Asia Clean Energy Forum
Case Study on Offtaker Credit Enhancement:
Sherabad Solar Project, Uzbekistan
Uzbekistan Solar PPP Program: Background

- **Issues**
  - Heavy reliance on fossil fuel call for a shift to deployment of renewables at scale
  - $40 billion investment needs by 2030 for modernizing power infrastructure and meeting fast-growing power demand
  - Low creditworthiness of the state-owned off-taker JSC NEGU, along with virtually non-existent track record with private sector projects, is the key stumbling block.

- **Main Drivers for Project**
  - Government’s strong commitment for macro-economic reforms, and to seeking high economic efficiency and private sector participation in power sector
  - Well aligned with the Government’s power sector development plan to deploy renewable energy project at scale. CWEN assisted with an energy sector loan targeted at the state-owned utility (JSC NEGU)
  - OPPP (now called OMDP) has a Transaction Advisory Services Mandate for 1GW of Uzbekistan Solar IPPs.
## Sherabad Solar Project (Initial Design)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
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<tbody>
<tr>
<td>Location</td>
<td>Sherabad, Surkhandarya region</td>
</tr>
<tr>
<td>Total area</td>
<td>600 ha</td>
</tr>
<tr>
<td>Capacity</td>
<td>Minimum 200 MW</td>
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<tr>
<td>Estimated generation</td>
<td>Minimum 459 GWh per annum</td>
</tr>
<tr>
<td>Contractual Arrangement</td>
<td>25 year “take-or-pay” power purchase agreement, investment agreement, land lease contract</td>
</tr>
<tr>
<td>Estimated Total project cost</td>
<td>$ 190 million</td>
</tr>
<tr>
<td>Target COD</td>
<td>December 2021</td>
</tr>
<tr>
<td>Project Type</td>
<td>BOO or BOOT by private sector</td>
</tr>
<tr>
<td>Unique Feature</td>
<td>Including substation/transmission line development and transfer the ownership to the state upon completion</td>
</tr>
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Sherabad Solar Project (Initial Design)
# Guaranteed Letter of Credit: Overview

<table>
<thead>
<tr>
<th>Risks</th>
<th><strong>Used to cover delayed or non-payment by government counterparty (Offtaker or Government Contracting Agency)</strong></th>
</tr>
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<tbody>
<tr>
<td>Rationale</td>
<td><strong>Fast disbursing, it disburses cash “on demand” without arbitral award, supporting project company liquidity</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Reduces project risks and eventually costs</strong></td>
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<tr>
<td></td>
<td><em><em>High Leverage, [5-10%]</em> of project cost</em>*</td>
</tr>
<tr>
<td>Criteria</td>
<td><strong>Developing market/ first in kind projects</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Government or Offtaker credit rating is low</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Commercially viable!! This is not a band-aid</strong></td>
</tr>
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*Depending on the tariff
Guaranteed Letter of Credit: Benefits

**Lenders**
Certainty of cash flow makes the project attractive and results in a **lower risk, lower interest rate loan**

**Bidders/Sponsors**
The lower risk in the project, as well as the AAA rating of the ADB, translate into **lower cost of capital for the bidder/concessionaire**

**SOE**
**Longer time (12 months) to sort our cash shortfall/budget issues** without being in default of the Power Purchase Agreement

**Government / Consumers**
Increased competition and lower costs and result in **lower tariffs** = **cost savings for consumers**
PCG Backed Letter of Credit (L/C) Structure – Sherabad Solar IPP

1. Power Purchase Agreement

National Electric Grid of Uzbekistan (Purchaser)

2. $9.1 million Standby L/C

Project Company (Nur Sherabad Solar PV)  
Project Cost = $431.2 million

3. Reimbursement and Credit Agreement (RCA)

4. Government Support Agreement

Government of Uzbekistan (MIIT and MOF)

5. Partial Credit Guarantee (PCG)

L/C Issuing Bank (Natixis, A-)

6. Counter Guarantee and Indemnity Agreement

Asian Development Bank (AAA)

Private Partner  
Masdar (UAE)

Lenders  
(ADB, EBRD, AIIB, EIB)
Guaranteed Letter of Credit: Process

1. DMC Requests PCG
2. Road Show (DMC/OPPP)
3. Pre-Qualification
4. RD Concept Clearance
5. ADB Term Sheet
6. RFP Issuance to Bidders

**Key Points**

- Request from Government should come early in the process, before tendering starts.
- ADB concept must be cleared before tendering in order to give a signal to bidders.
- Terms are given *early* (with RFP issuance) so as to give the proper signal to bidders and encourage more competitive bidding.
ADB appointed as transaction advisor to MoE

Completion of feasibility study

Launch formal tender process

EoI closed: 54 EoI’s received

RFQ closed: 11 prequalified

RFP closed: 5 bids received

Masdar declared winner; PPP agreement signed

Financial Close and Commercial close for the Second Project (Guzar)
Guaranteed Letter of Credit: Sherabad Solar Results

- Project result demonstrates...
  - Involvement of renowned private sponsors, contractors and lenders means projects incorporate international best practices making projects much more robust and reliable
  - well-structured tender with bankable PPAs results in true price discovery and better terms for the off-taker although this mainly depends on the PPA bankability, resource abundance, land availability, regulatory certainty and off-taker credit rating
  - Additional optimizations such as the inclusion of a credit enhancement mechanism and public support for public infrastructure significantly improves the attractiveness of projects for the private sector and, hence, deliver better results for the buyer of power

- These bids were unusual and at the time were among the lowest prices in the world. Each country circumstances will affect the outcome the bids. Prices shown here do not include the transmission line.
Thank you! Q+A

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Case Study: Points on Guaranteed L/C (if time allows)
Guaranteed Letter of Credit: Mechanism

1. Off-taker/Government Contracting Agency (GCA) defaults in a payment obligation (e.g., under Power Purchase Agreement).

2. Project Company draws on the Standby Letter of Credit from an A rated commercial bank (L/C). The L/C is guaranteed by ADB’s Partial Credit Guarantee (PCG).

3. L/C Issuing Bank will then seek reimbursement from Off-taker/GCA. Reimbursement period of [12 months] commences. If Off-taker or Government pays within reimbursement period [12 months], then the L/C is reinstated, and no further action is taken.

4. If Off-taker or Government does not pay within reimbursement period [12 months], then ADB pays the L/C Bank under its AAA rated PCG.

5. ADB triggers the counter-guarantee and indemnity and discusses remedies with Government. ADB has the same rights under its counter-guarantee as it does under its sovereign lending agreements.
Could the Letter of Credit be applied in other sectors?

- **This structure is needed commercially under the following conditions:**
  - Perception of weak offtaker or government contracting agency by the market
  - Newer projects/ first in kind, developing market
  - Government is willing to have a sovereign undertaking for the project
  - Government credit rating is weak
  - Project is commercially viable!! This is not a band-aid that can be applied to an unattractive PPP.

- **Examples of other sectors where this can be applied:**
  - **Road, Hospitals and Schools development projects with availability payments** – an LC can backstop government’s payment obligations
  - **Water Supply or Wastewater Treatment** – when there is an offtake arrangement for wastewater or bulk water supply

- **Comprehensive sector intervention needs to be considered**
  - Formulating enabling regulatory framework and addressing fundamental underlying SOE’s offtaking risks need to be carefully addressed.
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