

Dabhol trouble: Dabhol II gas-fired power

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03/10/2018

(Originally published in the [20th Anniversary edition of IJGlobal](#) in December 2017. These articles take a retrospective look at 10 notable deals which have reached financial close since 1997)

WHAT WE SAID THEN: “Many Indian power projects have attracted attention in recent years – mostly for the wrong reasons. Not Dabhol II.” (ed. Not our finest hour)

Time to confess. In 2000 Project Finance Magazine (*IJGlobal's* predecessor title) gave Dabhol II the Asian Power Deal of the Year award. But in our defence, it was impossible to see at the time how the project would become one of the largest ever white elephants in global power finance, or how its principal sponsor Enron was on the verge of collapse and disgrace.

At first glance the expansion financing for the Dabhol gas-fired power plant in Maharashtra state had much to recommend it as an award winner.

It was India’s largest ever non-recourse financing and the expansion was due to make Dabhol the largest gas-powered IPP anywhere in the world.

But like much to do with Enron, looking below the surface uncovered all sorts of horrors. We do not have space here to tell the whole story of how dodgy accounting and endemic corruption brought down one of the world’s largest energy companies. But the post-financial close Dabhol disputes were an early warning that all was not well with the company from Texas.

The support Enron secured for the financing of Dabhol and the speed at which it completed the deal demonstrate how powerful the sponsor was at the time.

Enron raised just over \$1 billion in debt from local and international banks, as well as two ECAs, in less than a year. This was at a time when many banks were wary of emerging market risk, in the wake of the Asian financial crisis of 1997.

Dabhol II entailed the construction of a 1,444MW expansion to the existing Dabhol plant, taking it to 2,184MW in total; a 5mtpa regasification facility; a 135,000 cubic metre LNG vessel; and the development of associated port facilities including fuel jetty, navigation channel and breakwater.

The project was the first LNG terminal financed on the basis of multiple suppliers of LNG: a 20-year agreement with the Oman LNG company to buy 1.6 million tonnes of LNG per year and 480,000 tonnes more from Abu Dhabi Gas Liquefaction under a separate 20-year deal.

Even before the formal agreement for the first phase had been signed with Dabhol Power Company (a consortium led by Enron and also featuring GE and Bechtel), the World Bank had warned that the proposed contract was too one-sided in favour of the sponsors. The deal was negotiated on a bilateral basis with no competitive tender.

The plant benefited from a very generous power purchase agreement signed with the financially insecure Maharashtra State Electricity Board (MSEB). The terms of the PPA drew much criticism, but the fatal blow they would inflict on the project only became clear a few years later.

Stage one of the project came online in May 1999 and the financing for stage two was completed shortly afterwards. At the same time MSEB was cancelling a purchase agreement with local generator TEC. The local company sold power to the electricity board at less than half the price of Dabhol, but unlike with Dabhol it was not obligated to take TEC's power.

MSEB could have purchased power from other generators at a third of the price of Dabhol if it wasn't obligated to buy from Enron under the terms of the PPA. By June 2000 it has been reported that MSEB owed an outstanding bill of \$50 million to Dabhol Power Company.

This led to attempts at renegotiation, then legal challenges to the PPA, threats by Enron to close down the plant and walk away, and finally lobbying by the US government on behalf of Enron.

And then came the unravelling of Enron, as it was revealed that it was only being sustained through accounting fraud. The company, which had been the seventh largest US corporate in the world, filed for bankruptcy in late 2001.

Dabhol was shut down by Enron in 2001. The state-owned National Thermal Power Corporation, state-run gas firm GAIL and a group of Indian banks took over the plant in 2005, eventually bringing it back online in July 2007.

Dabhol II

Financial close: June 1999

Description: Financing the construction of a 1,444MW expansion of the Dabhol gas-fired power plant, a 5mmtpa regasification facility, a 135,000 cubic metre LNG vessel, and associated port infrastructure.

Sponsors: Enron; Bechtel; GE Capital Structured Finance

Debt: \$1.082 billion

ECAs: Jexim; OND

Joint arrangers: Credit Suisse; First Boston; ABN Amro

LNG suppliers: Oman LNG; Abu Dhabi Gas Liquefaction

Offtaker: Maharashtra

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