



The state-owned Czech Export Bank has pulled out of a CZK9bn deal to finance the construction of a new unit at the Pljevlja coal-fired power plant in Montenegro by Skoda Praha, a unit of state-controlled giant CEZ, local media claimed on October 26.

Unnamed sources told Czech daily Hospodarske noviny that CEB sees the project ordered by Montenegrin power monopoly EPCG as too risky. The newspaper claims to have seen a letter from the state lender to CEZ reporting the refusal to participate.

In addition, CEZ is reported to be well behind in preparing the documentation on the project needed by CEB, as well as the state Export Guarantee and Insurance Corporation, which CEZ hoped would provide credit insurance. HN also reports that Montenegro has declined to offer a state guarantee.

CEZ insists that although a deal with CEB and EGAP would be its first choice, it is not concerned about the future of the project. EPCG is already looking for alternative financing, a spokeswoman claimed.

However, HN notes that cheap government export financing is an important part of the project. European companies struggle to compete with cheaper Chinese contractors without its benefit.

The refusal by the CEB likely reflects the hot water in which it has been in recent years, with critics claiming it has been inept in dealing with large projects. The export bank has been bitten by recent investments in the energy sector in particular.

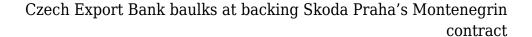
It lost close to CZK6bn lent to PSG to build the Poljarnaja plant in Siberia, and is mulling its next move on the Adularya coal power plant in Turkey, which looks likely to bring Czech contractor Vitkovice Power Engineering to its knees. CEB is reportedly thinking of handing the project to Skoda Praha.

A member of CEB's supervisory board told HN "it would be suicide, the project would never have gone through us".

EPCG said on September 29 that it had signed a long-expected deal with Skoda Praha. The unit will be the first large capacity block to be built in the Adriatic country for 35 years. Montenegro is relying on the project to achieve independence and become an energy exporter.

EPCG shareholder A2A has also expressed concerns over the planned project. The Italian utility is expected to exercise a put option to exit its investment in EPCG by the end of this year. Analysts say the Montenegrin government agreed to the deal with A2A because it left EPCG free to build a new unit of the coal-fired Pljevlja power plant, for which A2A had been reluctant to give its consent.

A2A was not the only opponent of the project, which has been attacked on environmental





grounds as well as over its economic viability.

Podgorica clearly wants to benefit from a sub-sea power line to Italy due to be completed in 2018, but it is not the only Balkan country looking to boost its electricity generation in the hope of becoming a major exporter and the region is expected to have a substantial surplus if all the planned power plants are built.

Environmental pressure group Bankwatch claims the project is "viable only with creative accounting". The NGO points out that a Montenegrin-language presentation from Deloitte says the project would only be feasible if certain stringent conditions were met, among them a doubling of electricity prices by 2040, a 10% fall in CO2 costs and production costs at the Pljevlja mine, and a delay in implementing the EU Emissions Trading Scheme in Montenegro until 2026.

Meanwhile, a group of local and international NGOs had been pushing A2A not to agree to the project, which they say will prevent Montenegro from complying with EU legislation and climate policy. There are already high levels of pollution in the town of Pljevlja, and the new unit is expected to worsen the problem if it runs concurrently with the existing unit. source: intellinews.com