One of the two Polish lignite-based electricity companies - ZE PAK pursuing three new open-pit mines - registered EUR 440 million loss in 2015. Without governmental support ZE PAK is not likely to survive.

According to the annual report published on 21 March 2016, last year ZE PAK - one of the top ten energy producers in Poland with a 7% share in the energy generation operated at a loss of around PLN 1,88 billion (€440 million). An ex-Treasury Minister with Civic Platform government headed by the current EU Council head – Donald Tusk – Aleksander Grad has been tasked with leading the company through the murky waters ahead. Mr. Grad – ZE PAK's CEO since February 2016 - stated that the company's 2015 loss is only due to the one-time write-off on the company’s assets while the financial situation of ZE PAK has not changed. However, a month before that announcement Mr. Grad asked for the government’s support, motivated - as he stated - by the dramatic situation the company was in. That discrepancy in the policy of ZE PAK can be explained only as a struggle to keep both private and public financing as an option when the upcoming downfall unfurls fully. Many closures of companies such as ZE PAK will have to take place in the EU in order for the energy sector to decarbonise by 2050 and the public support that the company is seeking is very unlikely to find supporters in Brussels. Especially that the Polish government is already going out of itself to find wasy to keep the biggest EU hard-coal miner – Kopania Węglowa – from going bankrupt.

According to the ZE PAK’s website, its plans - including the plans to launch new opencast mines - have not changed and ZE PAK keeps financial liquidity. The declared cause of drastically slashed capex planned for 2016 (down to PLN 110 mln (EUR 26 mln) from PLN 418 mln (EUR 98 mln) in 2015 and PLN 696 mln (EUR 164 mln) in 2014) and recent write-offs are not signs of bad financial condition of ZE PAK, but overall bad situation in the energy sector, which undermines profitability of conventional energy branch. Despite these public assurances the reality is that the financial situation of ZE PAK is disastrous. The company’s book value declined dramatically overnight. ZE PAK cuts operational costs and reduces capital expenses – including the long-planned overhaul of two 50 years old lignite-fired units in Pątnów I power plant. There have also been plans of mass layoffs due in 2015, temporarily suspended because of the protest of labor unions. The delay in planned renovations of power units caused the banks to consider withdrawing credits they had already granted for the project. Ultimately the banks decided to give ZE PAK two choices: either the company presents a realistic action plan until the end of February, or the financing will cease for good and ZE PAK will have to repay the debt until the end of May. And so the action plan is ready: to ask the government for assistance.

ZE PAK complains about the growing costs of CO2 emission allowances and about the worsening situation in the energy sector, which puts any future coal investments in doubt. Due to the Polish government’s support for the hard coal sector in recent months, the costs of energy produced from it went down, pushing the dirty, lignite-based energy to the end of the merit order and nearly out of it. If that tendency is to be maintained, then quite soon the demand for the lignite-based energy will fall below the limit of its profitability and reconstruction of old power units will no longer have any sense. Launching new lignite pits also will be pointless. Moreover earlier this year the Ministry of Agriculture blocked the lignite pit at Ościsłowo deposit - a key project, which was supposed to start in 2017. In the next few years ZE PAK will be forced to close around 1000 MW of generation capability. Filling the gap with new energy sources, like gas-powered units or RES, would require a complete turnaround of the company’s strategy and would include large investments, which ZE PAK may not be able, and evidently is not willing, to undertake. Last but not least, ZE PAK business has been operating mostly
on credit and payback time is coming soon. There is looming risk of the post-mining grounds’ reclamation costs and damage compensations. If this were to happen bankruptcy becomes a probable leaving the public administration and local communities with the cost the company would no longer be able to cover.

The recent massive loss of value of ZE PAK may be the owners’ precaution in case of insolvency. The accounting value of capital assets dropped nearly twice.

“New lignite projects serve neither the local people endangered by mass eviction for the new mines construction, the people who will be left to live on the edge of the pits, nor the environment, nor the investors engaged in ZE PAK operations” – comments Kuba Gogolewski, financial campaigner at Fundation Development YES-Open-Pit Mines NO - “It is perfect time to close the old chapter.”

But it’s easier said than done. ZE PAK has long-term obligations towards the municipalities at which land the lignite has been extracted, towards the company’s employees and towards the environment – as the land damaged by mining must be reclaimed. It becomes doubtful that ZE PAK would be able to fulfill these obligations without reaching for public money. The incoming months will tell if the goal of ZE PAK’s board is a deep transformation of the company towards low-emissions business model, which would require creativity and ambition on their part and major capital investments, and which would even justify the governmental support, or if the goal is to use public money to limit the losses inevitably connected to the company’s downfall.


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