Undertaking Successful PPPs in Kazakhstan

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PPPs: General principles

“A long-term contractual arrangement between government and the private sector whereby the private sector delivers infrastructure and services traditionally delivered by public sector”

Private sector
- Design
- Construction
- Operate
- Finance

PPP Co
Delivery of infrastructure and/or services

Public sector
- Output service definition
- Payment (based on performance standards)
Procurement options & PPP types

Conventional Procurement

- The procurement of assets by the public sector using conventional funding
  - EPC
  - Design
  - Build
  - DB – not common in region
  - BoQ – time & material

Public Private Partnership (PPP)

- Design, build, finance and transfer (DBFT)
- Build, operate and transfer (BOT)
- Design, build, finance and operate (DBFO)

Full Privatization

- Publicly regulated but privately owned in perpetuity – sale of existing government assets
Market requirements for successful PPPs

A PPP enabling environment requires...

- Strong political will and support
- Adequate project preparation
- Demonstrated need for the project
- Clear, transparent and fair tendering process
- Capacity within government to manage the project
- Availability of debt at acceptable cost
- Technical and financial viability
- Legal basis for PPP projects
- Availability of qualified private sector bidders

- PPP projects can fail at any stage in their project lifecycle if the enabling environment is not in place
- Providing a pro-PPP environment is a function of a proactive government...
  - To attract credible bidders
  - And encourage banks to finance PPP projects
## PPP: The role of Government

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PPP Project Lifecycle

Project Inception - Feasibility Assessment - Tendering - Negotiation & Signature - Construction - Operation

- Project Development: Typically 12 – 30 months
- Project Implementation: Typically 15 – 30 years

Financial Close

Government oversight

- Government Payments
- User fees / tariffs

Draft Bid Documents - Pre-Qualification - Bidding - Bid Evaluation

- REOI
- RFQ
- RFP
- Draft agreement

Shortlist - Preferred Bidder

• Legal
• Technical
• Financial
• Market
• Regulatory
• Affordability
• PSC & Value for Money
Payment Profiles – traditional vs PPP

Conventional public

Estimated capital cost

Time overruns

Running cost overruns

Estimated running cost

Construction phase

Operation and maintenance phase

PFI / PPP procurement

No payments until facilities ready

Payment based on usage

Payment based on availability

Construction phase

Operation and maintenance phase
Financing PPPs

• Investors and third party funders provide the initial required capital through a combination of debt and equity
• 10-30% equity, 70-90% debt
• Debt is issued against the project’s cash flows – not collateral

• Government pays a ‘unitary payment’ for the duration of the project, based on performance standards
• Debt is repaid project cash flows
• Equity is also repaid from project cashflows (IRR = 12% - 15%)
PPPs in Kazakhstan
Kazakhstan has immense infrastructure investment needs

- Rehabilitation / replacement of deteriorating infrastructure
- Provision on new and expanded infrastructure and services
- Ensuring equality of services across the country
- PPP can be a valuable tool to expedite the delivery of essential projects, however it is one of the tools available to government.
- The Kazakhstan government envisions using PPPs in the following sectors for approx. 15% countries infrastructure needs

- Transportation
- Education
- Energy
- Healthcare
- Water & Wastewater
- Housing
- Municipal Services
- Gas Supply
- Heat Supply
- Penal System
- Waste Management
PPP and Legal Framework in Kazakhstan

PPPs was governed by a series of laws, and not a singular PPP law

- The Constitution
- Civil Code
- Tax Code
- Budget Code
- Land Code

And the Laws of Kazakhstan On...

- Project Finance and Securitisation
- Special Economic Zones
- State Support of Industrial Innovative Activity
- Concessions
- Securities Market
- Natural Monopolies
- Investments
- State Property
New PPP related Law amends existing laws

• The legal framework was not robust enough to attract foreign investment as there were may limitations
• New law of the Republic of Kazakhstan dated 4 July 2013 No. 131-V 3PK 'On introducing amendments to certain legislative acts of the Republic of Kazakhstan in relation to introduction of new forms of Public Private Partnership and extension of spheres of its application'
• Came into force on 22 July 2013 (apart from certain provisions).
Aims of the new Law

- To encourage private sector investment in PPPs, and expand the scope of PPPs in Kazakhstan, by:
  - Allowing for more forms of PPP such as BOT, BOO, DBFO...etc. (prior to the law, only BTO transactions were allowed)
  - Allow for availability payments and state subsidies to be made by the government to projects with other than ‘social significance’
  - Providing more flexibility to private sector investors
  - Approximate the Kazakh legal framework to international best practice
  - Allows State contributions to a broader variety of projects
  - Allows for long-term off-take agreements to improve bankability of projects
Renewables in Kazakhstan
Renewable Energy Projects

- Hydro power
- Solar
- Wind
- Biomass (waste-to-energy, waste-to-fuel, biofuels)
- Geothermal
Kazakhstan’s Electricity Generation targets

2013
- Renewables: 15%
- Fossil: 85%

2030
- Renewables: 11%
- Solar: 19%
- Fossil: 70%

2050
- Wind + solar: 14%
- Fossil: 47%
- Nuclear + Hydro: 39%
Planned renewables projects

- 1,040 megawatts of renewable energy capacity by 2020 - hydro, wind and solar
- 13 wind power plants with total capacity of 793 megawatts
- 14 hydropower plants with capacity of 170 megawatts
- 4 solar power plants able to produce 77 megawatts
- 23 billion-tenge ($153 million) wind-power plant near Astana by 2017
- $196 million hydropower plant in the Almaty region by 2015

Many of these projects can be amenable to PPP style procurement
Renewable Energy PPP tariff mechanisms

| Feed-in-Tariff (FiT) | • Electricity producer is paid a fixed tariff that is independent of market electricity prices  
|                     | • Set to allow a reasonable ROI and/or through an initial competition.  
|                     | • Adjustment mechanism / indexation may be included in power purchase agreement (PPA).  
|                     | • Regulator defines specs for electricity supply  
|                     | • Lower risk for developers – agreed tariff is always paid regardless of market electricity prices  
|                     | • Increases entry of private investors in market  
| Feed-in-Premium (FiP) | • Variation of FiT  
|                     | • Producer is paid a premium above current market electricity prices  
|                     | • Premium can be fixed; or  
|                     | • Bound by a ceiling and floor process (to avoid revenue risk to producer, and exaggerated profits; or  
|                     | • Variable – tariff fixed for producer, but premium value is the difference between market electricity prices and fixed tariff paid to producer  
|                     | • Setting the premium can be difficult as prices are always in flux  
| Auctions / tenders | • Regulator defines capacity limits, generation profiles  
|                     | • Bidders submit tariff  
|                     | • Proposal are evaluated technically to ensure compliance and viability  
|                     | • Lowest prices are selected  
|                     | • PPAs signed  
|                     | • Can provide best cost scenario due to competition  

Which mechanism is best?

- Depends on the country’s maturity in renewables PPPs
- Countries in the early stages better to opt for FiT as revenue risk to investor is minimized
- As renewables market matures, a shift to FiP and then Auctions can be made as they limit the power purchaser’s cost
- This phenomenon is observed in countries that have had RE programs for some years, due to a growth in investor confidence in a market, and the decreasing costs of RE, particularly solar.
Summary

- PPP is an alternative procurement route for government to consider
- PPP’s are complex and require upfront and on-going investment from government
- PPP’s are not a ‘no-cost’ option for government
- Significant upfront costs and long term monthly payments to private sector

- Kazakhstan’s new PPP law should improve the ability for government to utilise PPP procurements

- The a multiple examples of PPPs being used to deliver energy and renewable projects across the globe
- A key success factor for energy and renewable projects is the ability to understand the current tariffs and requirements for subsidies
- Project structures are individually tailored to meet specific project’s requirements