

# **Consortium-Approach to the Development of Gas Power and the Gas Ring in the Energy Community**

## **WB Discussion Paper – September 15, 2011**

### **Preparatory Steps**

Each Contracting Party would be invited to indicate to the Secretariat if it is interested in participating in a program for the development of gas power and the Gas Ring in the Energy Community, with the view of having gas-fired power generation plants installed in its territory by a public-private partnership (PPP) company.

Each Contracting Party would be invited to indicate to the Secretariat if its national utility would be interested in participating in a PPP company as an equity investor. Such equity investment could be in the form of financial investment and/or another contribution, including making a site and network connections available to PPP Company.

Each Contracting Party would be invited to indicate to the Secretariat if its national utility would be interested in purchasing electricity from the PPP Company beyond its possible equity share in the PPP Company in its territory and/or from another PPP Company established under the program in the territory of other Contracting Parties.

### **The Consortium**

The Secretariat would seek expressions of interest from qualified investors (including power generation companies, gas companies, electricity traders) to form a Consortium which would establish national PPP Companies to develop gas-fired power generation plants in the territories of interested Contracting Parties. Though the program is focused on Contracting Parties, investors can also express interest in adjoining Participants.

The Consortium would decide the ownership structure of each national PPP company. It would not be mandatory for each member of the consortium to participate in each national PPP company, and the shareholdings could vary. As an example, the Consortium could have five members. All five might jointly develop a national PPP company in CP 1 and CP2. Three members might develop a national PPP company in CP3 and two might develop a national PPP company in CP4. None might be interested in developing a PPP company in CP5 and CP6 even if the CPs had expressed interest to have power stations on their territories.

## **Gas Infrastructure**

The Consortium, in cooperation national gas network companies (and the Secretariat and participating donors/IFIs), would determine the required gas infrastructure to deliver gas from existing gas network to the power stations to be established by the members of the Consortium. An attempt would be made to define the network so that it contributes to the development of the envisioned Energy Community Gas Ring, not only to gas needs of the Consortium's power stations.

The Consortium, in cooperation with the Secretariat, national gas network companies, and participating donors/IFIs, would also determine how the gas infrastructure would be developed. Basic alternatives are: (a) the Consortium develops the required gas infrastructure; and (b) national gas network companies develop parts of the required gas infrastructure and the Consortium develops the balance. Network development by national gas network companies would in principle: (a) make third-party access and completion of the envisioned Gas Ring easier; and (b) facilitate possible EU grant and public sector/sovereign-guaranteed IFI financing of the network.

## **Electricity Sales by the National PPP Companies and their Shareholders**

The shareholders of each national PPP Company would be responsible for all the costs of the electricity and would buy the electricity at cost. Shareholders get all the benefits (the full difference of the market value and the cost of electricity) and bear all the costs.

Net of contracted sales to the national utilities, if any, each shareholder would have the freedom and the responsibility to sell his share of the electricity to distribution companies and/or eligible consumers, in the territory of the corresponding Contracting Party and/or in the regional electricity market, depending on his preferences (within the constraints of the regional network).

This approach (instead of selling to national utilities under long-term PPAs) is chosen to promote and support both investment and competition in the national and regional electricity markets.

## **Payment Mechanisms/Guarantees**

If any of the shareholders do not pay for the electricity they take from their PPP company, other shareholders are entitled to take over the electricity. To minimize payment delays, shareholders would establish lines of credits or other suitable payment mechanisms (to be specified in the Articles of Association or Shareholders' Agreements of the companies).

Participating IFIs would consider partial risk guarantees to backstop electricity sales contracts with national utilities, in cases where (a) the national utilities are otherwise unable to establish suitable payment mechanism to the satisfaction of the PPP companies; and (b) the concerned Contracting Parties are willing to provide the necessary counter-guarantees to the participating IFIs.

## **Sale of Shares**

If a shareholder wishes to sell a part or all of his shares in any or all national PPP companies, the other shareholders of the concerned national PPP company would have the first right of refusal and other members of the Consortium (shareholders in other PPP companies established under the program) would have the second right of refusal to buy the shares. (Articles of Association of the companies would indicate how the shares would be valued). This approach promotes the stability of the PPP companies and the Consortium and contains if not prevents possible speculation in participation and sale of shares.

## **Pre-Conditions and Breakpoints**

For this market- and private sector-oriented approach to succeed, the Contracting Parties will have to address various fundamental tariff/pricing, market and regulatory issues that have so far significantly contained private generation investment in the Energy Community.

It is currently expected that this regional coordinated approach is feasible only if there is sufficient interest by Contracting Parties and the Consortium to develop gas-fired power stations that would consume at least 3 bcm/annum.

Breakpoint 1: once the Contracting Parties have indicated their interest to participate (or lack thereof), an assessment will be made if there the level of prospective participation and electricity market conditions in the Contracting Parties warrant the launch of the process by the Secretariat to try to attract companies to form the Consortium or if further upfront measures are required.

Breakpoint 2: After the expressions of interest from prospective investors to the Secretariat have been reviewed, an assessment will be made if the level of investor interest warrants the continuation of the program at that time or if further upfront measures are required.

It is possible that even if a Contracting Party has expressed interest in participating in the program, the Secretariat's request for expressions fails to attract sufficient interest to investment in that Contracting Party due to market conditions (or other reasons). Exclusion of a Contracting Party will not prevent the program to continue as long as the prospects in the Contracting Parties that have attracted investor interest are sufficient.

Breakpoint 3: the Consortium may at some point of its preparatory work conclude that conditions – in the Contracting Parties, gas producer countries/sellers, network development, and/or capital markets - are not conducive to proceed to investment decisions. The Consortium may put the work on hold or terminate its effort. While the Consortium will not have an obligation to proceed to investments, it will not have an exclusive right to develop power stations either. Contracting Parties and other investors are free to pursue other projects and approaches.