Water and Wastewater Development Programme of Rostov-on-Don as one of the most efficient PPP Contracts in Russia

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10 years Experience in Water Sector

2004  First contract in Water Sector (Omsk 1M, sold in 2008)
2005  Lease & investment contract in Rostov-on-Don (< 1M)
2007  Lease contract in Sochi (< 400K)
2010  Concession contract in Krasnodar Region (1,5M)
2011  Short-term lease contracts in Novorossiysk, Eysk, Taman and other small cities (<450K)

< 4M  Population coverage by Evraziyskiy in season peaks
< 7K  Employees in all subsidiaries

$ 1 430M  Total CAPEX programme
$ 1 000M  Loan from Vnesheconombank (2008 for 14 years)
$ 22M   Loan from World Bank (2003 for 15 years)

$ 180M  Consolidated turnover
Overview of the Systems (2014)

Water and Wastewater Utility Company of Rostov-on-Don is the largest water operator in the South of Russia:

1,3M  Total population in service
474K  Drinking water production (m$^3$/day)
       *surface intake: river Don*
274K  Wastewater plant capacity (m$^3$/day)
       *discharge: river Don*
2 694  Water network (km)
137   Water pumping stations
1 414  Wastewater network (km)
70    Wastewater Stations

$ 110M  Turnover
2,6K   Employees
Long-Term Capital Assets Improvement

Pre-conditions:

- Deteriorated water system: shortage in water supply; worn out (by 80%) assets; high unaccounted for water (by 60%)
- Demand from developers for new water and wastewater infrastructure needed for building of 6M m² residential and 2M m² commercial property
- Stable population (migration from Siberia and other regions of Russia)
- International investors willing to place production in the region (PepsiCo, Coca-Cola, Carlsberg)
- Limited access to financing from budget (federal and local)
PPP: Contractual Model

Participation of the Municipality in equity of the Project Company (non-productive assets):
- Mitigation of political risks of the project
- Key decisions made in accordance with corporate governance

Participation of Evraziyskiy JSC in equity of the Project Company (money):
- Funding of the immediate investment programme (2 years)
- New management
- Business processes to cut costs and win benefits
PPP Structure

City Administration
Rostov-on-Don

Long-Term Lease
Contract of Assets

Investment
Agreement

Water &
Wastewater Utility
Rostov-on-Don

Households,
Commercial and
other Customers

PPP: Contractual Model

Long-term lease contract over operational assets of the Municipality (25 years):

- Tender procedure
- Infrastructure built from private money belongs to Project Company
- Buy-out of private property on early termination

Investment agreement to implement two long-term rehabilitation and construction programmes ($928,14M+$111,77M):

- Meeting of standards for drinking water
- Significant improvement of assets condition
- Extension of networks; reduction of power consumption and losses; mitigation of load on environment
- Connection of new individual and collective customers
Financing of CAPEX

Contribution from Private Partner:
- Arrangement of a loan provided by the State Corporation Vnesheconombank
- Reinvestment of operational profit
- Equity
- Collection of connection payments from new customers
- Other sources

Contribution from Public Partner:
- Application by Investment Fund of Russia to obtain support in the form of budget subsidy from federal and regional levels to the Municipality of Rostov
- Setting of connection tariffs for new customers covering needs of the Private Partner
- Subsidy to the Private Partner to cover a part of interest cost on loans
The total amount of capital expenditures is over $1,039M, which is distributed as follows:

67% new construction and extension of existing facilities and networks to enable connection of new customers due to the growth of the service area

27% reliability of operation improvement to ensure stable services meet quality standards for drinking water and wastewater discharged in Don river

6% operational efficiency enhancement to gain economical benefits
**Capital Investment Programme**

**Economic Environment**

**2004-2012** significant tariff increases (+60%) have covered OPEX & CAPEX needs; cost savings have allowed to reinvest profit ($17M)

**2013-2018** limitation of operational tariffs growth: CAPEX is financed from connection fees only, which include costs for reconstruction of existing facilities and construction of new infrastructure; significant drop of consumption (-20%)
Capital Investment Programme

Components Examples

- Reconstruction of the biggest WTP, replacement of free Cl by NaClO
- Creation of a dispatch and control system
- Building of new water mains (41.7 km)
- Construction of 3 ultraviolet units at WTP
- Building of the hydraulic model for water network
- Reconstruction of 4 water PS
- Creation of a dispatch and control system
Capital Investment Programme

Goals Achieved

Power in the Cost Structure
37% => 25%

Steel Pipes Decrease
52% => 37%

Power Consumption
-15.7%

Accident Rate in Network
-17%

Plastic Pipes Increase
4% => 39%

Steel Pipes Decrease
52% => 37%
Lessons Learned

Positive:

- Flexible PPP contract structure allowed to fund money from banks and to receive support from the State Investment Fund
- Close cooperation between stakeholders helped to adjust project parameters in line with economical environment
- Experience obtained during project preparation and implementation was used in other projects (Sochi, Krasnodar region)

Negative:

- Lack of supporting mechanisms from the public partner for loans security
- Change in tariffs policy at the federal level slowed down implementation of the project
- Very difficult and expensive procedures of Vnesheconombank resulted in additional cost for the private partner