

Montenegro, special report: Energy sector and power gen investments, electricity for exports

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For the past 15 years the government has been working toward developing a suitable climate for investors from taxes to general legislation framework regarding protection of property rights and freedom of trade and movement of capital. We have 3 strong competitive advantages regarding sectors for investment: Tourism, energy and agriculture. Regarding energy we began opening this market five or six years ago in terms of free trade but it's a sector which is inherently a bit more complicated due to the required infrastructural necessities. We have partially privatized our State-owned power production company, Electric Power Company of Montenegro (EPCG), with the State having 55% and Italian firm A2A owning 43.7% of shares as well as management rights in order to harmonize our production and distribution functions for future commercialization. This privatization was at the request of the European Commission in order to increase efficiencies says Economy minister Kavaric in charge of energy sector in Serbia.

We are currently in the midst of an exciting project between another Italian firm, Terna, which is laying an undersea cable connecting Montenegro and Italy with 1,000 MW of energy. This project is valued at almost €900 million, with €800 million coming from Italy and the remainder from Montenegro. The division of the responsibilities is as follows: Terna is responsible for developing facilities on the Italian side as well as a portion of the facilities on the Montenegrin coast and of course the laying of the cable connecting the two. Montenegro is responsible for improving the grid and distribution network within our borders and speaking with neighboring countries Serbia and Bosnia to improve the extended network where the structure regarding Albania is already in place. According to our joint efforts, the proposed timetable is to have the cable in place by 2016 with the facility construction on the Montenegrin side beginning this summer with tenders currently being made for that work. Tenders on the Italian side have already been fulfilled for equipment and as well as for the construction of their facilities. They have stated to us that everything is going as scheduled. This project is of significant importance not only for short term employment but because it will open up a broad array of future investments within the sector. Our ambition is to be an energy exchange hub in the region. This initiative offers the Eastern Balkan nations an attractive new route to reach Western Europe through Italy and of course a large market for sale in Italy itself.

Aside from this, we are reaching out to investors for 3 different energy projects. The first is the Morača Hydropower Plant (HPP) capable of producing approximately 240 MW. There follows the Komarnica HPP which can realize roughly 170 MW and Maoce Thermal Power Plant in the north has about 500 MW capacity. For these projects we are interested in open dialogue with all investors based on the Design, Build, Operate, Maintain, Re-cultivate (DBOMR) model and development of a finance scheme.

Montenegro have recently closed the tender for the exploration and exploitation for oil and gas off our coast. This initial tender had a deadline of May 15th and we are proud to say that we received three bids from six companies detailed as follows:

1. Joint Venture: Marathon Oil Corporation (USA) and OMV (Austria)
2. Consortium: Eni S.p.A (Italy) and Novatek (Russia)
3. Consortium: Energean Oil & Gas (Greece) and Mediterranean Oil & Gas (Great Britain)

These companies represent operations in over 80 countries generating more than \$70 billion USD in revenue with profits totaling \$10 billion USD in 2013. We expect the procedure of evaluating bids and selecting partners to be completed by the end of 2014.

This specific tender offering was something new to us. As such, we worked to develop new legislation in order to ensure a fair and transparent tender process as dictated by our pre-accession EU mandate. This legislation is based on the industry standard for exploration and exploitation, the so-called "Norway Model". There was not a limited number of selected bidders but rather decisions based on their overall quality which allows for several operators to maximize efficiency. This type of legislation also creates a solid foundation for exact rules and parameters of shares should a discovery be made. This means negotiation is simple and straightforward leaving no room for issues regarding the government's stake and so forth.