

Tenders pollute the environment too , Energy Sector and Environmental Protection
Thermal Power Plant Nikola Tesla in Obrenovac will be decommissioned on 01 January, 2018. Very few believe that decommissioning of boilers and closing down of the largest Serbian electricity “factory” is possible, because without its operation the third of the customers in the country would be left in the dark. That thermal power plant is actually facing closing down, unless by that date Electric Power Industry of Serbia applies Directive no. 2010/75/EU on industrial emissions. This Directive foresees that each year – from 2018 to 2027 – limit values of emission of SO₂ and NO_x and particulate matter from flue gas of large combustion plants that use solid fuel would decrease. EPS does not have a big chance to avoid this EU Directive, and the obligations undertaken from it should be met by 31 December, 2017, since Serbia undertook them as the signatory of the Contracts of European Union and Energy Community of South East Europe. That, however, will not be an easy task for Serbia, writes

serbian weekly Novi Magazin.

According to the analysis conducted in October 2011, Serbia could only in 2023 have the economic capacity to adjust to Industrial Emission Directive. Main reason for the slow adjusting is lack of money for the installation of electrostatic precipitators in old thermal power plants and investing into new energy sources that do not pollute the environment. The explanation of Serbian politicians is usually low electricity price from which capital for investments cannot be provided. That is why World Bank, IMF and EU always suggest to the Serbian authorities to provide market electricity price in order to provide the money for new sources of clean energy.

But that is only half the reason why Serbia is late with accepting European Industrial Emission Directive. Even when it has money from the foreign loans, Serbia and EPS have not been doing anything in years regarding installation of electrostatic precipitators and protection from harmful gas emission from thermal power plants. This practice – there is money but it is not being used – has unfortunately become usual in some other infrastructure areas about which World Bank reports testify undeniably. Thermal power plant Nikola Tesla is a typical example of such state sloppiness in complying with European regulations for environmental protection.

Money for the construction of flue gas desulphurization plant for TENT A was agreed by the Serbian president Boris Tadić during his visit to Japan in 2011. One of the most favorable loans in the recent history of Serbia of about EUR 250 million is provided by JICA, Japanese International Cooperation Agency through ODA loan.

The signing of loan agreement was followed by the selection of the consultant. Pre-

competition was conducted in February 2013, and five equipment tenderers applied. Pre-competition results were announced by EPS to the tenderers in July 2013, and four out of five tenderers submitted their tenders in June 2014 and since then the technical evaluation has not been completed yet. Plan was to sign the contract with the selected equipment tenderer in February 2015 that would construct desulphurization plant in 42 months. In the meantime, nothing is happening and the entire work is at the standstill.

Well informed insider from EPS claims that that company does not want to finish tender procedure because it wants to change something in technical specification, and it is not satisfied with the received tenders.

Since in the meantime the news that Mitsubishi-Hitachi will be best placed in the tender procedure was deliberately placed, JICA does not want to retender EPS request. That led to big “fight” between Japanese Embassy -Ministry of Energy - JICA - EPS. At the moment, efforts are being made to “unstop” the entire process, and JICA is threatening to withdraw the loan and collect the full amount of damages if the retendering takes place.

“There are different lobbies at war in TENT and EPS and public must know this because European rules imposed very strict requirements and deadlines for the reduction of emission of harmful gasses. The time is running out and there is almost none left for the installation of electrostatic precipitators and we will have to close thermal power plants in order to comply with European standards related to environmental protection. We believe that it is not our problem, but that is something that awaits us in 2017. If we do not solve the issue of sulfur dioxide pollution by then, our thermal power plants will have to stop the production by 2023, and no one wants to say it publicly. EPS has a similar problem with thermal power plant Kostolac. Chinese are offering for Kostolac something they cannot build according to European standards and now they are seeking solutions across Europe. It is possible that Serbia will get thermal power plant in Kostolac that will not be allowed to operate due to strict European rules. The Chinese have had such a debacle in Turkey, when they imported coal from abroad so that the power plant they built could operate” - says well informed source from EPS.

Japanese JICA is not the partner that Serbia should be “playing” with. Especially since it is known that that agency two years ago gave EPS offer for the construction of thermal power plant Nikola Tesla B3 which is financially much more favorable than the arrangement that Serbia made with China for the new unit of thermal power plant in Kostolac. No one is talking about that JICA offer in EPS and Serbia, nor has anyone declared anything about it. There is another aspect of relation with JICA that Serbia and EPS should pay much attention to. That is the experience from the same activity in the neighboring country - Republika

Srpska, where tender procedure for desulphurization of flue gasses in thermal power plant Ugljevik is ongoing.

Experience shows that in both cases – TENT and Ugljevik – tender procedures financed by JICA are not being conducted smoothly.

Contract for the project in Ugljevik worth about EUR 100 million was signed in 2009 and the construction of the plant has not started yet even though the plan was to start with operation in 2013. The extensive documentation and a sluggish bureaucracy are not the only reasons for stalling the construction of desulphurization plant. There is another much more sophisticated reason with which the beneficiaries of the foreign loans in this region started to face.

Ugljevik is actually thermal power plant with the highest concentration of sulfur dioxide in Europe – concentration reaches 20,000 mg per cubic meter, and the project aims to reduce emissions in line with the EU Directive at 200 mg.

This goal was also an important eliminator during tender procedure because very few tenderers have reference for the construction of desulphurization plant with such an exceptionally high concentration of sulfur dioxide in flue gases. One of the key qualification criteria was that the tenderer must have at least one reference for the construction of the plant, which should clean flue gasses with a concentration of sulfur dioxide not less than 7,000 mg. Elektroprivreda Republike Srpske selected in 2010 German company Enviroserv as the consultant for the project. Then in 2013 pre-qualification started in which, since April 2014, four tenderers participate: Alstom Power Italy, Andritz Energy, Fisia Babcock Environment GmbH and Hitachi.

Tender procedure envisaged two closed envelopes – one containing technical proposal, and the other one financial. After submitting tenders, firstly technical part was opened and assessed, and price offers remained sealed. Only when the technical proposals have been clarified and evaluated and when JICA gave EPRS no-objection certificate, the financial offers were opened on 18 December. According to the rules prescribed by the JICA, the formula for evaluation of financial proposal takes into consideration two elements that are being added up: CAPEX and OPEX.

After opening financial proposals the calculation showed that GE and MHPS offered prices in the scope of EUR 78 to 79 million, and Steinmuller Babcock and Andritz offered the prices in the scope of EUR 98 to 99 million. But according to the information of the well informed sources close to this project, the tenderer with the lowest sum after adding up CAPEX and OPEX was MHPS with the minimum advantage compared to GE. It seems however that in the meantime (period for evaluation of technical proposals September –

November 2015) tenderers were asked to confirm that they have included all electrical consumers. This requirement was evidence that the consultant EPRS doubted that some of the tenderers have not included into OPEX all “process” and “off-process” consumers. The doubt was increased by the requirement for the tenderers to submit the list of consumers with detailed calculation of their electricity consumption.

What is manipulation there?

In the desulphurization plant there are process and non-process consumers. Process ones are the ones directly affecting the process of sulfur elimination. Non-process consumers are all the ones being used but which do not affect directly the process - elevators, heating ventilation, lighting... Therefore, if the lights are off desulphurization system will continue with operation. One of the tenderers definitely did not include in its OPEX all non-process consumers thus making its offer more competitive. And if upon the request of the consultant it did not prior to tender opening clarify and demonstrated that all consumers outside the process are included, then it had to correct it during evaluation.

Another room for manipulation was spotted in the tender. Among the important requirements was the one that the final price of the tenderer shall include all taxes.

Withholding tax is particularly interesting - it does not apply to the tenderers who come from the countries with which the bilateral agreement on avoiding double taxation was signed, so the employer of the project during pre-qualification period pointed out in written form that otherwise the withholding tax should be included in the price. Since one Japanese tenderer participated, it was established that Japan does not have such agreement signed with Republika Srpska, which means that such tax had to be included in the price of equipment. It remained unclear why did EPRS and Mitsubishi Hitachi, during negotiations upon completion of tender, state that “the entire job is exempted of all taxes” without submitting any document as an evidence.

As the third room for manipulation the mistake of EPRS is mentioned. Two months after publishing tender it revealed that it made oversight and that it did not include the wastewater treatment system in the project. Thus, it subsequently enters separate line in the price list. All the tenderers added this to their OPEX, apart from one - company Mitsubishi Hitachi. The representatives of that company orally explained that they included that item somewhere else in costs, even though it was explicitly requested that the tenderers state that item in the separate line in price breakdown. The tenderer who did not comply with this request from tender gained price advantage of - million euros. According to good international practice, avoiding such obligation is usually considered to be the strong reason for elimination of the tenderer from the tender procedure.

“If any tenderer used all this rooms for manipulation with OPEX it could have gained the advantage of its tender of at least three million euros compared to the competition” says the energy sector expert with the large experience in preparation and carrying out tender procedures.

There is another huge reason for doubt that the tender employer overlooked the omission of one of the tenderers. Very important requirement on the tender was the evidence - reference of the tenderer for previously built flue gas desulphurization plants, since the smoke from thermal power plant Ugljevik has huge amount of sulfur-dioxide . It is interesting, however, that the minimum for Ugljevik tender was the built plant for smoke with 7,000 milligrams of sulfur dioxide in cubic meter of flue gas. So, far below the needs of Ugljevik. General Electric has for example as its reference stated desulphurization plant which it installed in 2010 in thermal power plant Megalopolis that treats flue gas with the concentration above 16,000 milligrams of sulfur dioxide in cubic meter and whose proved efficiency is over 99 percent. And the reference of Hitachi company was the built desulphurization plant from 1998 on thermal power plant of Czech Republic ČEZ in the city Švaletiče that treats flue gas with concentration of sulfur dioxide of 7,000 milligrams in cubic meter.

“This was all room for unprincipled situations because EPRS as the employer from the beginning of the tender had a common language with one of the tenderers, and JICA as a financier tolerated that using the principle “our money - we decide what we want”. But the problem is that it is not grant aid where this principle can be applicable but a loan that will be repaid by Republika Srpska and its taxpayers. After all, it could have been a direct interstate agreement and this farce with international tender which is designed for favoring one tenderer would have been avoided. It is only a matter of time when that tenderer will get the job. The problem is that, procedurally speaking, after publishing financial proposals there is no room for any negotiations and complaints. This tender was not conducted in accordance with the Law on Public Procurement of the Republika Srpska and the tenderers have no right to complain to the Commission for the Protection of Rights of Tenderers” says this expert.

After years of delays, cleverly designed procedural failures and agreements based on the principle “cross my heart”, other tenderers do not have the illusion that something drastic would happen. For example, that the company MHPS would not get the job.

But in this case not only tenderers are important. Since it has not been carried out according to the Law on Public Procurement, this tender would have to be completely transparent because the flue gas desulphurization plant in Ugljevik is not financed by a

donation of the Government of Japan but the loan that will be repaid by all citizens of the Republika Srpska. And citizens have the right to say to the tender participants “We are watching you,” and to ask for clean papers and clean procedures along with the fair trade.
source: NoviMagazin