

TES 6 coal power plant Slovenia

Sectors: energy plants - coal

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By: BankTrack

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Contact:

[Pippa Gallop](#), CEE Bankwatch

[Project website](#)

Status



About TES 6 coal power plant

Šoštanj in North Slovenia, 30 kilometres from the Austrian border, is the location of an existing lignite-fired power plant, Termoelektrarna Šoštanj or **TEŠ**. It is owned by **HSE**, Holding Slovenske Elektrarne, a 100% state-owned electric utility. The plant is presently comprised of five blocks. Units 1 and 2, built in the 1950s, have closed, unit 3 is about to close and units 4 and 5 are set to close in 2016. A new sixth block of 600 megawatt, known as **TEŠ 6**, is under construction.

The project's cost has **risen massively** since 2007 when the European Investment Bank approved its first loan, and is now expected to total around EUR1.44 billion, double what was originally cited. The Slovene media has reported that the plant is expected to make EUR50 million in losses yearly. All this is bad news for the Slovene state which, in spite of fierce debate on the topic, provided a guarantee for an EIB loan of EUR440 million.

The project has for years been plagued with allegations of corruption and has been investigated by the national authorities, the European Anti-Fraud Office (OLAF), the European Bank for Reconstruction and Development (EBRD) and EIB. On October 14 2014, 10 people were **charged** with fraud offences relating to the project.

Brief history

The TEŠ6 project was proposed in 2003 and was included in the government development programme of 2007. It received all relevant permissions from the Slovenian government. The project was originally expected to cost EUR700-900 million. The overall rise in coal plant capex over recent years has seen the project's costs to escalate to EUR1.2 billion according to the **EIB**. In September 2007 the EIB loaned an initial EUR350 million which was increased to EUR550 million in April 2010. In January 2011 the EBRD signed a EUR200 million loan for the project, including EUR100 million syndicated to commercial banks. The remaining EUR400 million is financed from HSE. The Slovenian government has not yet provided loan guarantees to facilitate the loan from EIB, of which a big part, EUR440 million, has to be supported by a state guarantee.

The Slovenian authorities and EIB maintain that the project is "Best Available Technique" (BAT) standard, as is required by EU law. This means it improves efficiency to 46% compared to the plant it is replacing, around 35% efficient. This is less efficient however than a combined cycle gas turbine, and while it may be BAT across the emissions profile of the project, it is not necessarily the case that the project has been subjected to the standards for carbon capture readiness laid out in the CCS, the carbon capture and geological storage, directive.

What must happen

The TES6 coal fired power plant development is in dire opposition to European climate legislations and ambitions as well as a dubious economic investment; not to mention the current investigation on the grounds of suspicion of corruption that surrounds the initiative.

Private investors and commercial banks must perform due diligence before committing to finance this project including a thorough investigation and sound judgement based on the full review of the history and objectives of the project.

We demand the immediate halt of any sort of private financial support to this project and that the pledged EUR100 million funding from UniCredit, Société Générale, Helaba and Kommunalkredit Austria to be withdrawn immediately.

Issues

Social issues

One of the key arguments behind pushing this project further is that it will preserve about 3,000 working places in Šaleška valley, about 1,500 jobs in the Velenje lignite mine, about 700-800 in TEŠ itself and about 700-800 in related support companies. However, this means that with the EUR1,2 billion investment into saving about 3,000 jobs means an investment of about EUR400,000 into each one of these jobs. Investing the same amount of money

into energy efficiency and renewables would certainly open more jobs, maybe not only in the region of Šaleška valley, but also elsewhere in Slovenia. The fact is also that in the long-term these jobs are going to disappear because the lignite mine will run out of lignite. What is done today to save these jobs will only postpone the real problem to the next generation, who will inevitably have to face it.

Environmental issues

Operating TEŠ6 without carbon abatement will result in emissions of 3.1 metric tonnes CO₂ a year, which is close to being equivalent to all of Slovenia's emissions in 2050, if it cuts emissions by 80% in line with European targets. The agreed EU target is actually 80-95% reductions on 1990 emissions. The EIB and EBRD supporting this project with light conditions around CCS, or alternatives to coal, may leave an open door to many more coal projects. Although the project is promoted as an environmental investment, because it will reduce the emissions per produced kilowatt-hour, it is far from that.

The EIA The EIA does not examine any alternatives, as is required by the EU EIA Directive 97/11/EC. This does not only refer to alternative sites for a new thermal power plant or alternative coal technologies, but alternatives refer also to use of renewables, energy efficiency measures as well as considering the "do nothing" option. The EIA also does not elaborate on the impacts of CCS technology on efficiency, the environment, economic aspects, potential consequences of leakage or liability issues.

The CCS Directive Article 33 of the CCS Directive, Directive 2009/31/EC, requires that operators of combustion plants, like TEŠ 6, assess whether suitable transport options and storage sites for carbon dioxide produced by the plant are available. The investor, TEŠ, actually made a document called "CO₂ Capture and storage potential of unit 6 of the Šoštanj Thermal Power Plant" that should allegedly have represented the CCS assessment. Nevertheless, a) the content of the document does not meet the requirements of Art. 33 of the CCS Directive, b) it was submitted in the wrong stage of the permitting process and c) the competent authorities have never assessed its quality, correctness and adequacy. Consequently, the conditions of Art. 33 of the CCS Directive have not been met. The Slovenian competent authorities did not require the effective rectification of the CCS study. They did not even include the incorrectly made assessment into the running proceedings on the environmental permit. They persisted on the fact that TEŠ 6 did not fall into the scope of Art. 33 of the CCS Directive.

Other issues

The economic viability of the project The main problem of the proposed project is that its economic picture shows low reliability and high dependency on hidden state support. In October 2006, the Ministry of the Economy announced the project of constructing Block 6 and estimated the project value to be roughly EUR600 million. In September 2007 the project price tag reached EUR780 million, an increase of 30%. The investors then approached EIB with a request for a loan. Approximately two years later, in October 2009, the price tag is at EUR1.1 billion and the investors are not only applying for a loan, but are also considering an application of additional EUR200 million at the EIB.

A report, issued by the consultant CE Delft, reveals that there are several methodological mistakes in the calculations included in the investment plan. Lignite prices used are too low, the estimated lignite consumption in Unit 6 is artificially lowered from 2028 onwards, and CO₂ costs are underestimated. An unsubstantiated claim of increasing mine efficiency in the investment programme resulted in an underestimation of lignite prices by the project promoters. The other unsubstantiated claim is that there will always be a demand in the market for the extra electric power output produced by the new unit, a 1,000 gigawatt-hours.

A close analysis of the internal rate of return for TEŠ 6 shows that corrections for the methodological mistakes lower the rate from 7.59%, as stated in the investment plan, to 6.91%. The unsubstantiated assumptions in the investment programme open the door to even higher risk exposure. If all risks materialized, the rate would drop to near 5%. This is well below the threshold value of 7% aimed for by the project promoter and even further from the 9% value that was requested by the Slovenian government in April 2011.

Lack of public consultation Although according to the EU and Slovene legislation a project of TEŠ Unit 6 range would have to be a subject of a comprehensive public consultation, such a consultation was not done.

Irregularities in the tendering procedure The procurement notice for the execution of civil works for the main technological plant of the new Unit 6 of TEŠ had substantial shortcomings and lacked crucial information required by the Directive. This included criteria for selecting the applications and information about how and when the interested parties could lodge the appeal against the results of the tender. On top of that, the project promoter failed to send a notice to the Office for Official Publications of the European Communities, thus violating another article of the Directive. TEŠ also violated the Slovene Public Procurement Act, which transposes the obligations laid down in Articles 42 and 44 of the Directive. Consequently, some of the important information about the contract might not have reached all the tenderers who may have been willing to apply for the contract.

Sham procurement leads to fraud charges In 2014, Slovenian police arrested 10 people and charged them with fraud for their suspected roles in bilking customers out of EUR 284 million through scams and bribery related to construction of the Sostanj 6 lignite power plant project. According to reports by the Slovene Press Agency, the principal architects of the scheme worked for the main supplier of the plant's equipment, Alstom, which is alleged to have made millions by changing contracts and inflating the cost of the project.

When the coal-burning plant was first proposed publicly as the "Slovene energy future" in 2006, the total projected cost to build it was estimated at EUR 690 million. By the time initial testing operations began in 2014, however, the price tag had more than doubled to EUR 1.43 billion.

The scam was funneled through Slovenia's public procurement process, which should have opened contracts to build the plant to competitive bidding. Loopholes in the process and the assistance of government insiders, however, made it possible for highly suspect deals to be made under the table. According to information from the Slovenian criminal police, the consultant group that selected Alstom for the project, Sol Intercontinental, was actually a subsidiary owned by Alstom. Through this sham arrangement and other questionable business decisions, investigators determined, Alstom profited to the tune of almost EUR 285 million.

Because Slovenian state officials had signed repayment guarantees for 80 percent of the loans provided by the European Union development bank, Slovenian consumers and taxpayers pay will likely end up covering the costs of the overcharges accrued by Alstom (source corruptionincoal.org).

Updates

Operating permit for Tes 6

Feb 28 2016

The Tes 6 coal-fired power plant in Sostanj, Slovenia received [its operating permit](#) in February 2016.

Audit Finds Poorly Managed TEŠ Project Poses Risk to Owner HSE

Aug 20 2015

According to [The Slovenia Times](#): The Court of Audit has found that the investment in the controversial unit six at the Šoštanj power plant (TEŠ) was poorly managed and now poses a significant risk to the parent company, the state-owned utility HSE.

Sostanj lignite plant: A mistake not to be repeated

Dec 2 2014

A briefing by [Slovenian NGO Focus](#) shows how misguided assessments of future viability and corruption led to TES6 lignite unit costing more than double the estimated amount, bringing annual losses of tens of millions of euros, and creating only a fraction of the number of jobs promised.

Slovenia continues to fall into the economic abyss of the lignite plant at Sostanj

Jan 24 2014

According to [Bankwatch](#): The scandal-marred lignite plant TES 6 at Sostanj in Slovenia will likely cost EUR1.44 billion, more than double than what was initially predicted, and is due to produce annual losses of EUR50 million, show calculations recently revealed by Slovenian media. These cost escalations, predicted by NGOs critical of the project, should constitute a word of caution for other countries in South-Eastern Europe that are considering building new coal capacities.

EBRD soft on coal sector corruption, new analysis shows

Dec 9 2013

The European Bank for Reconstruction and Development has been approving financing for coal projects over which corruption allegations loom, and in some cases even while official corruption investigations were underway, [according to an analysis](#) published by CEE Bankwatch Network.

EBRD accepts complaint

Nov 14 2012

The EBRD Project Complaint Mechanism Officer has declared that a complaint, submitted in January of 2012, by Focus, Bankwatch and ELS, satisfies the criteria for a Compliance Review of the Project and is therefore eligible for a Compliance Review by the Bank. The complaint was based on the arguments of the insufficient CCS assessment made for the Sostanj power plant and the questionable consistency of the project with the EU 2050 Climate Targets. You can read the complaint [here](#).

Complaint to the EU Commission regarding procurement procedures

Nov 2 2011

Focus has filed a complaint to the European Commission regarding violations by the project promoter, Termoelektrarna Šoštanj, of some of the provisions of the EU Directive 2004/17/EC, which regulates procurement procedures of entities operating in the water, energy, transport and postal services sectors.

Complaint to the EU Commission regarding CCS Directive

Oct 3 2011

Environmental Legal Service and Focus filed a complaint to the European Commission regarding the alleged breach of the so called "CCS Directive", Directive 2009/31/EC, on the geological storage of carbon dioxide produced as a result of burning fossil fuels in large installations.

Developments in 2010-2011

Jul 18 2011

The project obtained an environmental permit in February 2011 and the construction is ongoing. It also obtained a partial construction permit for preparatory work. However, the financing of the project is still highly questionable, which, together with the fact that the project is under criminal investigation, would normally represent serious reasons to halt the construction. Yet, this is not the case. Slovenia is currently also in the process of reviewing its long term energy policy: the public debate is open until September 15. Energy scenario without TEŠ 6 was done in autumn of 2010 and is included in the proposed National energy program.

Financiers

Banks

Helaba Germany profile			Details ▼
Debt – corporate loan Part of 100 million euros syndicated loan	EUR 100 million	8 March 2013	
Kommunalkredit Austria			Details ▼
Debt – corporate loan Part of 100 million euros syndicated loan	EUR 100 million	8 March 2013	
Société Générale France profile			Details ▼
Debt – corporate loan Part of 100 million euros syndicated loan	EUR 100 million	8 March 2013	
UniCredit Group Italy profile			Details ▼
Debt – corporate loan Part of 100 million euros syndicated loan	EUR 100 million	8 March 2013	

Multilateral development banks

European Bank for Reconstruction and Development (EBRD)			Details ▼
Debt – project finance <i>source:</i> link	EUR 100 million	8 March 2013	
European Investment Bank			Details ▼
Debt – project finance <i>source:</i> link	EUR 550 million	8 March 2013	

Related companies

HSE Slovenia Initiator of the project
