

TPP Stanari thermal power plant, Bosnia Herzegovina

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EFT - Rudnik I Termoelektrana Stanari d.o.o., an affiliate of Swiss energy trader Energy Financing Team (EFT A.G.) agreed the construction and financing documents for its 300 MW thermal power plant (TPP) in Stanari, Republic of Srpska in Bosnia Herzegovina in June this year. Signing the agreements is a major milestone for this integrated mine and power project and the various parties are currently working their way through a number of condition precedents to achieve financial close.

The project is based on three concession agreements awarded by the Government of the Republic of Srpska, for mining, water and power, to EFT. The mining concession was granted in 2005 and the concession for the TPP was signed in 2008. Since 2005 EFT has heavily invested in the rehabilitation of the mine sites (which had suffered badly during the difficult years of the 1990s) and this has resulted in significant production increases. EFT will continue to conduct mining operations pro tem but once operational the power plant will be the primary consumer of the lignite coal from EFT's Stanari mines. The TPP will be built on land that is contiguous to the mine sites and will be connected by a coal conveyor. The on-site location of the coal is one of the reasons that will make the TPP a very economical source of power. EFT Stanari already has experience in project management (through its mining operations), has over 400 employees and is certified to international standards of operation and management.

The TPP will be built under the terms of an EPC contract signed with major Chinese state owned power construction company - Dongfang Electric Corporate (DEC). DEC will manage the construction of the TPP, supply the power generators and assume operational and maintenance responsibilities following completion and handover, with completion scheduled within 45 months of the commencement of work. The agreements for the construction and delivery of the mine related equipment and the electricity sub-station that will connect the TPP to the local grid have been signed with European and local contractors. The co-ordination of the delivery programs for these items and the bringing of the TPP on stream will be supervised by a technical advisor from a consortium of Colenco Ltd and Steinmuller Engineering GmbH; they will have oversight on the entire project.

EFT engaged a series of external advisors to conduct the necessary studies in respect of the project, including the environmental and social impact of the project, the regional energy market, mining technology (required to allow the production of the mines to be ramped up and maintained over the life of the TPP) relating to geological and hydrological issues and more generally the overall financial viability of the project. The power plant technology to be supplied by DEC and emission guarantees provided under the EPC contract are intended to ensure that the TPP emissions comply with current and future EU and local requirements.

China Development Bank (CDB) is providing a €350 million credit facility to EFT Stanari. The financing facility is structured as a project financing but also benefits from strong sponsor support. The overall investment in the TPP is €550 and the

sponsors will inject equity in line with drawings under the facility. Given the robust economic fundamentals for the project and EFT's experience and reputation as a power trader in the region there was no requirement to provide significant public sector support for the project. Export credit support has been provided by the Chinese export credit agency Sinosure in respect of political risk.

The major hurdles for achieving agreement have been not so much the technical challenges or the economics for the project - all of which the parties and third party experts were entirely comfortable with - but the uncertainties of the legal framework in Bosnia Herzegovina. Inconsistencies in land title registrations gave concerns about the ability of EFT and the Government to acquire land that will be used in the future development of the mine. There will be a close monitoring of progress with land acquisition by CDB. Difficulties in establishing robust security structures in Bosnia Herzegovina were mainly due to a lack of clarity in the law and a lack of legal authority on security instruments that project financiers take for granted in a number of other jurisdictions. Government approvals were required to allow project accounts to be established outside Bosnia Herzegovina but the fact that such approvals were given is testament to the realism of the local authorities and their commitment to the project. Local regulations requiring insurances to be placed with local insurers before being underwritten by foreign reinsurers created real difficulties when they were looked at in the context of tight foreign exchange regulations.

The project benefited from strong commitment by all parties. The CDB in Chengdu (and its head office in Beijing) and DEC dedicated experienced and motivated teams to the project and EFT had a deft hand in bringing the teams together and maintaining momentum while also allowing the necessary time for everyone to understand and become comfortable with what was the unfamiliar legal and regulatory environment of Bosnia Herzegovina.

The project represents a "first" on many levels; the first significant power generation asset for EFT, the first project financing for a concession in the Republic of Srpska, the first TPP to be built using Chinese equipment in Europe and the first financing to fall into China's dedicated fund for infrastructure projects in Eastern and Central Europe.

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