The government of Kosovo should cancel its plans to construct the proposed “New Kosovo” coal-fired power plant, according to a new review of the project by the Institute for Energy Economics and Financial Analysis (IEEFA).
IEEFA, a U.S-based research organization which has studied the finances of numerous coal plants in the U.S. and other countries, is working with the Kosovo Civil Society Consortium for Sustainable Development (KOSID) to research the financial and economic impact of the proposed coal plant.
“The plant, if built, would cause the price of electricity in Kosovo to rise to unreasonable levels and would place unnecessary burdens on the Kosovo economy, its businesses and residents,” said Visar Azemi, KOSID Coordinator. “The World Bank and other government banks are considering a substantial financial subsidy for the coal plant. For financial and economic reasons they should invest instead in supporting the development of renewable energy and energy efficiency in Kosovo.”
The proposed “New Kosovo” coal plant has been under consideration for over a decade. The size and scope of the project have changed repeatedly as investors have failed to materialize. The government of Kosovo announced a new configuration for a somewhat smaller plant just two weeks ago, but few details have been released.
“Our preliminary findings indicate that introduction of the “New Kosovo” coal plant is likely to cause electric rates in Kosovo – a country whose population is already paying too much for electricity relative to their incomes – to rise by up to fifty percent,” said Tom Sanzillo, Director of Finance for IEEFA.
IEEFA has developed a market model that can be used to determine how much the people of Kosovo will have to take from their household budget to pay for the new coal plant if it is built. Once additional financing and cost details of the latest proposal have been made public (presumably by January 2016) IEEFA will release a full report based on its market model, IEEFA’s research shows that a series of significant risk factors make it likely that the cost of the plant could be significantly higher than those which have been cited by the government of Kosovo. These include:
The plant has only one bidder, U.S.-based firm ‘Contour Global’, which is apparently demanding a high internal rate of return on the 30% equity investment proposed for the plant. The use of a sole bidder poses numerous financial risks for the project and indicates that it is a weak candidate for investment.
The loan needed to finance the project, at any likely size or terms, is unreasonably large for the banking system of Kosovo and would force the system to exceed its loan to deposit credit benchmarks. This will slow down economic growth in Kosovo, raise interest rates and

make Kosovo unattractive to other foreign investors.
The World Bank or other international financial institutions would have to commit major subsidies – in excess of $3 billion– to bring down the interest rate on the plant. Even at these high levels of subsidy Kosovo residents will still pay too much for their electricity. The subsidy would have to be raised even higher to make the coal plant affordable for Kosovars.
The costs will be borne disproportionately by the poor, and neither the World Bank nor the government of Kosovo has assessed the impact of the cost of plant on Kosovars.
Costs of delivering electricity will be much higher if construction costs go up and if the plant has operational problems that cause it to run less than anticipated (previous reports estimated that the plant would operate at an unreasonably optimistic 85% capacity factor as soon as it goes into operation).
The construction and mining projects necessary to build the plant face numerous financial risks in Kosovo, as a result of public opposition to the forced dislocation of community residents, increased air pollution, and higher electric rates.
Prior plans for the new plant have been based on economic and energy growth assumptions that have failed to materialize. If the new plant underperforms because the economy does not grow, the electricity from the plant will become even more expensive.
IEEFA also issued these caveats about the latest proposal for the “New Kosovo” plant:
Despite over a decade of public discussion on this project, no investment bank or group of investment banks has come forward with a package to finance the loan for the project. The government’s recent announcement also did not include a list of private and public banks with firm financial commitments or a plan to raise the financing with a firm date. This leaves the government of Kosovo dependent upon government-sponsored lenders for deep subsidies and is an indication that the deal is not creditworthy.
The recent statements of political support for the project by the World Bank and U.S. Treasury mean that these deep pocketed financial resources stand behind the project. This increases the likelihood that ‘New Kosovo’ project costs will be high, as stakeholders in the development process exploit this political support for financial advantage.
Although considerable improvements have been made in the electricity system’s billing, collections and loss management processes the system nevertheless continues to suffer from lost revenues due to weak management controls. A lack of revenues and weak internal controls could cause serious cash flow problems and jeopardize repayment of the equity investor and lenders.
The studies which have been done thus far on the proposed plant do not provide timely, relevant, detailed and consistent technical data on the construction, financial, operational,

energy, utility management or social statistics necessary to formulate baseline measures or forecasts. The studies, which have never considered a full range of energy options, also underscore the fact that the Kosovo electricity system does not have a reliable, uniform system of financial presentation with transparent rate setting, cost and revenue reporting. The recent announcement of a new proposal means money will be needed for more reports and studies.

“The World Bank and other international government funders are committed to assisting the poor. But this plant – under any of the various scenarios that have been put forth thus far –will leave the poor paying more for electricity,” Sanzillo said. “The plant will also harm, not help, economic growth by forcing the people to pay for very large loans for decades to come. This coal plant is an unnecessary burden, at a significant expense, with unreasonable terms, extravagant subsidies and ultimately a higher price of electricity for Kosovo residents.”

source: kosid.org