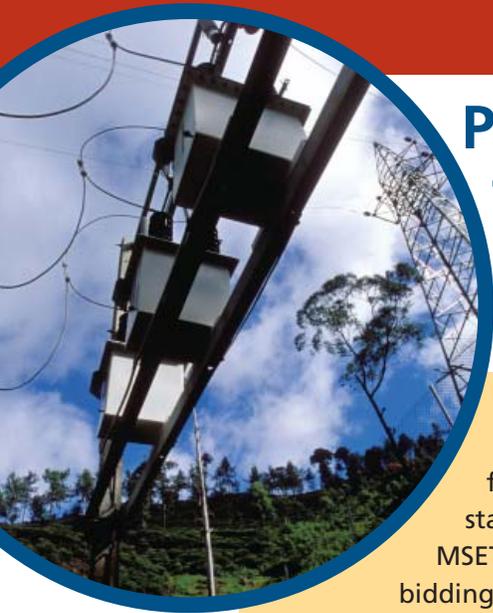


IMPACT STORIES



PPIAF Supports a Pioneering Approach for Executing the Maharashtra State Electricity Transmission Company's Investment Plan

Maharashtra State Electricity Transmission Company Limited (MSETCL) is a power transmission utility owned by the government of Maharashtra. MSETCL is responsible for transmission and load dispatch functions within the state, and is the largest state-level transmission company in India by asset base. PPIAF support has assisted MSETCL in developing a risk-sharing contractual framework and designing an optimal bidding strategy for selecting a private partner. The strategic alliance approach—a first for India—hinged on the competitive selection of large and technically competent engineering procurement and construction partners to work with MSETCL's project team to implement a set of new projects. In May 2009, contracts worth approximately \$1.5 billion were awarded to transmission vendors and are expected to save MSETCL \$100 million compared with internal cost estimates.

The former vertically integrated Maharashtra State Electricity Board was unbundled in 2005 to create three separate companies focusing on electricity generation, transmission, and distribution. One of the companies, MSETCL, operates the largest state-level transmission network in India, comprising over 36,286 circuit kilometers of transmission lines and 498 substations.

MSETCL was charged with addressing the massive transmission shortages in the state of Maharashtra, where power outages during peak hours had risen to around 6,000 MW. In mid-2005 MSETCL sought to expand its transmission capacity by 120% through investments of \$5.5 billion over four years, and recognized that this ambitious plan suggested the need for institutional strengthening. It was against this background that a World Bank-MSETCL partnership for change was launched in 2006.

PPIAF SUPPORT

In 2007 the Public-Private Infrastructure Advisory Facility (PPIAF) assisted MSETCL in undertaking a study to develop a business plan and public-private partnership (PPP) strategy for the utility to meet its overall objectives. PPIAF also supported a review of MSETCL's existing status and examined funding options for the debt and equity requirements of the transmission infrastructure planned for Maharashtra. This activity also included a capacity building component to strengthen MSETCL's corporate governance environment and capacity to execute projects. In addition, an economic and financial framework for the evaluation of suitable technologies to improve the efficiency of the MSETCL network was established. The first phase of PPIAF support to MSETCL was pioneering, as a PPP approach had not been previously developed for state-level transmission companies.

Meanwhile, MSETCL carried out intensive consultations with multiple stakeholders and consensus was reached on the need for a \$5.5 billion investment plan and a PPP approach based on the strategic alliance model to execute part of the plan. Over the next year, the government appointed competitively selected full-time directors to the company's board.

The second phase of PPIAF support began in 2008 and assisted MSETCL to design a framework for implementing a “strategic alliance approach” for initial investments of \$1.5 billion. The second PPIAF grant included assistance to MSETCL for designing an optimal bidding strategy for selecting a private partner for this priority program and developing a risk-sharing contractual framework.

OUTCOMES

The strategic alliance approach—a first for India—hinged on attracting large and technically competent vendors on a “win-win” platform. The expected benefits for MSETCL included lower cost and effort for the tender process, faster execution of the project (thanks to built-in incentives), and building the company’s capacity. This approach also allowed for innovative risk-sharing between MSETCL and its contractors by building performance-based conditions into the contracts, such as incentives for early completion, implementation of quality assurance mechanisms, and contractual payments linked to physical progress of works rather than to supply of equipment.

DONOR COORDINATION

The PPIAF activity complements the World Bank Group’s assistance to MSETCL to develop a transformative business plan through intensive consultations with key stakeholders including employees, customers (mainly the distribution companies), equipment and services suppliers, state government, and the state power regulatory authority.

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF’s support has made an impact on the ground.

IMPACTS

Strategic alliance contracts worth around \$1.5 billion were awarded in May 2009 to globally-reputable transmission vendors. The contracts are expected to save MSETCL \$100 million compared with internal cost estimates.

In September 2009 the International Finance Corporation (IFC), through the joint World Bank-IFC sub-national initiative, committed a \$50 million loan to MSETCL. The loan was the IFC’s first sub-sovereign loan in the South Asia region and did not involve a state guarantee. It supports MSETCL’s medium-term capital expenditure program, aimed at addressing system bottlenecks, replacing or upgrading aging assets, and handling the expected increase in electricity throughout. While small relative to its overall needs, the IFC loan has assisted MSETCL prepare for future commercial borrowings.

A third phase of technical assistance to MSETCL, termed Capacity Building Initiatives, was supported by the World Bank’s Energy Sector Management Assistance Program (ES-MAP) and AusAID, and focused on helping the company strengthen its capacity for managing public-private contracts, implement policies to strengthen its human resources, and build sustainable change management practices.

The World Bank Group’s engagement with MSETCL has assisted in improving the performance of an essential state utility, and, in the long run, should reduce its dependence on state budgets and guarantees. Further gains are expected as MSETCL executes its plan to access the capital markets for both debt and equity, and as the utility benefits from related improvements in transparency and commercialization.

RELATED PPIAF ACTIVITIES IN INDIA

- 2000: Power Sector Reform in Orissa: Lessons for Other States in India, **\$200,000**
- 2008: Improved Rural Electricity Services Through Renewable Based Distribution Generation and Supply, **\$200,000**
- 2009: Technical Advisory Support to the Distribution Company, Maharashtra State Electricity Distribution Company (MSEDCL), for Post-Franchise Contract Management, **\$150,000**