



A PRIVATE SECTOR FINANCING OF THE NEXT INGA?

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WEC Workshop

London, 22 April, 2008

IFC's Hydro Power Experience

- 18 hydro projects to date
- 2,154 MW financed in total
- Project size from 11 MW to 450 MW
- Greenfields, expansions, privatisations, IPPs, PPPs...

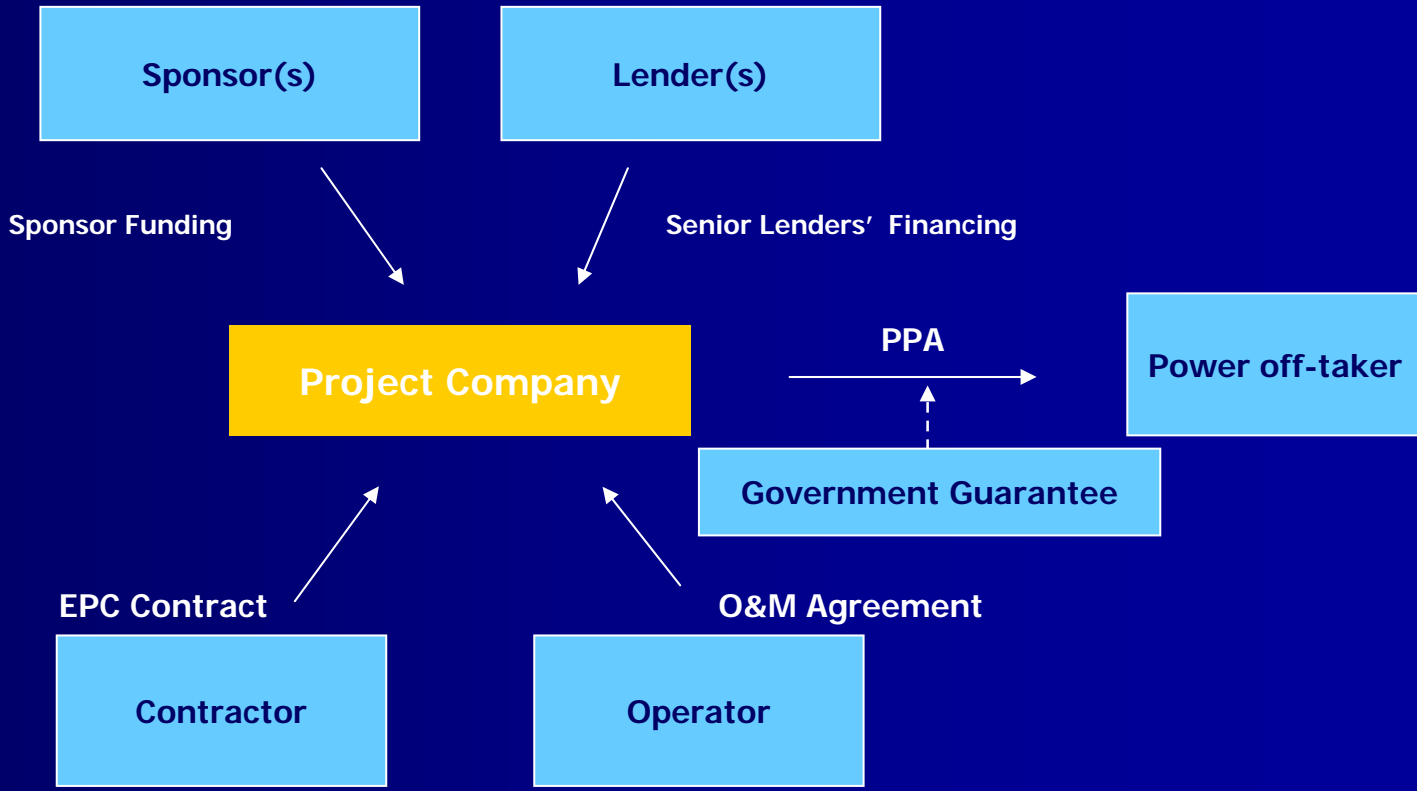
Key Success Factors – IPPs in general

- Sector/Project Fundamentals
 - Adequate tariff levels, consumer payment discipline, competitive project cost, the right technology
- Contractual Arrangements
 - Balanced contractual arrangements and risk allocation, and high standards of transparency
- Government Support
 - Government commitment to performance of the off-taker and other contractual undertakings
- Legal Framework
 - Legal framework enforceable and conducive to private sector activities
- Regulatory Framework
 - Independent and transparent regulatory institutions

Additional key risks to manage in hydro projects

- Environmental and social risks and issues:
 - Engage early with impacted communities
 - Assess indirect and direct impacts
 - Err on the side of full disclosure, transparency
 - Operate on “need to share” rather than “need to know” basis
 - Sustained commitment required for social initiatives
- Construction and tunnelling risk (cost overruns, delays):
 - Of 7 current Indian hydros, 140% overrun and 5 year delay on average
 - assess riskadequately
 - allow for contingencies
- Hydrology risk - will this be an issue for Inga?

Standard IPP Project Structure



Risk Allocation

- Sponsors take risks they control (construction, operation, financing), with full control of the project construction and operations
- Contractor and Operator shoulder some of the above risks
- Risks under the control of the government and/or utility, transferred to off-taker (PPA) or Government (Implementation Agreement)
 - Examples include: currency convertibility/transferability, completion of associated facilities, change in law/regulation, delays in approvals/permits, etc.

Sponsors

- Prefer strong, experienced sponsors
- High commitment:
 - Significant equity stake
 - Retained through share retention agreements
- Deep pockets:
 - Project Funds Agreements
 - Able to provide interim support to the project, if needed
 - Long-term investment horizon
- Good reputation

Off-taker(s)

- Critical to the viability of the project
- Off-taker risk profile driven by:
 - Credit worthiness
 - Adequacy of tariff formula
 - Autonomy vis-à-vis government actions
- Mitigants:
 - Payment security structure (e.g., L/Cs)
 - (For state-owned offtakers) government guarantee of off-taker payment obligations under the PPA

Power Purchase Agreement: Key Terms

- Length
- Tariff: Capacity & Energy components
- Payments: billing cycle & payment security
- Penalties:
 - Commissioning: delays, capacity
 - Operations: availability
- Exchange rate and interest rate risk
- Force Majeure
- Change in Law
- Termination: Buy-out terms
- Dispute resolution

Power Purchase Agreement: Termination & Buy-out

- Off-taker Event of Default:
 - Project Company's right to terminate
 - Followed by off-taker's obligation to buy-out
 - Buy-out price covers outstanding debt and a minimum RoE
- Company Event of Default:
 - Off-taker's right to terminate
 - Followed by off-taker's obligation/option to buy-out
 - Buy-out price covers outstanding debt
- Force Majeure:
 - Insurance available for certain events
 - Depending on who terminates (off-taker or project company), there may be or not termination payments
 - Political force majeure may be covered through a government guarantee

Some implications (of an IPP model) for Inga

- Likely few sponsors with the appetite or balance sheet for such a large project: => may need wider sponsor consortia than usual
- Size of termination/buy out amounts will require reduction in sponsors' exposure, and significant multilateral backing for Govt undertakings
- Significant public participation would still be required, given project size
- Technical and environmental risks can never be under-estimated

How to engage the private sector in Inga?

- Early consultations/engagement with potential bidders and lenders
- To engage potential bidders, key lenders would have to indicate levels (and terms...) of anchor support at relatively early stage
- Qualified bidders could be asked to stipulate level of Govt support required
- To create momentum, clear, consistent and transparent approach and strategy required from government.