Suggested U.S. Participants on the Environment 2 Panel
(U. S. Panel Contact: Peter Bowman)
(202) 482-8356

U.S. CO-CHAIR:

   Environmental Protection Agency
   Deputy Assistant Administrator
   Dr. Alan Hecht

U.S. PROJECT PRESENTATIONS

   Mr. Jerry Santillan, City Manager
   Water Treatment Plant, Brawley, California: Construction of new water treatment plant which will improve water quality and services, by providing a reliable source of potable water. As an advisor and lead investor for the City of Brawley, NADB has worked with the community; developing an affordable project; beginning a credit rating process; creating permanent reserves in the financial structure of the project aimed at avoiding future maintenance and operations problems; participating in public rate hearings; reviewing the project’s first construction bids (30% over the original budget) as well as helping the City restructure the second bids which were 20% below the original budget. Construction is 100% complete.

OTHER U.S. PANELISTS

First Choice
   El Paso Service Board
   Mr. Ed Archuleta

Second Choice
   Chemonics
   Mr. David Lynn
   Director of Infrastructure Finance with Chemonics

Alternate Second Choice
   EA Engineering, Science and Technology
   Mr. Don Deieso
   CEO/President

Third Choice
   Azurix, Enron Affiliate
   Ms. Rebecca Mark
   Chairman and CEO of Azurix, Enron subsidiary

Fourth Choice
Inter-American Development Bank
Moises Pineda, Executive Director of Mexico

Fifth Choice
Border Environment Cooperation Commission
Mr. Rene Franco, Project Development Director
MESSAGE

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Per your request, please find attached a recent version of the list that we have of U.S. company projects that are in limbo. This does not include a couple of transfer of operating rights (TOR) projects, however. I have marked the two that have nearly completed financing, which would then bring the total U.S. export content down to appx. $3 billion for pending projects. I would kindly ask that you keep this document internal to US Treasury (and ask others you might share it with to do the same) as the page contains information about company intentions on procurement.

Our conversation was most helpful. I look forward to following-up again with you soon. In the meantime, please don’t hesitate to contact me should you have any further questions/issues.

Best regards,

[Signature]
DATE: 5/5/00

NUMBER OF PAGES INCLUDING COVER SHEET: 3

TO: Elizabeth Stewart

FAX NUMBER: 622-2505

FROM: Janice Mazur, Procurement Liaison
TEL: (202) 438-0118
FAX: (202) 477-2967

COMMENTS:

per telcon earlier

Program team leader for Turkey Energy is Jim Moore. He is in Turkey now (until tomorrow actually). He reports to Peter Thomson who is listed in the phone book as oil, energy but Mr. Raseer’s Secretary tells me that is an old title.
Mr. Edwin M. Truman
Assistant Secretary for International Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Assistant Secretary Truman:

I wish to bring to your attention some significant concerns in this Department over the effects that a pending World Bank Economic Reform Loan for Turkey may have on energy projects in that country. Our concerns are primarily two-fold.

1. While the overall thrust of the formal World Bank requirements for energy sector reform is, we feel, positive, it appears that the World Bank has been placing strong pressure on Turkey to avoid issuing any new sovereign guarantees on energy projects that have been necessary in the past to gain financing. We are concerned that immediate suspension of further guarantees for power projects, however, could easily put at substantial risk the ability for pending and new projects to go forward over the medium-term until new market conditions develop.

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These potential pitfalls are clear to us after holding conversations with a variety of Turkish and American business representatives, private and U.S. agency financing bodies, and representatives of Turkish and other U.S. agencies. Some of Turkey’s energy planners in the Ministry of Energy and Natural Resources also share these concerns.

I would welcome, through your good offices, the arrangement of a working-level meeting with relevant officials from the World Bank and involving Department of Commerce representatives to ensure that these concerns are expressed to, and clarifications received from, Bank officials as Turkey moves forward with these important commitments that will affect its overall economic development. We would hope that such a meeting could be arranged as soon as possible given the pending nature of the loan and the related developments in Turkey.
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[Signature]

Michael J. Copps
DATE: May 2, 2000

FROM: Michael Boeman
Casplan/Turkey Energy Officer - DOC
Tel: (202) 482-3492

TO: Malachy Nugent
Treasury Dept.
622-0037

SUBJECT: Memo on Turkish Reforms

MESSAGE

Malachy,

Per our conversation, please see the attached memo. As I mentioned, things have transpired somewhat from the time this was written, but the basic ideas are the same.

As things are moving quickly in Turkey on decisions about energy projects, your attention to this matter as soon as possible would be greatly appreciated.

Please let me know if you have any further questions/concerns.

Michael B.
MEMORANDUM

TO: Denise Carpenter
    Office of Finance

FROM: Jim Wilson
    Director
    Office of Energy, Infrastructure and Machinery

RE: Pending World Bank Structural Adjustment Loan for Turkey

The World Bank is set to approve a major $760 million structural adjustment loan for Turkey in the coming weeks. Upon review of the World Bank recommendation to the Executive Directors Board on this loan, we support the general thrust of the effort that Turkey has pledged to undertake in the area of energy sector reform and privatization. On the other hand, we have some serious concerns about how the World Bank and the Turkish Treasury appear to be planning to move forward with measures that will be necessary to implement the loan that may negatively affect Turkey’s ability to implement major power projects over the medium-term.

Investors traditionally have looked to the Turkish Treasury to provide guarantees for fuel supply from and electricity sales to government-owned entities in order to satisfy the risks that lenders to such projects are willing to accept. According to the language of the World Bank recommendation, Turkey now is agreeing to put “limits on the issuance of new guarantees.” Under a deregulated and privatized market, there exists an assumption that a developed, market-based system for fuel supply and power purchases would be able to lead to an environment when sovereign guarantees are no longer required in most cases.

While this may prove true, after recent consultations with officials of the Turkish Treasury under the U.S.-Turkey Joint Economic Commission and with private discussions with officials of the World Bank it appears that both sides are viewing rather narrowly the scope for new guarantees -- in fact, possibly no further Treasury guarantees for power projects.

This development is of great concern to us as well as to the Turkish Ministry of Energy and Natural Resources. It will take some time for a market to develop that can support fully market solutions to investment needs in Turkey. After discussions with representatives of private banks and U.S. government finance agencies, we feel that investment will be frozen for a matter of a few years should Turkey undertake such a
Draconian program on sovereign guarantees. In essence, projects that currently under development and in search of financing would be unable to go forward for a several years, potentially damaging the ability of Turkey to have an adequate supply of power to meet its expanding need for energy to fuel economic growth.

In addition, as made apparent by the letter from Mr. Onal, Turkish Minister of State for Economic Affairs, to Mr. Wolfensohn, World Bank President, the Government of Turkey will pursue prioritization of energy projects that are “lower cost.” We share a concern with the Turkish Ministry of Energy and Natural Resources that an emphasis on “lower cost” alone will deprive Turkey of important infrastructure projects, such as hydropower plants or facilities that use indigenous coal sources, that may have higher tariffs over the initial years but that have great longer term benefits to the economy, energy security, and the environment. While this issue is a matter for the Government of Turkey to decide how it will implement its reform program, the creation of priority list is a condition that the World Bank has insisted on informally through the negotiation process over the loan.

I wish to share our concerns with you prior to the decision of the Executive Directors on this loan program. While we have no objections to the language that the World Bank has used regarding its requirements for Turkey’s receipt of this loan, we have strong concerns with how the program will be implemented and that if not properly managed, could freeze investment in many projects that Turkey has planned as necessary to meet growing demand for power.

cc: Michael Copps
    Alan Bowser
[Hi! Were you able to speak with Mr. Bajpai? Thanks again!]

NEW DELHI, Jan. 8 Business Line article:

Govt to pull the plug on power guarantees

Balaji C. Mouli
Shaji Vikraman

THE Dabhol Power Company (DPC) crisis in Maharashtra is in the process of scalping its first 'casualty'. The Government is planning to reverse the plan to extend sovereign guarantees for three power projects -- the 3,960 MW Reliance-SEAP promoted Hirwa project, the 1,800 MW LNG-fired Ennore project and the 2,000 MW Pipavav project.

According to Finance Ministry sources, the Government has written to the three power producers to consider the option of direct sale to earmarked consumers in the purchasing States and thereby obviating the need for the former to accord sovereign guarantees.

The Government has argued that the need for guarantees in the first place is necessitated on account of the financially fragile monopsonic nature of the power market -- single buyer of power, namely, the State electricity board.

Since the Electricity Bill 2000, which is to be introduced in the Budget session of Parliament, allows for direct sale of power to consumers, the Centre has argued that the developer can negotiate with the existing State electricity board and enter into an arrangement whereby future consumers are earmarked.

Further, for legal endorsement of such an arrangement, the State or Central Electricity Regulatory Commission's approval can be sought for entry of power generation
capacity into the state power sector. Since the SERC will be verifying the cost of power using economic principles, the States will be contracting competitively-priced power. The developers have asked the sponsors to seek the views of the lenders to the projects on such an arrangement. The payment security mechanism earlier proposed by the Government covered the payment of outstanding foreign debt to the developer in the event of termination of the project owing to payment default by the purchasing entities. To avert the possibility of termination, the sponsors will be paid for a period of six months following default by the consumers.

The evolution of a payment security mechanism for the three projects has come a full circle. The original concept formulated over two years ago (during Prof Alagh tenure) for sale of power from mega power projects involved sale of power from the mega projects to earmarked high tension consumers. This, however, did not take off since the States did not accept the concept of ‘cherry picking’ of consumers whereby the paying consumers to electricity boards will secure the payment for the mega power bills.

This is because the weaning away the paying consumers in the earlier non-reforming environment would lead to the deterioration of the finances of the State electricity boards, they argued. At this point of time, the erstwhile Union Power Minister Mr P.R. Kumaramangalam mooted a revised structure involving sovereign guarantees for covering debt repayment in the event of termination of the power project besides the comfort mechanism to avert termination. With the possibility of invoking of Central guarantees by the Enron looming over the Finance Ministry, the Government has decided to revisit the need to accord guarantees for the power projects.
APR 20 2000

Mr. Edwin M. Truman
Assistant Secretary for International Affairs
Department of the Treasury
Washington, D.C. 20220

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Noble

Michael J. Copps
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(U. S. Panel Contact: Peter Bowman)
(202) 482-8356

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Environmental Protection Agency
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TO: Elizabeth Stewart

FAX NUMBER: 622-2505

FROM: Janice Mazur, Procurement Liaison
TEL: (202) 458-0118
FAX: (202) 477-2967

COMMENTS:

per Telcon earlier

program lead for Turkey Energy is Jim Moore
he is in Turkey now (until tomorrow actually)
he reports to Peter Thomson who is listed in the
phone book as oil, gas, but Mr. Razor's
secretary tells me that is an old title.
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Michael J. Copps
ENERGY DIVISION

DEPARTMENT OF COMMERCE
Room 4056
Washington, D.C. 20230
Fax: (202) 482-0170

Date: May 2, 2000

From: Michael Beeman
Casplan/Turkey Energy Officer - DOC
Tel: (202) 482-3492

To: Malachy Nugent
Treasury Dept.
622-0037

Subject: Memo on Turkish Reforms

MESSAGE

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