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OSTROŁĘKA C – Next steps for Europe's last coal power plant

SUMMARY

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Executive summary

This new report from Instrat Foundation and Pracownia follows *Ostrołęka C - the investment rationale, and why is the project not rational at all* from April, 2018, and analyzes the legal and financial aspects of Ostrołęka C, a 1000 MW coal power plant, set to be built by Energa and Enea in northern Mazowieckie, Poland, by 2023.

Firstly, the investor is suspected of having manipulated the legal process for its integrated permit - investigations conducted by NGOs from Poland have revealed that Ostrołęka C might not be compliant with BAT Conclusions, which set strict emission standards from 2021 onwards. Energa's permit for the plant was obtained in 2011, and had expired in 2016, but thanks to its cosy relationship with the Ministry of Energy and Ministry of the Environment its validity was restored - a fundamental breach of the administrative and environmental norms.

Secondly, Ostrołęka C is fundamentally unviable according to the report's illustrative financial model. A number of sensitivity analysis checks of coal fired power plants operating in Poland have been conducted, and they confirm that the project will generate a negative NPV (net present value) of -2.3bn PLN (-0.5bn EUR) for shareholders. In other words: it will require an additional 50% of CAPEX from the market to pay off the cost of capital and generate any positive value for shareholders. According to Instrat's valuation, only coal prices well below market value and very rapid electricity price growth this investment can generate NPV amounting to zero. Instrat applies recent EUA certificate price forecast issued by Carbon Tracker (35 EUR/t in 2021-23) to evaluate the impact of ongoing ETS reform on financial standing of the project.

Depending on price growth scenarios for CO_2 emission allowances, levelised cost of electricity (LCOE) is estimated to reach 488 PLN/MWh (115 EUR/MWh), or even 505 PLN/MWh (119 EUR/MWh). When compared to renewable energy sources already operating in Poland (wind farms: onshore - 300, offshore - 420 or PV - 440 PLN/MWh), Ostroleka C is unlikely to win on price, and it faces increasingly stiff competition as the cost of renewable technologies rapidly decreases.

Energa's cunning plan has been to camouflage the project's profitability, so it has set an EBITDA/CAPEX ratio of 5.5% (within first five years) instead of an NPV or IRR (internal rate of return) for primary viability measures. Even under this condition, Instrat modelling of Ostrołęka C shows it to be a non-profitable investment that any sane shareholder would reject.

Banks and insurance companies are worried about this investment, and they should be. Financing 'the last coal power plant in Europe' is akin to investing in VHS tapes ten years after DVD became mainstream. Energa and Enea should instead focus investment capacity on building a low carbon energy system, which will bring profitability and generate better value for shareholders. Energa's market capitalisation has already lost 40% within the last year, continuing down the same path will only lead to further losses.