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LIBERALIZATION OF ENERGY MARKETS, EGYPTIAN EXPERIENCE

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LIBERALISATION OF ENERGY MARKETS, EGYPTIAN EXPERIENCE

- I. Private Sector Participation in Power Generation
- II. Privatization of the Electricity Companies

I. PRIVATE SECTOR PARTICIPATION IN POWER GENERATION

Power Projects Financing

From "Balance Sheet" financing

To "Project Financing".

Financing of BOOT Power Projects

Normally (20-30)% equity, (70-80)% Loans

	Sidi Krir		Suez Gulf /		Total	
	MUS\$		Port Said East		MUS\$	
			MUS\$			
Equity	100	23%	118	32%	336	29%
Loans	320	77%	252	68%	824	71%
Total	420		370		1160	

Power Plants BOOT Projects The First Egyptian Experience

- The most successful BOOT projects in the developing countries.
- EEA will purchase electricity for the lowest electricity price (2.54US\$/Kwh).
- The Financial Closure of the Project was on 21st July 1999.
- The construction started.

Preparation for the BOOT Projects:

- EEA selected a consultant through international bidding to assist in developing the different activities required for the project: selection of short list of experienced developers, preparation of RFP, Bid evaluation and contract negotiations.
- A new legislation (Law No. 100 of June 1996) modifying Law no. 12 establishing EEA has been issued to allow: Private Sector Developers: to invest in Electric Power Generation Projects in Egypt.
- Developers, Contractors, and Investors in the BOOT Project will be enjoying the benefits of Law no. 8, 1997: "The Investment Guarantees and Incentives Law", Tax Exemption, Currency Conversion, Repatriation of Profits, Protection against Nationalization of Expropriation...etc.
- The Guarantees offered by the Central Bank Guarantee all EEA Payment obligations and offers a Central Bank Backstop on foreign currency availability.
- The fuel supply agreement is provided by Ministry of Petroleum as commitment for the supply and delivery of the fuel required to the project (Natural Gas as main fuel, and Fuel Oil as backup fuel) on calorific basis.

THE PROCESS

The Process Included Three Phases:

The First Phase, Pre-qualification and Short List Selection.

The Second Phase , Preparation of the Request for Proposal, Evaluation and Selection of the Best Bidder.

The Third Phase , Negotiations and Execution Of Project Agreements.

Egypt Generation Plan up to the year 2010

- The generation plan for the next ten years includes the addition of another 14 power projects of 9300 MW. The annual additions range between 650 MW to 1300 MW.
- This plan includes steam power plants, combined cycle, wind farm, pump storage, as well as, gas turbines.
- The total investment required for these projects is estimated to be US\$ 7.2 Billion.
- All these projects will be Built, Owned, Operated by the private sector.

Second and Third BOOT Power Projects in Suez Gulf and Port-Said East (2 X 325 MW Steam Units Each)

- On November 30, 1998. Seven consortiums submitted their proposals for both projects and one additional consortium submitted a proposal for Port-Said East only.
- The prices ranged between 2.37 to 2.87 U\$/kWh for Suez Gulf and between 2.37 to 2.98 U\$/kWh for Port-Said East.
- In January 1999 the evaluation of proposals was finalized and the results were announced. Electricité de France (EdF) was the selected Bidder for both projects
- Negotiations commenced with EDF consortium on Feb. 22, 1999. The Agreements are under preparation for signature in September 1999.

**Suez Gulf & Port Said East
BOOT Projects
Time Schedule**

- Invitation For Pre-qualifications	April 12, 1998
- Submission of Pre-qualifications	June 30, 1998
- Selection of Short List	August 17, 1998
- Issuance of RFP	September 20, 1998 (Suez Gulf)
	September 30, 1998 (Port Said East)
- Submission Date.	November 30, 1998
- Notice of Proposal Evaluation Results	February 1, 1999
- Commencement of Negotiations	February 22, 1999
- Execution of Agreements.	September, 1999

Conclusion

The Main reasons Behind the Success of the Egyptian BOOT Projects:

- Government support
- The credit worthiness of the Egyptian Economy.
- The Central Bank guarantee to all EEA's financial obligations under the PPA.
- The investment guarantees and incentives offered by Law 8,1997.
- The assistance of an experienced international consultant.
- The professionalism and transparency of EEA in handling the project.
- The appropriate allocation of risks.

II. PRIVATIZATION OF THE ELECTRICITY COMPANIES

Pre-Privatization Procedures

In 1998 major policy action was undertaken for restructuring the power sector by issuing Law 18 / 1998 concerning some provisions related to the Electricity Distribution Companies (EDCOS), Generating Stations and the Transmission Networks and the amendment of some provision of law 12 / 1996 establishing EEA.

Main Features of the Law 18 / 1998:

- EEA 7 zones, responsible for generation are merged with the 8 distribution companies into 7 companies responsible for generation and distribution.
- EEA is the owner of these seven companies.
- The rules of the law 159 / 1981 for joint stock, partnership and limited liabilities companies and the law 95 / 1992, the capital market law, shall apply to all these companies.
- The main backbone extra high voltage (500, 220 & 132 kV) transmission network would still be owned and operated by EEA.
- The dispatching will continue to be the responsibility of EEA.
- EEA will be responsible for the planning of new power & extra high voltage transmission projects and the purchase of the power produced by the BOOT projects.
- The public offering of the shares of the 7 Electricity Companies (ECs) with the percentages which the cabinet of ministers approve, provided not to exceed 49% of the total equity.

Privatization Procedures

I. Consultancy Services

On March 4, 1999 EEA signed a contract with Merrill Consortium for the following consultancy services:

- Valuation of the fair market share value.
- Preparation of the information memorandum and other documentation needed for Initial Public Offering (IPO)
- Marketing and implementation of sales.

II. Implementation of Services:

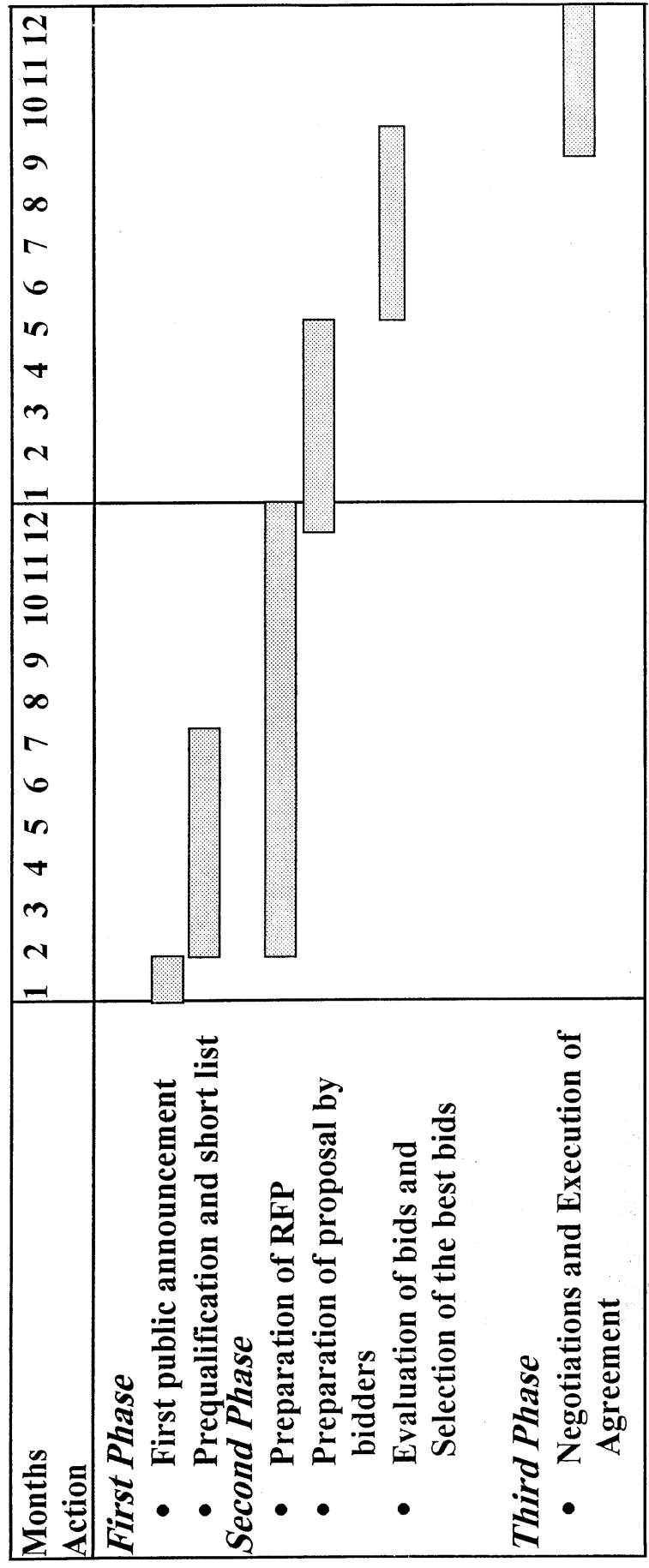
- The consultant started the implementation of the contract with Cairo Electricity Company.
- The draft report "Preliminary Valuation For Cairo Electricity Company" is submitted in June 1999.
- The technical & financial due diligence is going on in the other six Electricity Companies.

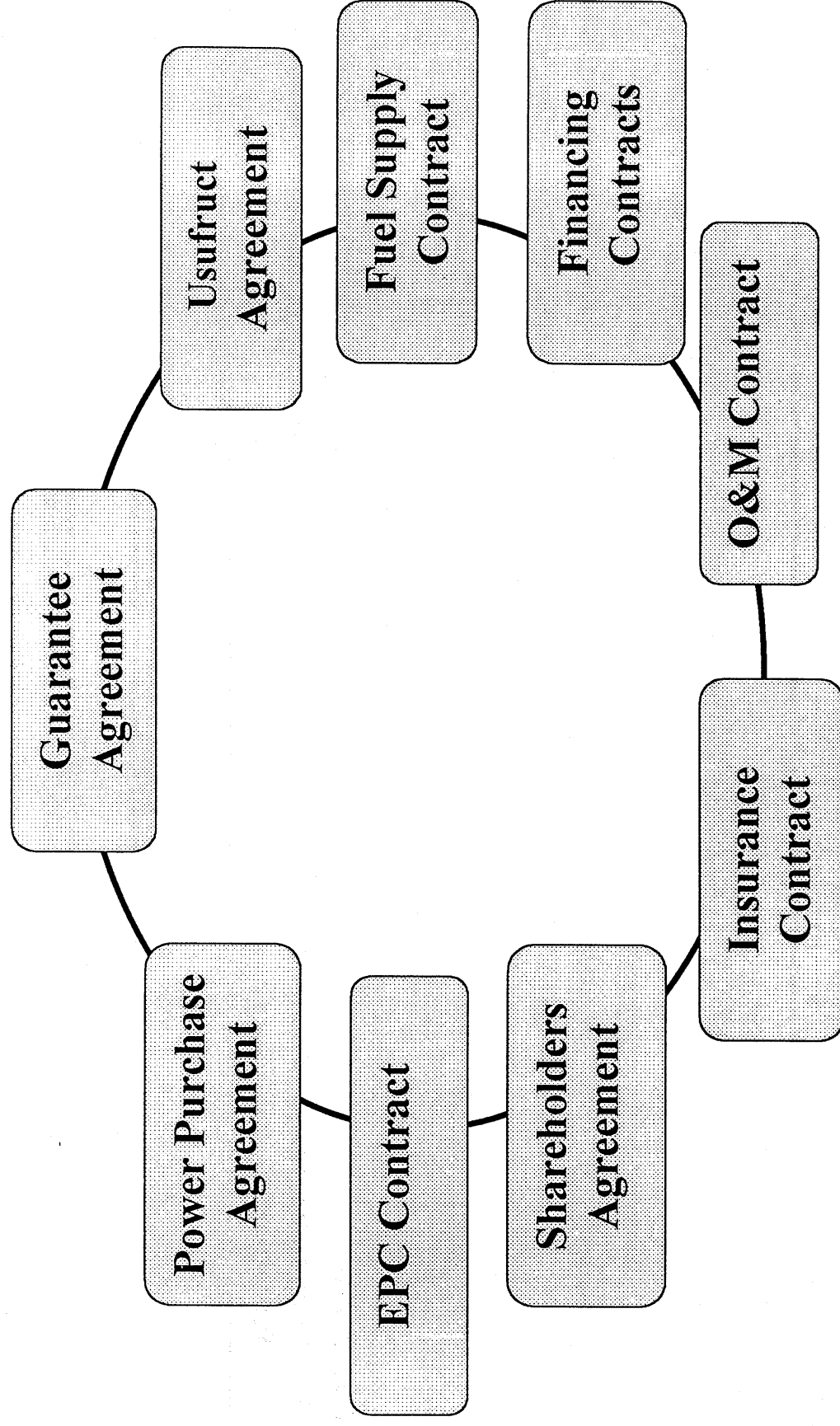
Pre-Requisite to Privatization

To be attractive to the investors, the Electricity Companies (Focusing on Cairo) are being investigated from the following technical, financial and commercial point of view:

- 1- Capital Restructuring (Debt/Equity).
- 2- Government overdue account receivables are to be offset against due to the Ministry of Finance.
- 3- Payment by Public Enterprises of its overdue account receivables.
- 4- Appointment of a Strong Regulator with clear regulatory strategy and end vision.
- 5- Mitigation of Exchange Rate Risk by transforming the Foreign Loans to Egyptian Pounds.
- 7- Management Focus on Profitability and Improving efficiency.

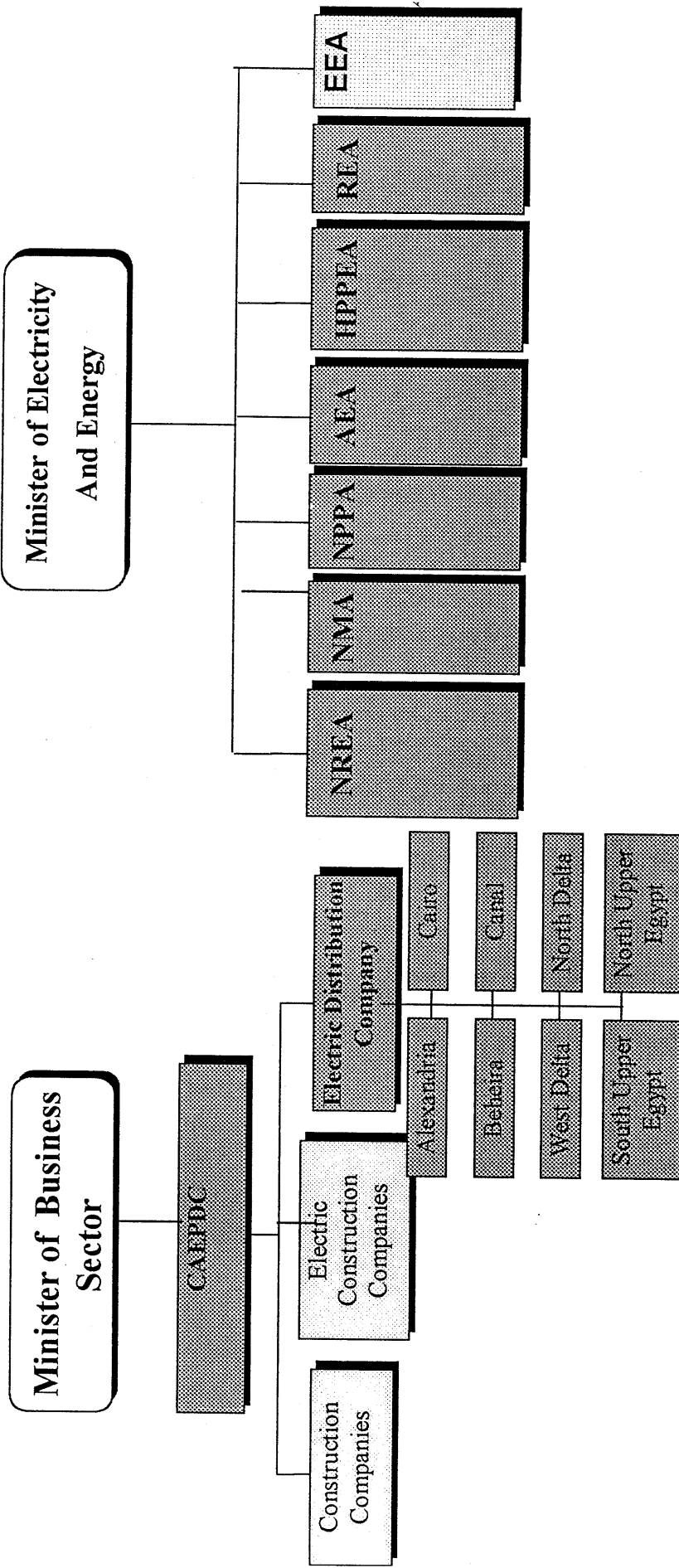
The Time Schedule Of The Selection Process Of The First BOOT Project





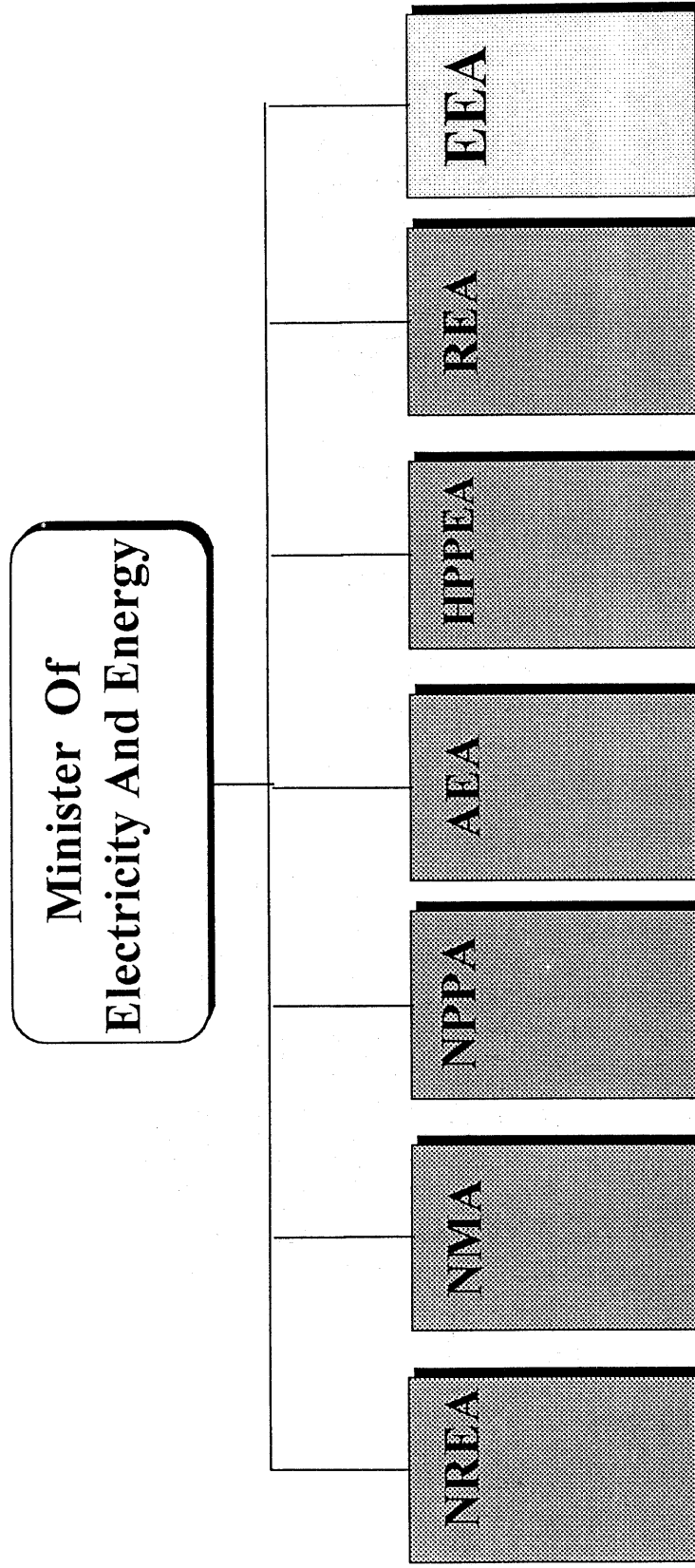
The principal BOOT Project Agreements

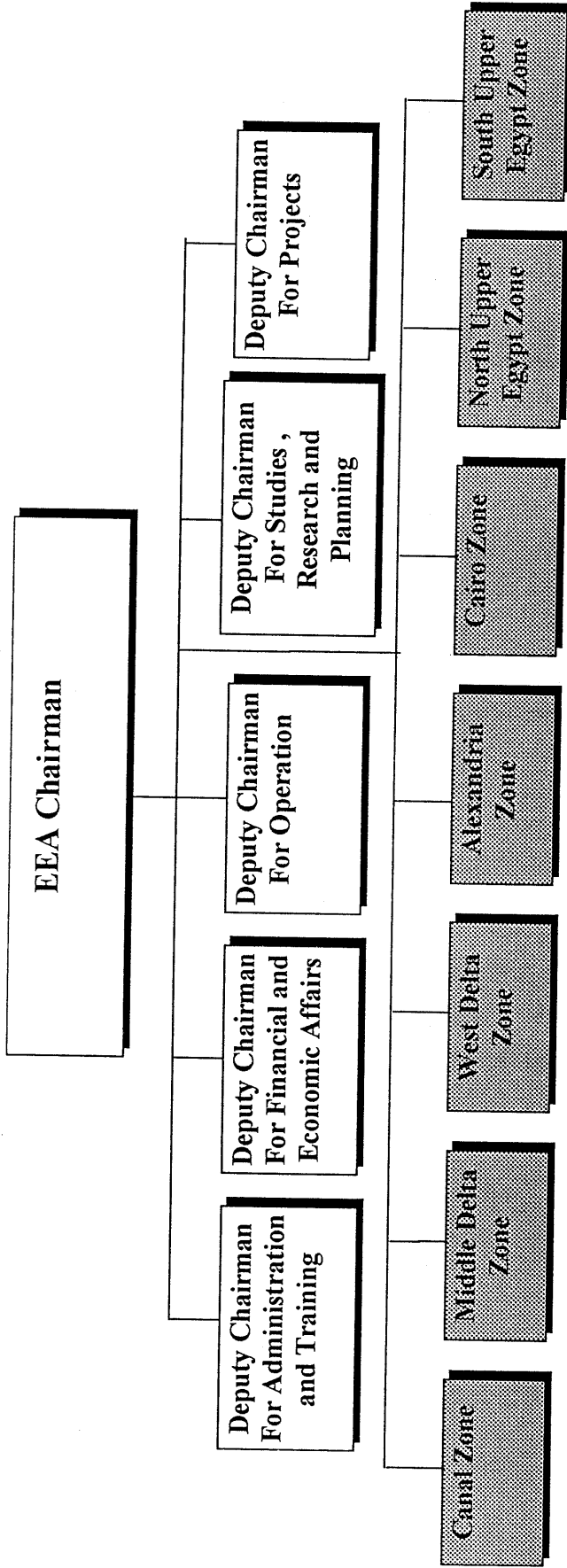
Name and Type	Capacity (MW)	Announcement	Commissioning
Suez Gulf P.P. Port Said East Steam P.P. EL-Kurimat Solar/Gas P.P. Total	2x325 2x325 1x150 1450	1998	2002/2003 2002/2003 2003/2004
Sharm El-Sheikh Steam P.P. Toshki Steam P.P. Total	2x325 2x325 1300	1999	2003/2004 2004/2005
Safaga Steam P.P. Zafrana Wind Farm Total	2x325 300 650	2000	2004/2005 2004/2005
El-Daba'a Steam P.P. Total	2x325 650	2001	2005/2006
El-Nubaria Combined Cycle P.P. Total	4x300 1200	2002	2006/2007
Cairo North Combined Cycle P.P. Total	2x300 600	2003	2007/2008
Kafr El-Dawar Gas P.P. Extension of Cairo West Steam P.P. Delta North Combined Cycle P.P. Total	3x100 2x325 2x300 1550	2004	2007/2008 2008/2009 2008/2009
Extension of El-Daba'a Steam P.P. Attaqa Pumped Storage P.P. Total	4x325 2x325 1950	2005	2009/2010 2010
Total Capacity	9350		



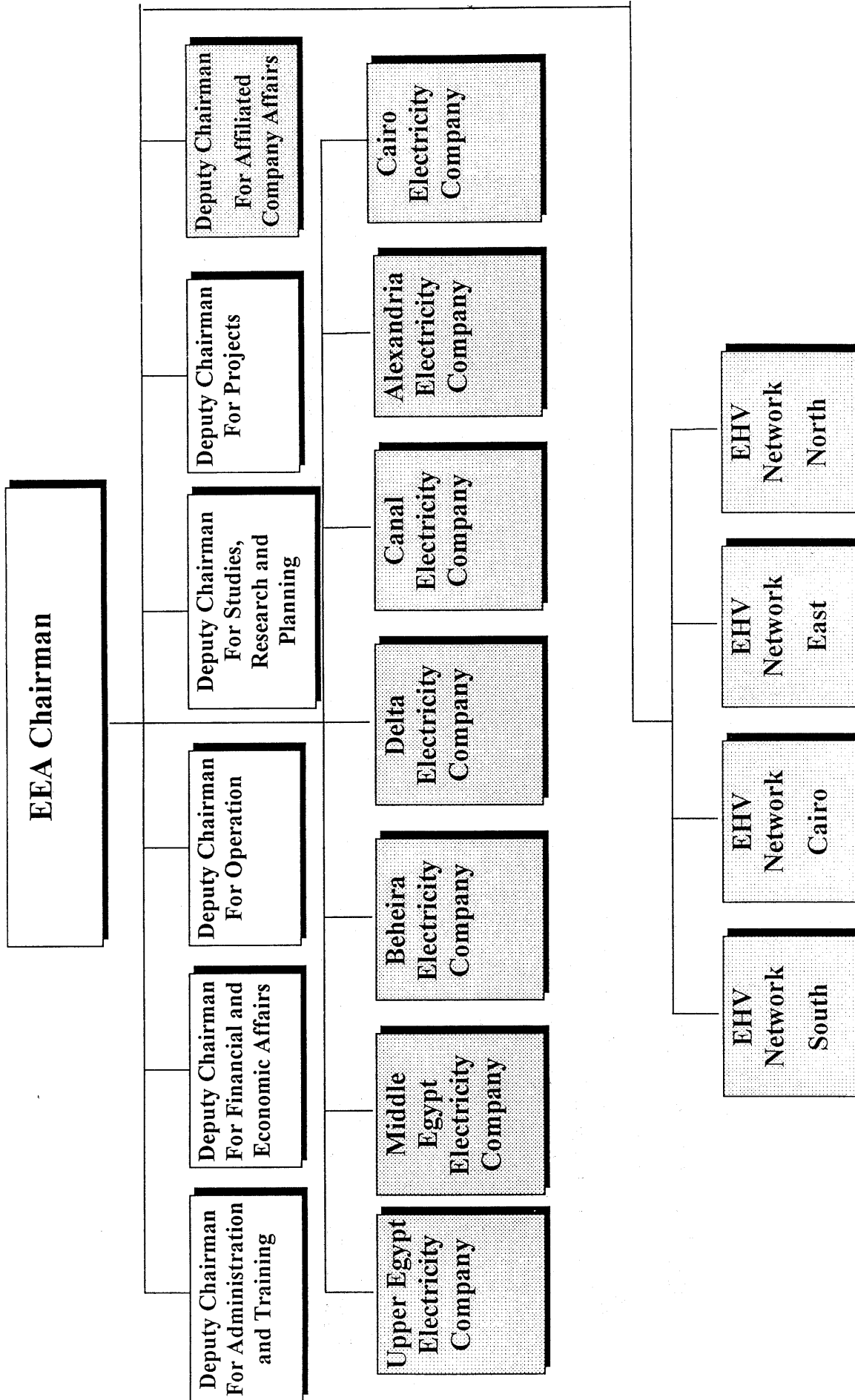
The Organization Structure

After Restructuring





After Restructuring



The Electricity Companies

Main Indicators

The Seven Companies		Cairo	% Total
* 35	Power Plants	8	23
* 14,000	MW Installed Capacity	3,186	23
* 68,000	Gwh Generation	16,000	24
* 56,600	Gwh Sales	18,400	33
* 13,000,000	Customers	3,600,000	28
* 105,000	Employees	22,900	22
* 44	Billion LE Assets	12.2	28
* 9.3	Billion LE Revenues	3.0	32
* 7.2	Billion LE Accounts Receivables	3.0	42
* 660	Million LE Net Income	280	42
* 3.8 : 1	Debt / Equity(4.8 : 1 - 2.33 : 1)	4.8 : 1	

