Moraca the only mentioned is that the project implementation "submerged part of the main road to the north of Montenegro. "At the website of HPP Moraca can be found more information on how to sink estates, houses, cemeteries, a bridge, roads, threatens the Moraca monastery ... costs of expropriation and relocation / construction of infrastructure would be around 118 MEUR, and that cost should be borne in Montenegro. Regarding the methods of implementation, in the Strategy states that "it proposes BOT model".

If we compare the data for the two hydropower plants, we conclude that the situation with HPP Komarnica is much easier, and thus we do not ask questions on current issues in HPP Moraca - for example, the number of dams, their height, jeopardizing the monastery, expropriation, relocation of infrastructure... If dam is built, it will bring the electricity to Montenegro and thus it will be immediately put to resolve the energy deficit. Benefits of HPP Komarnica are so obvious, it is needless to explain that HPP Komarnica had to take priority. Both from the aspect of sustainable development and the economic aspect.

The argument of disposing of more complete documentation in the case of HPP Moraca is not conclusive. This documentation is several decades old, and since then the standards relevant to the dams' construction have changed. Anyway, EPCG has recently reported to be working on a new project involving the University of Milan. The argument for greater strength of HPP Moraca would be relevant, if Montenegro gained electricity immediately. This argument fades in light of the fact that the foreign Concessionaire used HPP Moraca for a period of 30 years.

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Of course, Montenegro would have some benefits from the construction of HPP Moraca. The question is - at what cost these benefits would be achieved? The metaphor of a bullock and a kilo of meat is too pale as a comparison.

A special problem is the way the authorities conducted the previous procedure. It was too many deficiencies for such an important project. In the first phase were not given alternatives, while some estimates, as well as those of tourism which would be developed in the area of HPP Moraca were so unrealistic that it can be classified into fairy tale, but not into serious analysis. New Draft Concession Agreement was incomplete. In the description of the concession object was said that a technical solution for hydropower plants on Moraca would be definitely known only after the selection of the concessionaire. How to discuss a project, when we do not know its basic data? The draft contains elements of the Concession Agreement, but in the form of the title and not the content of the provisions. How to discuss the contract, if we do not know its provisions? About what could be led discussion, if any technical solution was not offered, not the content of the contract? I guess it should be the subject of debate, and not the consents required for the project.

There are many arguments that bring into question the construction of HPP Moraca in the way that the Government proposes. There is only one situation in which it would be able to accept the construction of HPP Moraca: that Montenegro does it for itself, for its own purposes. The most painless option would be to postpone the construction of HPP Moraca, and that the Government turns to the construction of hydropower plant on the Komarnica. The electricity deficit needs to be addressed in a way that puts the interests of the state ahead of all other interests.