A photograph of a thermal power plant situated in a valley. A tall, white and red striped chimney is on the left, emitting a thick plume of white smoke. In the center, there's a large industrial building with multiple vertical pipes or fins. The background consists of rolling green hills under a clear sky.

**THE SECOND REPORT ON
(NON)ECONOMIC VIABILITY OF
CONSTRUCTION OF
UNIT II OF THE THERMAL
POWER PLANT PLJEVLJA**

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2. INTRODUCTION

This report covers the activities that the Government of Montenegro undertook during 2016 in connection with the announcement of the construction of new thermal power plant in Pljevlja. It is the sequel of the Report on (Non)Economic Viability of Construction of Unit II of the Thermal Power Plant Pljevlja, which was published by the NGO MANS in February 2016.¹

The government launched the project of building a new power plant in 2012 under the pretext that the new unit was required due to the deficit of electricity in the country and its further economic development. However, five years later, it has not confirmed the existence of the deficit, nor shown any clear public benefit that the planned investment would provide.

Moreover, the project of construction of Unit II has become one of the most controversial economic projects in the country, which is followed by sharp criticism from the civil society and a part of the professional community, who claim that the project is economically inefficient and that it will have far-reaching negative consequences for human health and the environment. Thus, the public has become louder in hear demanding that the project be terminated.

At the same time, it is announced across Europe that the thermal power plants in the European Union, Montenegro being one of the candidate countries, are likely to terminate their production sooner than 2050, in order to influence the reduction of harmful gases in the air.

Despite this, the Government of Montenegro continued intensive negotiations with the Czech company Skoda Praha during 2016 for the purpose of the preparatory work on the project and finding a financing model of carrying out the Project of Unit II of the Thermal Power Plant.

Also, the study of the profitability of the investment was made public for the first time. However, it did not offer any indisputable data that would clearly establish that the construction of Unit II is economically viable, but is rather based on a series of unverified facts and unrealistic indicators.

The transparency of the whole process of the announced construction is still questionable. It was expected that the company Skoda Praha would finally announce whether it has managed to provide a creditor for the investment in early 2017.

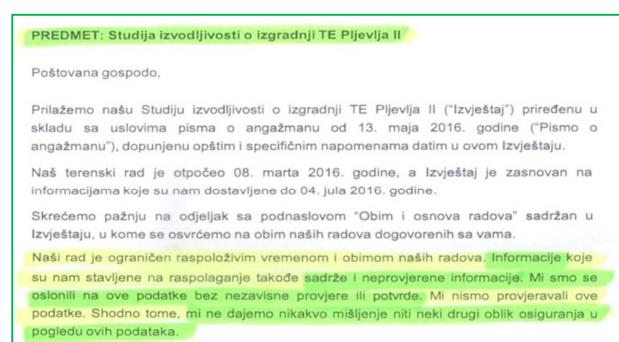
¹ Report on economic (in)feasibility of construction of Unit II of Thermal Power Plant, MANS, February 2016; link: <http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf>.

3. GOVERNMENT'S STUDY OF UNIT II CONSTRUCTION DOES NOT CONFIRM COST-EFFECTIVENESS

The first feasibility study and preliminary design for the construction of Unit II of the Thermal Power Plant in Pljevlja, for the purposes of Montenegrin Electric Enterprise (EPCG), as the project developer, was made by the Slovenian company Ecotech² back in 2012. However, these studies have never been made public. The public only got limited information in mid-2015, when the Detailed Spatial Plan for the Thermal Power Plant in Pljevlja was at a public hearing.³

That document, which the Government of Montenegro adopted in May 2016,⁴ provided very scant information on the economic viability of the construction of Unit II. However, even such limited information revealed that the investment in Unit II is not economically justified and that the cost would exceed the expected benefits many times, and that the related investment costs would exceed one billion euro, not including the costs of health and environmental protection.⁵

Four years later, in early July 2016, the government made public the feasibility study for the construction of Unit II in Pljevlja⁶ for the first time. It was a new document that the consulting company Deloitte from Belgrade prepared for the needs of EPCG. The study was made in only a few months and was based on the data from the studies of other consultants, Fichtner and Poyry, which were also made for the needs of EPCG and the Coal Mine Pljevlja.



Feasibility study for construction of TE Pljevlja II, July 2016.

Although Deloitte said that the project of construction of Unit II is feasible, the introduction says the following: "Our work is limited with available time and scope of our work. The information that we have been provided contain unverified information as well. We relied on this information without independent verification or certification. We have not checked this data. Therefore, we do not give any opinion or any other form of assurance with respect to this information."

In this way, the author of the study distanced himself in a sense of the reliability of the data, which calls into question the relevance of its content, and therefore the conclusions set out in the document.

The study notes that EPCG should finalize the financial model for the construction of Unit II with the Czech company Skoda Praha,⁷ and that the final proposed price is €321.7 million. The value added tax (VAT)

² Ecotech from Velenje was heading a consortium that involved CEE from Ljubljana and Premogovnik and Erico from Velenje.

³ Detailed Spatial Plan of the Power Plant Pljevlja was at public hearing in May 2015, three years after the Government of Montenegro decided to make it; link: http://www.mrt.gov.me/rubrike/javna_rasprava/148445/Javna-rasprava-o-Nacrtu-Detaljnog-prostornog-plana-za-Termoelektranu-Pljevlja-i-Nacrtu-Izvjestaja-o-strateskoj-procjeni-uticaja.html.

⁴ Government adopted the Decision on adopting the Detailed Spatial Plan of the Thermal Power Plant Pljevlja at a session held on 18 May 2016; link: http://www.gov.me/sjednice_vlade/158.

⁵ Report on (Non)economic Viability of Construction of Unit II of the Thermal Power Plant Pljevlja, MANS, February 2016; The report shows that the associated investment costs exceed one billion euro, not including costs of environmental protection and health that Greenpeace estimated at €2.5 billion in mid-2013, link: <http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf>.

⁶ Feasibility Study of Construction of the Thermal Power Plant Pljevlja II; link: http://www.gov.me/sjednice_vlade/165.

⁷ In a procedure carried out without a public tender, on the basis of direct contracting with the bidders, at the end of April 2015, EPCG chose the offer of the Czech company Skoda Praha to build Unit II of the Thermal Power Plant in Pljevlja as the best one; negotiations on the financial model for the implementation of investments have been ongoing ever since; more details in Report on (Non)economic Viability of Construction of Unit II of the Thermal Power Plant Pljevlja, MANS, February 2016; link: <http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf>.

would not apply to the project.⁸ The total period of the loan is 15 years, including a three-year grace period and an interest rate based on a margin of 2.5 percent above six-month Euribor rate.

The offer of Skoda Praha is based on a "turnkey" system, which includes design, engineering, procurement, supply, construction, commissioning, testing and all the activities that have to be finished before the handover of the EPCG facility. The planned nominal power of the generator of the new power plant is set at 254 MW with a net efficiency of 39.5 percent.

3.1. Not enough coal reserves without opening the remote Maoce basin

The Deloitte consultant dedicated a part of the feasibility study of the construction of Unit II to the matter of coal reserves and necessary quantities of this ore for future power plant operation.

It is necessary to remind that the Government of Montenegro projected that Unit II investment would be profitable if the Thermal Power Plants keeps operating for 40 years, and if the coal reserves that are located in the so-called inner Pljevlja basin are fully exploited.⁹

If, as in the most optimistic scenario, Unit II started operating in 2020, it would work until 2060, which is contrary to the policy of the European Union countries, which have committed to shut down all the coal-fueled power plants by 2050 and thereby reduce harmful emissions of carbon dioxide into the air. Montenegro is a candidate for membership of the European Union,¹⁰ and new studies published in early 2017 imply that the countries of the European Union could shut down the coal-fueled power plants even earlier, or by 2030.¹¹

When it comes to the reserves and the amount of coal required for the operation of Unit II, Deloitte referred to the data of the study on evaluation of resources and reserves¹², which was created by another consultant, Fichtner Water & Transportation GmbH (Fichtner) at the beginning of 2016, for the purposes of the Coal Mine Pljevlja and EPCG.

Fichtner's study assumes that at the beginning of 2016, the reserves of coal in inner Pljevlja basin amounted to 66.8 million tons,¹³ while potential reserves, or those that have not yet been proven, could amount to additional 24.5 million tons.¹⁴

⁸ At the beginning of 2015, the Parliament of Montenegro adopted amendments to the Law on Value Added Tax, which was proposed by the government and which exempts the supply of products and services for the construction of an energy facility for electricity generation of installed capacity exceeding 10 MW from paying the value added tax; Law Amending the Law on Value Added Tax, Official Gazette of Montenegro 9/15; link:

<http://www.sluzbenilist.me/PravniAktDetalji.aspx?tag=%7B1AF91BFB-209F-4028-BB17-77B247513FD5%7D>.

⁹ Inner Pljevlja basin includes coal reserves near the town core, while the wider area and at a distance of 20 kilometers from the town, there is the Maoce deposit, which is assumed to have a large amount of coal reserves; Detailed spatial plan of the Thermal Power Plant Pljevlja, which the Government of Montenegro adopted at the session held on 18 May 2016; link: http://www.gov.me/sjednice_vlade/158.

¹⁰ Link: <http://www.delme.ec.europa.eu/code/navigate.php?Id=19>.

¹¹ Report of the international organization Climate Analytics "EU needs to shut all coal plants by 2030 or will vastly overshoot Paris Agreement; link: <http://climateanalytics.org/latest/eu-needs-to-shut-all-coal-plants-by-2030-or-will-vastly-overshoot-paris-agreement---report>.

¹² Study of estimation of resources and reserves and cost-effectiveness of the mine; link: http://www.gov.me/sjednice_vlade/165.

¹³ The reserves are found in the exploitation sites Potrlica, Kalusici, Komini and Otilovici.

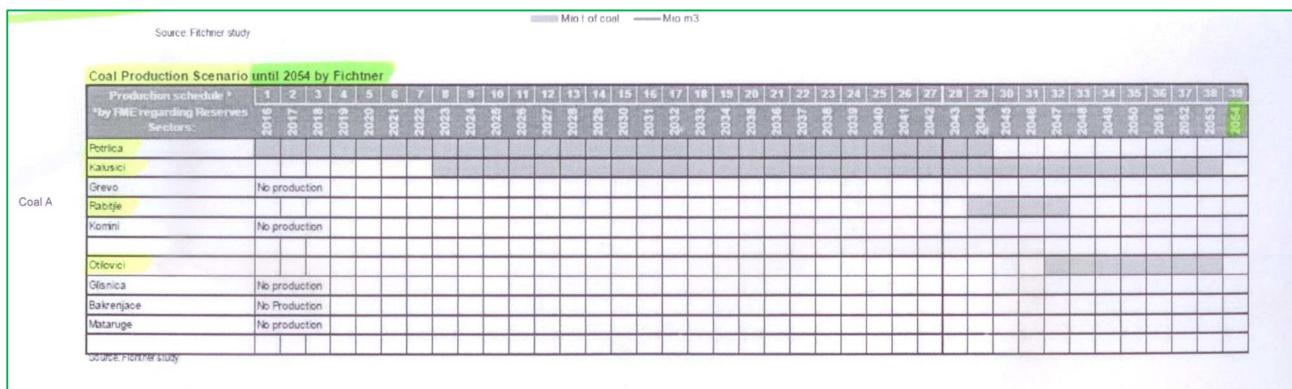
¹⁴ Assumed coal reserves might be found in the exploitation sites Otilovici, Bakrenjace and Mataruge.

Table 8-1: Estimation of Coal Reserves			
Sector	Coal Resources (t) (see Table 7-3)	Coal Reserves (t)	NCV (kJ/kg)
Potrlica	40.44	40.44	10,959
Kalusici	16.17	16.17	7,478
Grevo	2.21	2.21	11,175
Rabitilje	3.77	3.77	10,771
Komini	2.40	2.40	8,700
<i>Prijevlja Basin</i>			
<i>Subtotal</i>	64.86	64.86	9,881
Otiljovici	0	0	-
Glinica	1.96	1.96	8,859
Bakrenjace	0	0	-
Mataruge	0	0	-
Grand Total	66.82	66.8	9,864

Coal reserves of 66.8 million tons, Feasibility study of the construction of TPP

Pljevlja II, July 2016

Fichtner also says that will require continuous coal production simultaneously from multiple mining sectors, or mines,¹⁵ in order to overcome the problem of low quality coal in some sectors. Thus, mixing such with higher quality coal would achieve the level of quality required for the operation of the power plant. The scenario of simultaneous exploitation of several mines would certainly lead to significant financial costs, but Fichtner did not deal with the issue in the study.



Due to low quality coal, several mines would have to be exploited, Feasibility study of the construction of TPP Pljevlja II, July 2016

Introduction into opening of Maoce

If considering the data that in early 2016 coal reserves amounted to 66.8 million tons, it appears that there is no enough coal in the inner Pljevlja basin for 40 years of operation, with the parallel operation of the existing unit of the Thermal Power Plant in Pljevlja, which has been announced to work until 2023.

If the operation of Unit II and households annually require 1.7 million tons of coal, Unit II would require 68 million tons for 40 years. The existing unit consumes around 1.7 million tons, or 12 million tons in 7 years. Therefore, the both units would require 80 million tons of coal.

The lack of coal in the inner Pljevlja basin would lead to the opening of new mine - Maoce, which is 20 kilometers away from the town. It would mean new investment costs, which are not calculated in the total cost of the construction of Unit II of the thermal power station.

¹⁵ Mines: Potrlica, Kalusici, Rabitlje, Otilovici.

3.2. Significant reduction in the number of employees in the Coal Mine Pljevlja planned

In order to reduce the average costs of coal production and the selling price of coal, as well as to achieve profitability of Unit II project, the Fichtner study recommends reduction in the number of employees in the existing Coal Mine Pljevlja and increase of their efficiency and use of appropriate machinery for ore exploitation as the main measure.

The study anticipates the cost cutting measures to come into force by 2020. According to the projections presented in the document, the optimum number of employees in the coal mine should be 544, provided that the trucks are used as the basic equipment for the exploitation of the ore, or 520 employees, in case the bucket-wheel excavators are used as the basic equipment for the production process.

Pregled dugoročnih troškova proizvodnje uglja (2025-2030.) po Fichtneru za različite scenarije		
	Kamion i lopata	Rotorni bager
Parametri		
Godišnja proizvodnja uglja	1.710.000 t	1.710.000 t
Godišnja proizvodnja preopterećenja	5.335.200 m ³	5.335.200 m ³
Gustina Stopa O/C	1,37 t/m ³ 3,12	1,37 t/m ³ 3,12
Zaposleni		
Prosječna plata	17.778 €	17.778 €
Broj zaposlenih	544	520
Troškovi zaposlenih	9.671.111 €	9.244.444 €

Number of employed miners would be significantly reduced, Feasibility study of the construction of TPP Pljevlja II, July 2016

According to the official financial statements of the Coal Mine Pljevlja, the company employed 861 persons at the end of September 2016,¹⁶ which means that in the years to come, the number of employees would be reduced by 317 or 341, depending on the choice of the basic machinery used for the production process. In addition, the study projects Unit II will be employing 147 persons from the end of 2020.

Government without plan B for Pljevlja

The economy of Pljevlja, a town located in the north of Montenegro, is largely dependent on the coal production.

Despite this, the government has never published a plan on the economic future of Pljevlja after leaving the coal production, although it is a very demanding process that, inevitable in the coming decades, regardless of whether the government will insist on the construction of Unit II of the Thermal Power Plant or if it will eventually be suspended.

3.3. Indicative forecasts of wholesale electricity prices

Feasibility study of the construction of Unit II, which was made by another consultant, Poyry, for the needs of EPCG, has presented forecasts of future wholesale electricity prices in Montenegro.

Of the three scenarios that Poyry developed - high, medium and low electricity prices in the future, Deloitte chose the medium one, according to which the wholesale electricity price starts from €38 per MW in 2016,

¹⁶ Financial statement of Rudnika uglja AD Pljevlja (Coal Mine Pljevlja) for nine-month period in 2016; link: <http://www.scmn.me/fajlovi/RUPV201609.pdf>.

while in 2040, it reaches €97 per megawatt. The increase of the price is explained by an increase of the cost of coal and gas prices after 2025, but there is no much more information in this sense.

All the forecasts of wholesale electricity prices in Montenegro prepared and provided by Poyry exclude inflation. For that reason, Deloitte adjusted the prices for a long-term projection of inflation of 2 percent and thus reached the **electricity price of €143 per MW in 2040**.

Ključne operativne projekcije																
	jedinica	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Neto sati rada tokom godine	sat	-	-	-	-	-	1,965	7,156	7,288	7,661	7,638	6,954	7,638	7,661	7,638	7,638
Neto TE proizvodnja	MWh	-	-	-	-	-	438,541	1,596,861	1,626,425	1,709,602	1,704,514	1,551,871	1,704,514	1,709,602	1,704,514	1,704,514
Prodajna cijena struje, nominalna	EUR / MWh	34	34	40	49	59	62	68	73	78	79	83	89	94	96	100
Ukupna potrošnja uglja	tone	-	-	-	-	-	932,669	1,571,840	1,600,941	1,682,815	1,677,807	1,527,555	1,677,807	1,682,815	1,677,807	1,677,807
Emisija CO ₂	tone	-	-	-	-	-	873,921	1,472,831	1,500,099	1,576,816	1,572,123	1,431,336	1,572,123	1,576,816	1,572,123	1,572,123
Nivo primene CO ₂ regulative	%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	13%	30%	48%	65%	83%
Troškovi CO ₂ emisije	EUR / tona CO ₂	7	7	10	14	19	22	25	28	32	35	39	42	44	47	49
	jedinica	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43	FY44	FY45
Neto sati rada tokom godine	sat	6,954	7,661	7,638	7,638	7,638	7,661	7,638	7,638	7,410	6,977	7,638	7,661	7,638	6,954	6,954
Neto TE proizvodnja	MWh	1,551,871	1,709,602	1,704,514	1,704,514	1,704,514	1,709,602	1,704,514	1,653,633	1,556,959	1,704,514	1,704,514	1,709,602	1,551,871	1,551,871	1,551,871
Prodajna cijena struje, nominalna	EUR / MWh	107	111	115	119	121	125	129	134	139	143	146	149	152	155	158
Ukupna potrošnja uglja	tone	1,527,555	1,682,815	1,677,807	1,677,807	1,677,807	1,682,815	1,677,807	1,677,807	1,627,723	1,532,564	1,677,807	1,677,807	1,682,815	1,527,555	1,527,555
Emissija CO ₂	tone	1,431,336	1,576,816	1,572,123	1,572,123	1,572,123	1,576,816	1,572,123	1,572,123	1,525,194	1,436,029	1,572,123	1,572,123	1,576,816	1,431,336	1,431,336
Nivo primene CO ₂ regulative	%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Troškovi CO ₂ emisije	EUR / tona CO ₂	52	55	58	61	64	68	72	76	80	84	86	88	89	91	93

Wholesale price of electricity in 2040 will be €143 per megawatt, Feasibility study of the construction of TPP Pljevlja II, July 2016

In Montenegro, in 2016, the electricity price was €38 per megawatt,¹⁷ and it is clear that there is a great danger that the revenue due to potentially lower electricity prices will be much lower than expected. Moreover, studies in Europe forecast lower wholesale electricity prices by 2040. Thus, for example, the study prepared for the Government of Germany on the wholesale prices of electricity revealed that it could reach €83 per megawatt in 2040.¹⁸

In addition, Deloitte assumes that Montenegro will manage to postpone the payment of fees for emissions of carbon dioxide by 2026, although it could become a member of the European Union earlier. So far, there has been no delayed payment of such fees, so it is not clear on what basis it is calculated only from 2026, which certainly has an impact on the assessment of the overall economic viability of the investment.

In addition, in order to make forecasts of the price of electricity in the study more "moderate", Deloitte has reduced the wholesale price of electricity by 10 percent. This price is associated with the 10 percent lower price for carbon dioxide emissions, although lower costs of carbon dioxide emissions are not a risk to the project.

The projection of the huge wholesale electricity prices in the future and the postponement of the payment for emissions of carbon dioxide have been used by Deloitte as the main input, based on which it has concluded that the project of the construction of Unit II is feasible.

However, even Deloitte indicates that the feasibility of the project Unit II is the most sensitive to the price of electricity below 20 percent and the fee for carbon dioxide emissions.

¹⁷ Link: <http://regagen.co.me/>

¹⁸ Link: https://www.prognos.com/uploads/txt_atwpubdb/140716_Summary_42_pages_Energy_Reference_Forecast_2014_04.pdf.

Inconclusive argument on the deficit of electricity

When in 2012 the government launched the project of construction of Unit II, one of the main reasons for the construction was the deficit of electricity in the country.

GWh	2017	
Production	3,359	
Consumption (w. KAP)	3,473	
(Gov.) deficit	114	
Consumption KAP	779	
Consumption (w/o KAP)	2,694	
SURPLUS	665	

Although the situation regarding the electricity deficit has changed significantly since then, the government has projected a deficit of 114 gigawatt-hours in 2017.¹⁹ This budget is based on the projection that the Aluminum Plant Podgorica (KAP), as the single largest electricity consumer, would spend 779 gigawatts of electricity, although this privately-owned company is supplied with electricity from the free market and imports it from abroad.²⁰

If taking away the electricity planned for the Aluminum Plant Podgorica, it turns out that the surplus of electricity in Montenegro in 2017 could amount to 665 gigawatt-hours.

3.4. Total cost of investment still unknown

Feasibility study of construction of Unit II shows a part of only those investment costs that are necessary for the construction of the new power plant and additional investments associated with its work. There is still no mentioning of how much it will be necessary to invest into opening new mines or expenditures on the basis of expropriation, and particularly the costs of health and environmental protection.

The study assumes that the value of the contract to build a new power plant will amount to €321.7 million, but it states that it is not the amount that the Czech company Skoda Praha originally offered as the cost of the construction of Unit II,²¹ but the amount that EPCG put forward as a counteroffer.

Therefore, based on the inputs of a price that is not ultimately agreed upon, Deloitte has made the overall assessment of the viability of building a new power plant, which should work for 40 years. Also, although according to the financial investment model 70 per cent of the funds will be provided through a loan, the Feasibility Study does not separately show the interest expense.

Type of investment	Assumed expense
Construction of Unit II	321,7 million
Waste disposal	25 million
Development costs	29 million
Other costs	23 million
Revitalization	48 million
Shutting down Unit II	24 million
TOTAL	470,7 million

Regarding the **additional investments**, they are **projected at €77 million in total**. Of this, investment in the waste disposal takes €25 million, development costs €29 million, while other costs are projected at €23 million (they represent five percent contingency costs applicable to the contract for the construction and the development costs).

Table 1: Costs overview in Feasibility Study, July 2016

¹⁹ Energy balance of Montenegro in 2017, which the government adopted at the session held on 15 December 2016; link: http://www.gov.me/sjednice_vlade_2016/4.

²⁰ Link: http://www.epcg.com/sites/epcg.com/files/multimedia/gallery/files/2014/04/elektroprivreda_371_web.pdf.

²¹ In its offer submitted on 27 March 2015, Skoda Praha offered €338,5 million for the construction of Unit II. The company stated that the price was based on the information from the feasibility study and other documents provided by EPCG and that it reserved the right to adjust the prices in case of changes; more information of the Skoda Praha offer available in the Report on (Non)Economic Viability of Construction of Unit II of the Thermal Power Plant Pljevlja, MANS, February 2016; link: <http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf>.

In addition, **the cost of the revitalization of Unit II**, after 26 years of work, **the study estimates at 15 percent of the construction cost, which would be around €48 million**, while during the last year of the power plant, it should take an investment of €24 million to be closed.

However, the feasibility study does not assess a number of other costs that are necessary for the power plant operations for a period of 40 years. **Thus, there are no costs of expropriation, opening of new mines, the construction of a landfill, building the appropriate energy infrastructure, nor are there costs related to health and the environment.** The costs of health and the environment for the 40-year operation of Unit II were estimated at €2.5 billion by the international organization Greenpeace in mid-2013.²²

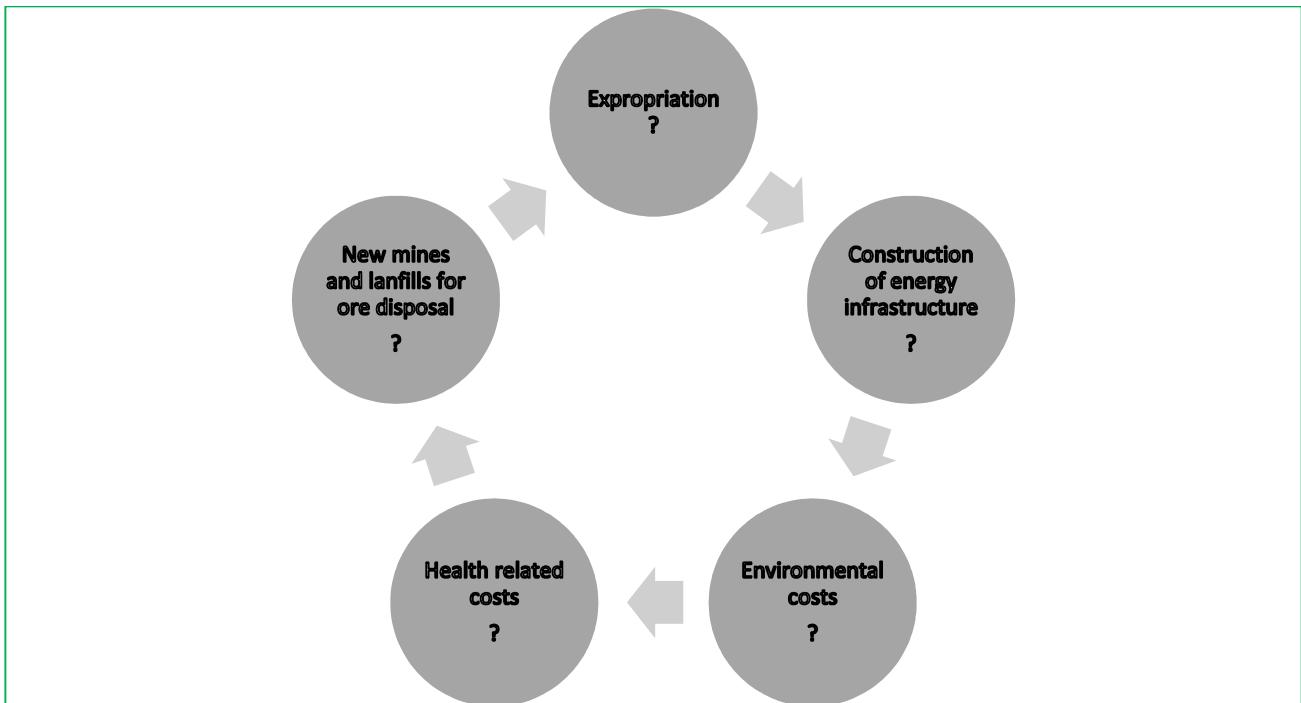


Figure 1: Number of costs that have not been shown

²² More information available in the Report on (Non)Economic Viability of Construction of Unit II of the Thermal Power Plant Pljevlja, MANS, February 2016; link: <http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf>.

4. NEGOTIATIONS WITH THE CZECH COMPANY SKODA PRAHA IS STILL IN PROGRESS

During 2016, EPCG intensified its activities aimed at finding financiers together with the Czech company *Skoda Praha* for the construction of Unit II, which did not happen by the end of the year.²³ Earlier that year, the Montenegrin Parliament adopted the proposal for inter-state agreement with the Czech Republic, which is the basis for the realization of the project of the construction of the Unit II.

4.1. Montenegrin Parliament expressly approved inter-state agreement with the Czech Republic

In early July 2016, at the time the feasibility study on the construction of Unit II was published, the government adopted a Proposal for the Law on Ratification of the Protocol on Cooperation in the Field of Energy and Infrastructure with the Government of the Czech Republic.²⁴ **The Law is an institutional basis for the construction of new thermal power plant in Pljevlja.**

The Preamble to the Law states that Montenegro and the Czech Republic took into account that the preliminary design, feasibility study and the environmental impact assessment study made in 2012 in relation the construction of Unit II in order to ensure continuous generation of electric power in the thermal power complex Pljevlja in a more efficient and environmentally friendly manner in accordance with the regulations of the European Union, ensure energy independence of Montenegro and create conditions for solving the key problems in the Pljevlja basin through the construction of district heating system. So, four years later, the government is still referring to the preliminary design and feasibility study from 2012, which were never made public.

ČLAN 2

1. Ugovorne strane će podsticati i podržati kompanije iz svojih zemalja da učestvuju u implementaciji projekata u oblasti energetike i infrastrukture, koji mogu biti realizovani na teritoriji Ugovornih strana po osnovu ovog Protokola.
2. Ugovorne strane su saglasne da će se ovim Protokolom obezbijediti institucionalna podrška u implementaciji velikih investicionih ulaganja, koja su predviđena da će se ostvariti između kompanija iz Crne Gore i Češke Republike u skladu sa ovim Protokolom i Sporazumom.
3. Ugovorne strane potvrđuju da u vrijeme zaključenja ovog Protokola, prvi prioritetni projekat koji predstavlja investiciju velikog obima u smislu ciljeva i uzajamne dobrobiti strana, koji namjeravaju da zajednički realizuju i podrže predstavlja projekat izgradnje II bloka TE „Pljevlja”. Ovaj projekat treba da realizuje „Elektroprivreda Crne Gore” AD Nikšić (u nastavku : EPCG) i relevantni strateški partner.

Article 2 of the Proposal for the Law on Ratification of the Protocol on Cooperation between the Government of Montenegro and the Government of the Czech Republic in the Field of Energy and Infrastructure, July 2016

Besides, through the proposed law the government opened the possibility of exploiting the coal reserves from the Maoce deposit, i.e. the so-called Plevlja basin. It also prescribed that all companies and financial

²³ Article on the portal of *Vijesti* "Negotiations with the Czech Bank", 27 October 2016; link: <http://www.vijesti.me/vijesti/propali-pregovori-sa-ceskom-bankom-909163>.

²⁴ The government discussed the Proposal at the session held on 30 June 2016, but it was formally verified on 7 July 2016; link: http://www.gov.me/sjednice_vlade/163.

institutions involved in the implementation of the Unit II Project would, through direct negotiations and without formal procedures, define mutual rights and obligations by concluding special agreements.

In early July 2016 the government sent the Proposal for the Law on Ratification of the Protocol between the Government of Montenegro and the Government of the Czech Republic on Cooperation in the Field of Energy and Infrastructure to the Parliament to be voted on.²⁵ The government asked the Parliament to deliver an opinion on an expedited basis due to the significance of building energy infrastructure for economic development of the country and the fact that the proposed law was the institutional basis for realization of the project of constructing Unit II in Pljevlja.

V POTREBA USKLAĐENOSTI UNUTRAŠNJIH PROPISA SA MEĐUNARODnim UGOVOROM

Nije neophodno usaglasiti unutrašnje propise sa gore navedenim međunarodnim ugovorom.

VI. RAZLOZI HITNOSTI ZA DONOŠENJE ZAKONA PO SKRAĆENOM POSTUPKU

Zakon o potvrđivanju Protokola između Vlade Crne Gore i Vlade Republike Češke o saradnji u oblasti energetike i infrastrukture treba donijeti po hitnom postupku, imajući u vidu značaj izgradnje energetske infrastrukture za društveno-ekonomski razvoj Crne Gore i činjenicu da navedeni zakon predstavlja institucionalnu osnovu za realizaciju projekta izgradnje II bloka TE Pljevlja.

The Government asked the urgent adoption of the law because of the Unit II Project; Law on Ratification of the Protocol between the Government of Montenegro and the Government of the Czech Republic on Cooperation in the Field of Energy and Infrastructure, Rationale, July 2016

As early as in July 2016, MANS Investigation Centre prepared a set of comments on the proposed law on the ratification of the Protocol with the Czech Republic and delivered it to all parliamentary groups in the Montenegrin Parliament, asking them not to support the proposed law.²⁶

The comments indicated that a vote on the law ratifying the agreement with the Czech Republic would be premature, especially as essential elements of the financial arrangements for the construction of Unit II of the thermal power plant were not harmonized. Among other things, it was pointed out that the most recent analyzes did not confirm that the Pljevlja basin has enough economically exploitable coal reserves for a 40-year operation of the future unit, that the project does not provide new employment, and that the assessment of the selling prices of electricity are contrary to the predictions of price movement of electricity on the European markets.

However, the Parliament of Montenegro at the end of July 2016, adopted the Law on Ratification of the Protocol between the Government of Montenegro and the Government of the Czech Republic on Cooperation in the Field of Energy and Infrastructure, which the President declared at the beginning of August 2016.²⁷

²⁵ The Proposal for the Law on Ratification of the Protocol between the Government of Montenegro and the Government of the Czech Republic on Cooperation in the Field of Energy and Infrastructure was sent to the Parliament on 12 July 2016; link: <http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/1156/1213-7803-24-9-16-2.pdf>.

²⁶ 10 individually processed comments, which were sent to all party caucuses of the Parliament of Montenegro, were delivered.

²⁷ Link: <http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/1156/1213-8170-.pdf>.

4.2. Controversial data in the environmental impact assessment study

The contract to build Unit II with the Czech company *Skoda Praha* was signed in September 2016,²⁸ and the Environmental Protection Agency in November 2016, initiated proceedings for the adoption of the environmental impact assessment on the construction of Unit II²⁹ done by the Slovenian consortium led by the company Esotech from Velenje.³⁰ This study was almost identical to the Study³¹ the consortium led by the same company did in 2012 for the needs of EPCG,³² except this time some of the basic parameters on which the project of construction of Unit II lies were changed.

According to the Study from 2012 **the construction of the new unit with the power of 220 MW**, with the parallel operation of the existing unit will fully exploit the coal reserves in the Pljevlja basin, whereas the study from 2016 shows that **the construction of the new unit which has the power of 254 MW**, with the possible parallel operation of the existing unit, will fully exploit the coal reserves in the Pljevlja basin. Furthermore, the version of the 2016 Study **omits the sentence**, included in the 2012 Study, **that the thermal power plant is the largest air polluter in the country**, which existed in earlier the Study of 2012.

In some of the major comments on the Environmental Impact Assessment Study on the construction of Thermal Power Plant II MANS pointed out³³ that the Study does not provide the best technological solution for Unit II, and that is questionable whether it will meet the new limit values for pollutants and particulate matter, which are to be adopted in the European Union.

MANS also pointed out that the document contained a series of arbitrary, outdated and incomplete data about the real causes and the pollution level in Pljevlja, and that it was unacceptable that the authors of the Study did not analyze at all the impact of existing thermal power plant on the health of residents. At the same time, MANS indicated that the Study contained contradictory information about whether the construction of the Unit II was aimed at covering the deficit of electricity in Montenegro or exporting electricity to the countries of the region, particularly Italy.

At the end of November 2016, the commission for the evaluation of the Study stated 83 individual objections to the document and refused to give the approval to it. Among other things, **the EPCG was requested to make a health study and health impact assessment using well-known methodologies, as well as the calculation of the extent to which the power plant contributes to the air pollution in Pljevlja.**

The Commission also asked that the document contain clear data on coal reserves and to answer whether Unit II is being built to provide a stable electricity supply of Montenegro or for the export of electricity from Montenegro. EPCG was given 60 days to make amendments to the Study and submit it to the Environmental Protection Agency.³⁴

²⁸ Link: <http://pvportal.me/2016/09/potpisan-ugovor-o-igradnji-drugog-bloka-te-pljevlja/>.

²⁹ Environmental Impact Assessment Study on the construction of the thermal power plant Pljevlja II, October 2016; Public hearing was held in the existing thermal power plant in Pljevlja on 17 November 2016.

³⁰ Erico Velenje appears with Esotech in the consortium,

³¹ Environmental Impact Assessment Study of the construction of the thermal power plant Pljevlja II, November 2012; EPCG has never published this document, but the non-governmental organization MANS obtained it thanks to a "whistleblowers" from EPCG.

³² Consortium included *Erico Velenje* and *Premogovnik Velenje*, as well.

³³ NGO MANS delivered 26 individual comments; link: <http://www.mans.co.me/generalni-komentari-mans-a-na-elaborat-o-procjeni-uticaja-na-zivotnu-sredinu-izgradnje-te-pljevlja-ii/>

³⁴ Report on the evaluation of the Environmental Impact Assessment Study, 29 November 2016, which NGO MANS received on the basis of the Law on Free Access to Information (No. 16 / 97933-97934).

Imajući u vidu obimnost navedenih primjedbi, preduzeću „Elektroprivreda Crne Gore” a.d. iz Nikšića, određuje se rok do 60 dana od dana prijema Izvještaja Komisije, da izvrši izmjene i dopune predmetnog Elaborata te da isti dostavi Agenciji za zaštitu životne sredine (tri primjerka u pisanoj verziji i jednu elektronsku verziju) nakon čega će Komisija nastaviti svoj rad.

Podgorica, 29.11.2016.godine

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 Prof.dr. Milutin Ostojić, član



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Report on Evaluation of the Environmental Impact Assessment Study, November 2016

It was not known whether the Commission for the evaluation of the Study gave approval to that document until early February 2017. However, at the same time, it was announced that the Czech company *Skoda Praha* chose the American company *General Electric* as the partner in the project on constructing new thermal power plant.³⁵ According to this information, by the end of February 2017, *Skoda Praha* should announce if it has found a financier, while in the meantime the government of Montenegro has announced that it is possible that the EPCG funds the project.³⁶

³⁵ Article on the portal of *Vijesti* “General Electric is constructing Unit II, as well”, 6 February 2017; link:

<http://www.vijesti.me/vijesti/i-general-electric-gradi-drugi-blok-923523>.

³⁶ Link: <http://www.mek.gov.me/vijesti/168751/Saopstenje-Do-kraja-februara-rok-za-predlog-rjesenja-za-finansiranje-projekta-Bloka-II.html>.

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