PPP in the power sector in Cameroun/AES SONEL

15th NOVEMBER 2011
AES Global Operations

• Holding company with investments in generation and utility businesses – non-recourse business model

• Operations in 29 countries managing 38,820 MW generation capacity and 14 utilities that serve 11 million people

• Portfolio per type of fuel includes:
  • Gas: 36 %
  • Coal: 35 %
  • Renewables: 23 %
  • Oil: 3 %
  • Pet Coke: 2 %
  • Diesel: 1 %
AES Presence in the World

Key
○ AES Headquarters  ■ AES Operations
AES Presence in Africa

CAMEROON (AES SONEL, DPDC and KPDC)

AES SONEL
- AES has been operating facilities in Cameroon since acquiring a 56% equity interest in 2001; 44% owned by Government.
- AES Sonel is the integrated utility serving more than 750,000 customers in Cameroon.
- 915 MW of generation capacity (79% Hydro, 21% thermal).

DPDC
- Jointly owned by AES (56%) and the Government (44%);
- Built in 2009 a 86 MW heavy fuel plant at Dibamba in the outskirts of Douala

KPDC
- AES KPDC is jointly owned by AES (56%) and the Government of Cameroon. KPDC is involved in the construction of a gas fired 216 MW plant at Kribi in the Ocean Division of the South Province.
AES Presence in Africa

NIGERIA (AES Ebute)

- Ebute is a 297 MW gas-fired power plant located adjacent to the Egbin power plant in Egbin, Nigeria.
- Ebute is comprised of units with a nominal capacity of approximately 30+ MW each providing 8% of base load power to Nigeria.
- Ebute interconnection is via the co-sited substation at the Egbin power station.
- Gas is supplied via a compressor station from the Escravos-Lagos pipeline located on the Egbin site.
- AES acquired the Nigeria Barges project in 2000. AES owns 95% of the asset.
- Ebute is operated by 80 personnel.
AES SONEL Project Structuring

• Main objectives of Government:
  – Increase the access of population to electricity
  – Improve the quality of service by raising the funds necessary to the refurbishment of assets, and the expansion of the system
  – Transfer of Know how to locals in specific areas (environment, project financing, IT, etc.)

• Structuring of the project
  – Twenty years Concession agreement:
    • Main Obligations:
      – Yearly number of new connections per region
      – Quality of service metrics
      – Refurbishment of major Generation assets
      – Reinforcement of substations and transmission network
      – Operational constraints
      – Construction of a new reservoir of 7 billion m3, Lom Pangar
    • Penalty system for not meeting the obligations
    • Pricing mechanism formulas
  – Shareholder agreement that gives to AES the responsibility of management
  – Follow up committee set up over a period of two years for the different adjustment that would be necessary
Implementation challenges

• Initial conditions of the concession worse than expected:
  – Reservoirs depleted in a system that was more than 90% hydraulic, immediate need to invest in new thermal
  – Fire at two major HV substations in the two major cities Douala and Yaoundé
  – Urgent need to install a few hundred of distribution transformers that were no more functioning
  – Thousands of rotten poles needed replacement
  – Culture shock between the new management and the staff

• Many obligations of the concession could no more be met because of unforeseen urgent expenses.
  – Massive load shedding in 2002, 2003 and 2004
  – Discontentment of population who were asking to have the concession terminated

• Difficulty to raise funds because of the risk to which the concession was exposed
  Furthermore the obligation of building the Lom pangar reservoir was not accepted by our lenders, we were asked to have it removed from the concession.
Addressing the challenges

- AES showed its commitment and good will by:
  - Constructing the Limbe Power plant (85 MW HFO) which was commissioned in 2005 and reduced significantly the gap between supply and demand. The project was financed by local banks and a few international lenders at costly conditions; it was later on refinanced by the lenders of SONEL.
  - Readjustment of the management team.
  - Severance package served to approximately 1000 staff.

- Government and AES renegotiated the concession agreement to make it bankable. Each party accepted concessions.

**Government**
- Lom Pangar reservoir removed from the concession.
- Obligations of number of concession reduced.
- Penalties to be paid cancelled.

**AES**
- Renounced to some tariff increases.
- Reduction by 30% of the cost of connection to be paid by customers and offer of payment by installments.
Addressing the challenges

- Loan agreement of 260 millions euros signed in December 2006 with a group of lenders including IFC, EIB, ADB, DEG, PROPARCO, BDEAC, FMO EAIF to fund the AES SONEL CAPEX.
  - Loan guaranteed by the pledge of the shares owned by AES
  - Direct agreement between the Government and the lenders about the continuity of the concession, the right to step in if ever the business faces management problems, the PPA that may be signed with major customers, the new activity that maybe undertaken, etc.

- So far the sector performances are improving:
  - More than 1000 million dollars have been invested in the sector
  - The balance between demand and supply is better ensured
  - More than 1.5 million people got access to electricity
  - The contribution to the economy through dividends, taxes, subcontracting, direct and indirect employment have been substantial but still there is a lot to do.
The way forward

• AES SONEL has the status of strategic partner of the government in the Power sector of Cameroon.

• Over the 10 first years, substantial investments have been made and more is needed to keep improving the quality of service and to connect new customers as required by the concession agreement but the prices are constrained to ensure their affordability by the consumers.

• The power sector is considered to be a priority in the economic policy of the country. Many initiatives are being taken by the government, some of them generate inconsistencies in the sector that will impact our performances

• The main challenges that we presently face are:
  – To obtain from the Government, the decisions that will ensure the viability of our concession and keep the business in a sound financial situation.
  – The implementation of a well designed pricing policy
  – The reinforcement of the fight against the frauds that we face in a context of low revenues

• Negotiations will soon be launched with the Government to agree on solutions to all these problems.