

# Cogeneration in Považský Chlmec, Žilina District



CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

Project briefing, March 2012

## Summary

The new greenfield gas cogeneration power plant COGEN in north Slovakia is planned to produce power and heat. The power plant is to be financially supported by both the European Investment Bank and the European Bank for Reconstruction and Development through the private equity EnerCap Power Fund. Both banks are investing in this fossil fuel power plant under initiatives that were supposedly formed to support clean energy in Europe.

Located in Považský Chlmec, a town in the Žilina district, the new plant would further deteriorate the quality of life of locals, who have for decades been suffering from the negative impacts of a nearby waste disposal site and nearby highway. The inhabitants of Považský Chlmec have been protesting against the Cogen plant since 2007. Its connection to gas and heat pipelines means that 1.3 hectares of wood from the nearby forests – through which the pipelines would pass – would have to be chopped down.

The Cogen power plant and connected gas and heat pipelines did not undergo a full Environmental Impact Assessment (but only a so-called exploratory assessment) even though the exploratory assessment showed a threat of serious social and environmental risks.

## EIB and EBRD misuse of green initiatives

### The EIB and climate action

Cogen Zilina is financed via the EnerCap Power Fund – a private equity fund in which both the European Investment Bank and the European Bank for Reconstruction and Development have committed up to 25 million EUR each (about 50% of the Fund's total commitments). The EnerCap Power Fund is located in the Czech Republic and operates in Central and South-Eastern European countries. It is supposed to “support projects based on the use of mature technologies in the wind sector, as well as in the biofuel and other renewable energy sectors considered to be environmentally beneficial and contributing to the reduction of greenhouse gas emissions”.<sup>1</sup>

<sup>1</sup> Press release: EUR 25 million EIB financing to support renewable energy projects in Central and South-Eastern Europe, 28 September 2007; <http://www.eib.org/projects/press/2007/2007-091-eur-25-million->

In contradiction to the goals of the EnerCap Power Fund, the EIB informed us that while the large majority of the Fund's investments are targeting the renewable energy sector this does not mean that a project such as Cogen cannot be financed by the fund; the EIB and the Fund perceive cogeneration as a measure for increasing energy efficiency and therefore consider Cogen as eligible for financing from the EnerCap Power Fund.<sup>2</sup>

The involvement of the EIB in the EnerCap Power Fund is classified under the EIB's Climate Action programme, which is supposed to "focus both on low-carbon investments that mitigate greenhouse gas emissions and on climate-resilient projects that improve adaptation to climate change impacts."<sup>3</sup> Cogen is neither of these things.

## The EBRD and its Sustainable Energy Initiative

The EBRD invested in EnerCap Power Fund under its Sustainable Energy Initiative (SEI). According to the EBRD the SEI is a focal point for helping countries from Central Europe and Central Asia to secure sustainable energy supplies and finance the efficient use of energy that will cut demand and imports, reduce pollution and mitigate the effects of climate change.<sup>4</sup>

According to the EBRD's (and EIB's) categorisation, co-generation technology from natural gas has an energy efficiency component. However Cogen is in fact a new fossil fuel plant and should not be categorized as an energy efficiency project as it will lead to increased fossil fuels consumption through the increase of capacity of the industry.

## Strengthening Slovakia's gas addiction

More than one third of all energy in Slovakia is produced from gas, 98 percent of which is imported from Russia. Such dependency on one energy source from one country makes Slovakia highly vulnerable in terms of security of supply.

Slovakia's Strategy for Energy Security counts on diversification of gas supplies via Slovakia's involvement in huge infrastructure projects such as Nabucco or South Stream.<sup>5</sup> Similarly, the EIB argues that fossil-fuel lending supports strategic projects that will safeguard European energy security. However it is obvious that building long-life gas infrastructure in Slovakia is rather

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[eib-financing-to-support-renewable-energy-projects-in-central-and-south-eastern-europe.htm](#)

Press release: EBRD boosts drive for renewable energy with move into regional fund; 20 October 2007; [http://www.medioambienteonline.com/web/guest/green\\_economy\\_news/article/-/article/iY0h/14137/-1/5221/ebrd-boosts-drive-for-renewable-energy-with-move-into-regional-fund](http://www.medioambienteonline.com/web/guest/green_economy_news/article/-/article/iY0h/14137/-1/5221/ebrd-boosts-drive-for-renewable-energy-with-move-into-regional-fund)

<sup>2</sup> Letter from the EIB, 6th December 2010

<sup>3</sup> <http://www.eib.org/projects/topics/environment/climate-action/index.htm>

<sup>4</sup> <http://www.ebrd.com/pages/sector/energyefficiency/sei.shtml>

<sup>5</sup> <http://www.economy.gov.sk/energeticka-politika-sr-5925/127610s>

inconsistent not only with the ambitious EU climate targets but also with the energy security of the country: another gas power plant would only deepen Slovakia's dependency on this energy source, not contribute to the de-carbonisation of CEE.

## Environmental and social problems of the project

According to Slovak and EU legislation, energy projects under 50MW do not have to undergo a full Environmental Impact Assessment process if the authorities do not decide otherwise or if the exploratory assessment does not show possible significant environmental impacts.

Cogen has a capacity of 40 MW, which means that initially only a so-called exploratory assessment had to be conducted. However, even though the exploratory assessment showed the threat of serious environmental risks, Slovak authorities decided that a full EIA is not necessary. Moreover, the rush with which the District Forest Office in Zilina changed its opinion about the need of an EIA process, moving from for to against an EIA in just ten days, raises questions over the official body's motivations.

The lack of a full EIA process had several consequences. Firstly, the cumulative environmental impact of the plant in combination with already existing sources of CO<sub>2</sub> and dust pollution in the area was never properly assessed. Secondly, the planned level of noise produced by the plant together with three existing sources (the nearby highway, busy main road and trucks bringing waste to the huge local waste disposal site) will be 95 decibels (dB) which exceeds the acceptable level for industrial zones with more than 20 dB. The planned power plant would be built 138 metres from family houses and about 200 metres from the high school where allowed level of noise (for schools, housing zones) is 50 dB which means that the noise will be almost twice the permitted level. Noise levels too have not been taken into consideration in any assessment. Finally, the project documentation does not take into account that the construction area is a seismic and flood prone area.

The construction of the plant is not in line with the local Energy Strategy, as this document does not envisage the need for more heat and electricity in the town, and definitely not from a new fossil fuel source<sup>6</sup>. In addition, the main heat provider in the region has declared no intention of buying heat produced by Cogen.<sup>7</sup> Thus it is unclear how the heat will be used.

Uncertainty about demand for the heat to be produced by Cogen led to the route of the planned heat and gas pipelines to be changed during the project approval process. Because the changes happened during the permitting process, locals had no opportunity to respond to them.

Professor Karol Honner from the Department of Energy Technologies at the University of Žilina and author of the Energy Strategy of Žilina states that: "Any logic seems absent in the choice of

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<sup>6</sup> <http://www.zilina.sk/mesto-zilina-uradna-tabula-mesta-uzemny-plan-mesta>

<sup>7</sup> Minutes from the meeting organized on 8th October 2008 by the Slovak Environmental Inspectorate

location for this plant – the heat pipelines should be short to prevent energy losses. But, to reach the potential consumers, heat pipelines from Cogen would be 4519 m long and would cross rivers Rajčianka and Váh and railways, and then go up to the hill and end in the town part Hájik.”<sup>8</sup>

## Recommendations

As CEE Bankwatch Network has showed in its recent study on the EIB's energy investments<sup>9</sup>, compared to its investments in the old Member States, the EIB has done much less in the CEE region in terms of financing of renewable and energy efficiency measures. Slovakia's dependency on one kind of energy source – namely, Russian gas -- makes the country highly vulnerable in terms of energy security and shows that the country could benefit from financial assistance to de-carbonise its energy system.

The EIB and the EBRD can contribute to a real change in the CEE region but this can only happen if both banks ensure that mechanisms created to support energy efficiency and renewables such as the Climate Action Programme and Sustainable Energy Initiative are indeed used properly and not to promote the opposite goals. Private equity funds allow the Banks to subcontract much of their due diligence work to the recipient fund, which may not possess either the skills or the interest to conduct proper environmental and social impact analyses.

**The EIB and EBRD should not invest in projects like Cogen in Považský Chlmec that would intensify Slovakia's dependency on fossil fuels, cause further growth of CO2 emissions and are questionable from an economic and environmental point of view.** Europe has limited resources for dealing with the energy crisis. Therefore, its financial arms would be better advised to invest in energy savings and new renewable energy sources rather than waste tax payers' money on disputable projects, which will further deepen the problems in the energy field.

According to the new EIA law from December 2011 passed by Slovakian parliament, an EIA should be completed before the planning permission procedures begun. The local community in Považský Chlmec and CEE Bankwatch Network plan to request the reopening of the permitting processes and for a full EIA to be conducted.

**The new EIA law gives the EIB and the EBRD an opportunity to finally take responsibility for this project they are financing by insisting for a proper EIA and for public consultations so that the impact of the project on people and the environment is properly measured.** The EIB has thus far avoided its responsibility regarding Cogen, to which the Bank refers as an „indirect investment“ suggesting that any queries about the plant should be directed at the EnerCap Power Fund management.

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<sup>8</sup> Personal communication of Irena Jencova with Prof. Honner, 18th November 2011

<sup>9</sup> Carbon rising. European investment bank energy lending 2007–2010:

<http://bankwatch.org/sites/default/files/EIB-carbon-rising.pdf>

## For more information

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