

Pacific Renewable Energy Program (PREP)

A project financing and donor-backed guarantees program for private sector investment in renewable energy projects in the Pacific

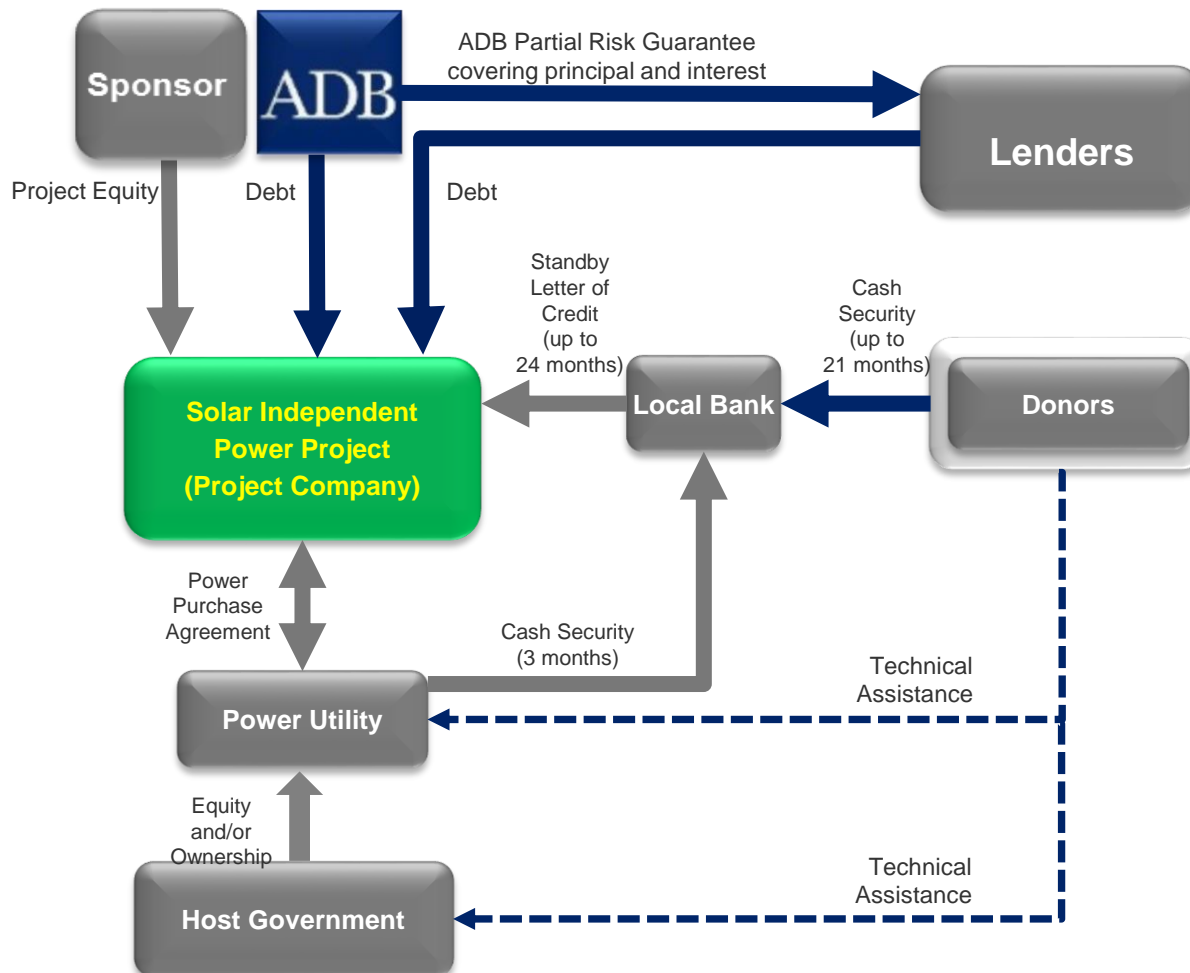
ADB

Overview

- ▶ The Pacific Renewable Energy Program, provides project financing and donor backed guarantees to support private sector investment in renewable energy projects.
- ▶ The Program aims to address:
 - ▶ short term liquidity risk in relation to the offtake obligations of power utilities; and
 - ▶ long term liquidity risk to address perceived political risks and termination payment
- ▶ The objective is to mitigate a key risk for investors and “crowd-in” the private sector to develop solar and wind projects in the Pacific.
- ▶ The pilot project under the Program is a 6MW solar power project that was competitively tendered in Tonga, and ADB is working with Tonga Development Bank on putting financing approvals in place.
- ▶ We would like to thank the government of New Zealand as the first donor for the Program.

The Program encourages private sector renewable energy investment by supporting short term liquidity risk through a donor backed standby letter of credit and by supporting long term investment through a partial risk guarantee.

Program Overview for a Potential Solar Independent Power Project



Key Features

1 Up to 99% Partial Risk Guarantee (PRG)

Issued by ADB in favor of qualified lenders to the project company to guarantee against the following:

- ▶ Denial of justice and arbitral award default
- ▶ Transfer restriction
- ▶ Expropriation
- ▶ War and civil disturbance

2 Letter of Credit (LC)*

Issued by a local bank in favor of the project company, and in an amount sufficient to cover the monthly payment obligations of the power utility under the PPA for up to 24 months

3 Technical Assistance (TA)*

Arranged by ADB to assist the host government and/or the power utility with project preparation (e.g., tender preparation, power purchase agreement drafting)

4 ADB Debt Financing*

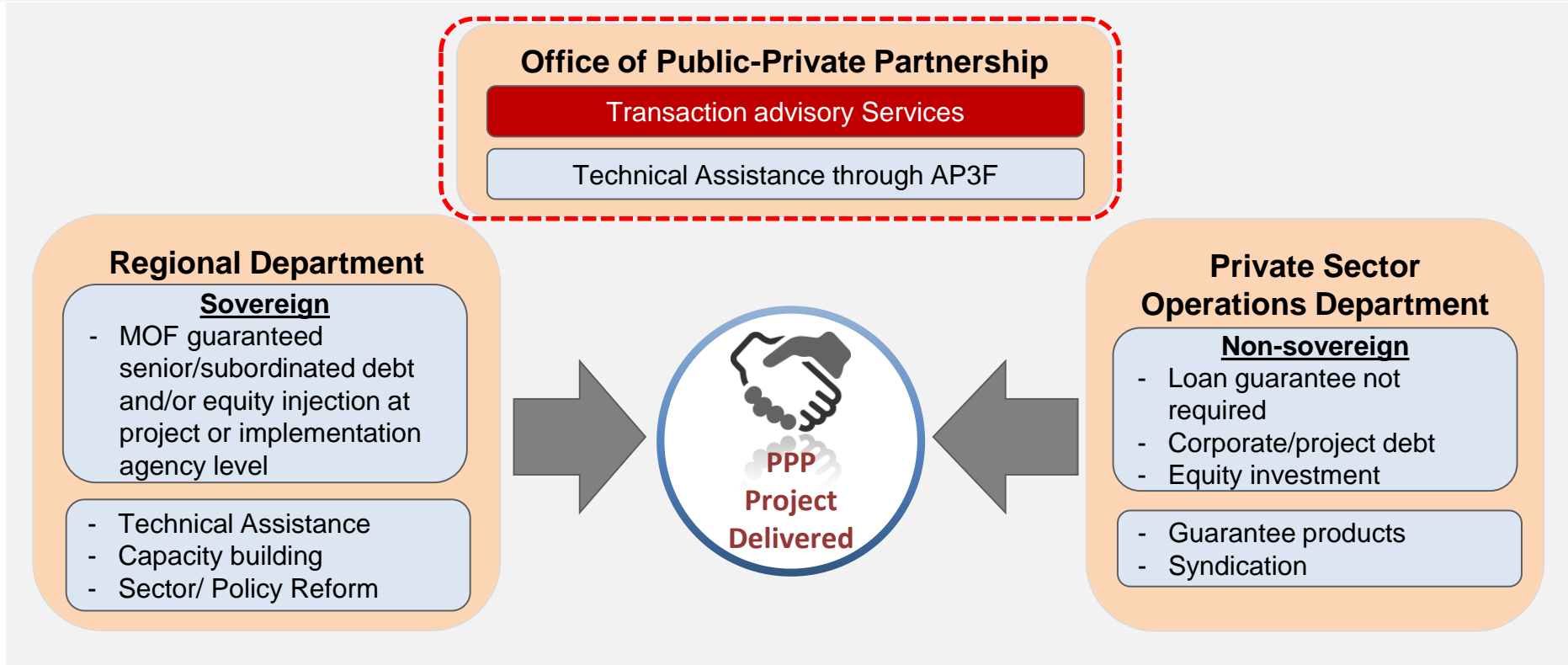
ADB's private sector operations department may lend to the project company alongside commercial

*Indicative only, subject to ADB satisfactory due diligence, internal credit and Board approvals, and final documentation relevant to each IPP and its sponsors.

Frequently Asked Questions

- ▶ Does the letter of credit (LC) cover equity?
 - ▶ The LC is for the benefit of the project company to keep it operating as a going concern, pay expenses and make debt service payments (including to any ADB loan). If the LC is drawn and not replenished, dividend payments will be suspended at some interval until the LC is restored by the utility and normal operations resume.
- ▶ What happens if the LC is restored?
 - ▶ If the LC is restored and normal operations resume, then the LC will be rolled over for another 24 months.
- ▶ What happens if the LC is not restored?
 - ▶ If the LC is not restored, and the project goes into the default process, the partial risk guarantee (“PRG”) is exercised.
 - ▶ The PRG covers political risk and breach of contract, upon arbitration award.
- ▶ Can ADB lend in local currencies?
 - ▶ ADB can lend in local currencies by taking a risk participation (partial credit guarantee “PCG”) in a domestic or international bank that can directly lend in that currency.
- ▶ How does a sponsor or utility apply to use the Program?
 - ▶ For sponsors, there is no formal application process and interested parties can contact ADB’s private sector team directly so that we can assess a project’s suitability for the Program.
 - ▶ The Program can be introduced by utilities to bidders during a bid process but use of the Program is subject to ADB’s due diligence, internal credit and Board approvals, and final documentation relevant to each IPP and its sponsors.
- ▶ What size and tenor of financing is available?
 - ▶ Loans and guarantees combined total are \$10 million per project, with tenors of up to 15 years.
 - ▶ Equity is injected first.

One ADB Approach for PPP Projects



One ADB Approach –

Office of PPP: For development of PPP projects, OP3P funds project selection activity, feasibility study, drafting of concession agreement, etc. For select projects and upon request of government and private sector, OP3P advises the client on bankability issues, tender and financial closing.

Regional Department: Provides government and government-owned entities technical assistance for capacity building, sector and policy reforms. Based on counter-indemnity of sovereign, lends to a project or implementation agency. Debt may be subordinated to attract commercial lenders.

PSOD: As a non-sovereign lending arm of ADB, PSOD finances PPP project through project and/or corporate loan and invests in equity for qualified projects. PSOD also provides political risk and credit enhancement guarantees and offer syndication services.

Cambodia: National Solar Park

Background

- ▶ ADB is working with Electricite Du Cambodge (EDC), to develop the Project to procure up to 100 MW of solar PV power generation from the private sector through competitive tendering.
- ▶ The Project aims to demonstrate the ability of large-scale solar to improve the electricity supply and stability of the national grid, substitute for power imports, reduce reliance on fossil-fuel and complement hydropower generation

The Project

- ▶ The Project scope includes design, finance, construction, operation and maintenance of 60MW solar PV power plants for 20 years.
- ▶ The project site is within the national solar park located approximately 60-70km from Phnom Penh
- ▶ EDC will provide land, substation, transmission lines to connect to grid and battery storage (solar park infrastructure usage agreement to be signed with EDC) and grant 20-year power purchase agreement (PPA) through competitive bidding
- ▶ Additional 40MW to be auctioned in Phase 2 at a later stage

OPPP's Transaction Advisory Mandate

- Joint support from the ADB's Regional Development team, which finances the transmission lines and substations for the project.
- **Project Preparation**
 - Feasibility Study
 - Project Structuring
- **Tender support:** Support during the tender process including
 - Preparation of tender documents
 - Preparation of the power purchase agreement for the project
 - Preparation of bid evaluation criteria
 - Answering to questions from bidders
 - Legal review of technical and financial proposals
- **Support during post-bid negotiations including:**
 - Negotiations with winning bidder
 - Finalization of contracts
 - Support commercial award

