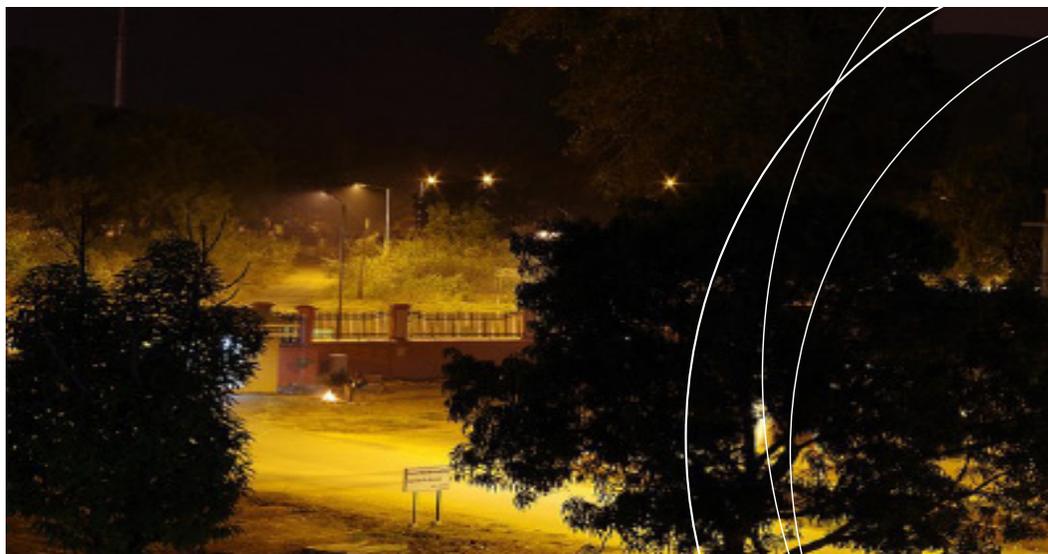




# Public-Private Partnership Stories

## India: Odisha Public Streetlighting



For Government of Odisha (GoO), providing reliable basic services such as street lighting to its people is a priority. In many cities in the state of Odisha, street lighting, especially in the small streets and residential areas, is patchy, or non-existent, causing inconveniences and safety concerns to its people. Moreover, the old, inefficient lighting system was costly, adding unnecessary financial burden on its cities. In order to address these issues, the Housing and Urban Development Department (HUDD) of GoO sought the guidance of IFC to structure a Public Private Partnership (PPP) for five Municipal Corporations of Bhubaneswar, Berhampur, Cuttack, Sambalpur, and Rourkela to identify a private sector partner.

After a competitive bidding process, Consortium of Novalume A/S and Neev Energy LLP (Consortium) has won the bid to implement the project. Odisha Project IVS has been set up as a 100% subsidiary of Novalume A/S to form a Project SPV with Neev Energy LLP and Energy Efficiency Services Limited (EESL), a Government of India entity, which will hold 26% equity stake in the Project SPV. The Municipal Corporations of the Project Cities signed an 8-year Supply, Installation, Operation and Maintenance (SIOM) Agreements with the Consortium and EESL on July 30, 2016 to implement energy efficient street lighting system across their respective cities in Odisha.

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This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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## BACKGROUND

Street lighting in Odisha suffers from inadequate infrastructure and operational deficiencies which put financial burden on cities as well as posed inconvenience and safety concerns for its inhabitant. To address these issues, the HUDD decided to partner with a private sector firm through a PPP for five selected cities. The project aims to achieve:

- Energy savings: Through replacement of conventional fixtures with LEDs and operation and maintenance of the system.
- Improved services through automation: Through control-center based remote operation, real-time condition monitoring and predictive repair, complaint management through centralized call center and adequate field crews to minimize down-time.
- Infrastructure improvement: Through greenfield systems for new sites, correction of single drop points, reconductoring/underground cabling, outreach arm replacement.

## IFC'S ROLE

IFC served as lead transaction advisor to HUDD, GoO to select private partner under a PPP model to install, operate and maintain energy efficient street lighting system in the Project Cities. IFC's role included technical, legal, and analytical support including:

- Conducting a detailed field survey to assess the existing infrastructure, the desired infrastructure, the associated project cost, estimated bill for street lighting, etc.
- Reviewing social, legal, and commercial issues related to the project to identify and assess impediments and/or constraints that could affect private sector participation under different contractual schemes and financial arrangements, and to design a risk allocation framework.
- Leading discussions with potential investors to gauge commercial viability of the project, investor interest, and enable optimal project structuring.
- Managing the bid process, including preparation of bid documents and evaluation of bids.
- Conducting a technical demonstration to evaluate the technical experience of the bidders and demonstrate the lux level, illumination ratios and other parameters of the luminaires proposed by the bidders.

## TRANSACTION STRUCTURE

The project involves replacement of approximately 40,000 street lights across Bhubaneswar, Berhampur, Cuttack, Rourkela and Sambalpur in Odisha. The winning bidder, Consortium of Novalume A/S (through its 100% Subsidiary Odisha Project IVS) and Neev Energy (the Consortium) will set up a Project SPV with EESL, which will hold 26% of the equity stake in the Project SPV. The project will have an installation period of 12 months and will be implemented (installation) in a phased manner.

The Project SPV will be responsible for operation & maintenance of the street lighting system of all the five cities after the completion of

the installation works and meeting performance indicators during the term of the project. The Project SPV will be entitled to receive the following from the GoO:

- Capital subsidy of 90% of the project cost during the installation period, of which 80% of the project cost will be met by way of financial assistance from Odisha Urban Infrastructure Development Fund (The balance 10% will be mobilized by the Project SPV by way of equity.)
- Annuity fee for operation and maintenance for 7 years.

Annuity fee will be paid upon verification of the performance indicators.

## BIDDING

A two stage bid process was adopted to identify the implementation partner. On 6 October 2015, the GoO commenced a competitive bidding process and the five Municipal Corporations issued the request for qualification. The tender received a good response and seven established private players submitted their applications. On 14 March 2016, GoO, issued a Request for Proposal (RfP) and three bidders submitted their bids. A technical demonstration was conducted during which the bidders demonstrated adherence to technical parameters such as LUX and illumination ratio for the LED ratings proposed by them. Upon successful demonstration using a lower wattage LED, energy savings/efficiency factor was calculated. All three bidders were declared as technically approved during the technical demonstration. The financial proposal comprised the bid parameter, which was the summation of total capital expenditure, NPV of annual O&M payments and notional interest less NPV of energy savings/efficiency factor and the bidder with the lowest bid parameter was to be declared as the preferred bidder. Upon opening of the financial proposals, the Consortium had the lowest bid parameter and was declared the winning bidder. The SIOM agreements between the Municipal Corporations, EESL and the Consortium were signed on 30 July, 2016.

### EXPECTED POST-TENDER RESULTS

- Mobilization of about US\$5 million of private sector investment.
- Improved public lighting services to approximately 400,000 people.
- Novalume, a Denmark based company, being the lead member of the winning bidder of the project marks the entry of an international private player in the sector.

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