

Montenegro: WWF Adria report - SHPPs are not sustainable without state subsidies

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The sustainability of small hydropower plants (SHPP) falls to an unacceptably low level when projections are cleared of state subsidies, namely when balances are simulated so that they are based on market prices, according to a report of WWF Adria.

Thanks to the established system of incentives for the production of electricity from renewable sources, the average cost-effectiveness of the 11 SHPPs that were analyzed is extremely high. According to the analysis, it amounts to 15.5 % and is far higher than the so-called required rate of return, which is the minimum rate at which entrepreneurs are willing to invest in the business of that level of risk, which in the case of energy is about 8 %.

In addition, if SHPP projects are analyzed only from the perspective of their operators, then the rate of return of all projects averages almost a staggering 53.5 %. This further increase in the rate of return is a result of the fact that these projects are predominantly loan-financed.

SHPP projects, which have no financial sustainability without the state help, must have some non-monetary positive external benefits, such as environmental benefits. However, the present value of environmental benefits from carbon dioxide emissions has been found to be equivalent to an annual value ranging from 192,000 to 249,000 euros per year. These benefits form the basis for justifying subsidies for electricity generation in SHPP. But, these benefits are more than four times less than the subsidies that should just offset the non-monetary benefits.

Last May, Minister of Economy Dragica Sekulic said that the Government tasked the Ministry to review all documentation issued by Montenegrin institutions related to the concessions awarded for the construction of small hydropower plants, adding that no new SHPPs will be built. She said that the amount of funds needed to cover the incentives for electricity production from renewable sources will no longer be paid by household consumers, thus decreasing their electricity bills by 1.5 to 5 %. These funds will now be collected from the largest polluters. However, in July, the Government awarded concessions for the construction of two new small hydropower plants – SHPP Stitska on the Stitska Rijeka and SHPP Umska on the Umški Potok.