



Pinsent Masons



Brisbane 2008 - Session 10

What does it take for PPP Energy Projects?

Pamir Power Project – Tajikistan Tala Transmission Project - India



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The Pamir Private Power Project



The Pamir Private Power Project



Background

- Pamir Energy Company (Pamir Energy) was formed by the Aga Khan Fund for Economic Development (AKFED) in partnership with the International Financial Corporation (IFC) to address the lack of available electricity in Tajikistan
- Aims of the project:
 - To expand an existing hydro power plant and construct a river regulating structure in order to ensure sufficient river discharge for power generation
 - To take over and operate all existing electricity generation, transmission and distribution facilities in Gorno-Badakhshan Autonomous Oblast under a 25-year concession agreement

The Pamir Private Power Project



Political Commitment and Regulatory Arrangements

- Demand for power
 - Rural communities were in great need of electricity as they relied mainly on biomass which caused indoor pollution
 - Project should improve health conditions, reduce environmental degradation and contribute towards region's economic recovery
- Market for power
 - Generation and grid system had been allowed to fall into disrepair
 - Initial project feasibility study ruled out coal, diesel and biomass as suitable fuel options

The Pamir Private Power Project



Building the Market

- Economic tariff
 - Majority of users unable to pay full price for electricity
 - World Bank & Swiss Government agreed to project subsidy to support a lifeline tariff for poor customers
- Attractiveness to private sector
 - The Government found that it was difficult to attract private investment, especially following civil war and due to harsh conditions
 - The AKFED entered into a partnership with the IFC to address this problem

The Pamir Private Power Project



Managing the PPP Process

- Risk
 - Government inexperience – first PPP project in Tajikistan
 - World Bank and IFC involvement provided assurance to the private sector
- Appropriate PPP model
 - Project initially conceived as an IPP in which Pamir Energy would sell its power to the national power company
 - National power company not perceived as creditworthy
 - Project restructured to allow Pamir Energy to operate as a full utility

The Pamir Private Power Project



Managing the PPP Process

- Environmental issues:
 - Project was designed to reduce environmental impacts
 - Tajikistan's EIA regulations/procedures did not provide a suitable framework
 - As a condition for financing the project, the IFC and IDA required that World Bank Group social and environmental safeguard policies be complied with throughout the project
 - This required environmental evaluation as part of design and monitoring during the construction and operational phases

Tala Transmission Project



Project Background



- A US\$265 million project to build, own, operate and transfer transmission lines of approximately 1200km from West Bengal to Delhi
- Powerlinks – a joint venture between Tata Power Company Limited (private utility) and Power Grid Corporation (central government-owned operating agency for inter-state power transmission)
- The power lines will carry electricity from the Tala Hydro Electric Power Project as well as surplus power from India's eastern region to the northern areas.

Political commitment and regulatory arrangements



- Demand for power
 - Northern region of India was power starved
 - The project would create a vital link in the national grid
- Market for power
 - Electricity would be exported to India through 400 KV transmission lines to a pooling point
 - The project promised to almost double Bhutan's per capita annual income

Political commitment and regulatory arrangements



- Economic Tariff
 - Regulator increased normal ROE expectations to attract private investors
 - All debt in local currency
- Attractiveness to private sector
 - Interest from private sector was limited due to the lack of government experience in previous PPP projects and relationship between India and Bhutan.
 - The Government of India gave strong support to the project
 - Ethical and environmentally friendly project that would give rise to international recognition.
 - Power Grid published information on itself to create transparency

Managing the PPP process



- Risk
 - First private investment in power transmission in India
 - Off-take: state electricity boards had poor payment records which meant that Powerlinks were unwilling to take all the risk in relation to them
 - The Transmission Service Agreement requires Powerlinks to maintain transmission lines
- Appropriate PPP model
 - Build, own, operate and transfer (BOOT)
 - Financed 30% equity and 70% debt



Managing the PPP process



- Consents and approvals
 - Usually difficult for the private sector to obtain consents and approvals in India
 - Powerlinks relied on its government-owned shareholder (Power Grid) to aid it in the process
- Environmental issues
 - Works were to be carried out in under-developed areas
 - Some works impossible during monsoon season and others made difficult by rivers and the condition of the soil
 - Due consideration was given to environmental issues when finalizing the Transmission line route

Managing the PPP process



- Construction issues
 - It was necessary to put in to place transmission pylons across the Kosi river. This involved digging 160 piles into the river bed up to 37 metres deep.
 - Constantly changing river course
 - No Infrastructure facilities available, locations unapproachable
 - Large quantities of Material required - Transportation only by locally available small boats

Legal and governance issues



- Corporate governance
 - With a 49%/51% shareholding structure, it was necessary to ensure that both shareholders were able to represent their positions fairly
 - Management positions were nominated by each shareholder and the funders:
 - 4 from Tata
 - 4 from Power Grid
 - 2 additional members appointed by the lenders

Legal and governance issues



Legal

- Long term commitment
 - Stable legal and regulatory environment
 - Certainty of revenue v realistic incentives
- Specific drafting
 - High risk of liquidated damages throughout construction phase, especially during Kosi River section.
 - High level of technical knowledge required. Project is the first of its kind in the region.

Legal and governance issues



Governance

- Relationship of government and private sector within joint venture
- How does government balance political and commercial agenda as a shareholder?
- Structure of joint venture gives rise to possibility of deadlock
- Management of off take by the Indian National Grid
- Relationship of Indian and Bhutanese Governments



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Thank You



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