

SPECIAL CONSIDERATIONS FOR POWER PROJECTS

Over the past few years, the number of private power generation facilities throughout the world has grown rapidly. Project developers are combining project financing techniques with long-term power sales agreements through build-operate-transfer (BOT) arrangements. Large multinational firms in the power business such as Asea Brown Boveri (ABB) and General Electric (GE) are developing and owning worldwide private power stations.

Power projects involve a number of special risks and affect their viability. Such projects tend to have very high capital costs, with a high risk of cost overruns. The outputs of the project are generally sold to a fixed set of customers. In addition, power projects are vulnerable to interruptions in their fuel supply and are dependent on local providers of maintenance and other services. These additional risks must be dealt with in the BOT package if the project is to be viable.

TURNKEY CONSTRUCTION CONTRACTS

Construction of power projects should be carried out using a turnkey construction contract with a single point of responsibility. This means that the risks of non-completion are borne by the contractor. The price should be either fixed or subject to a ceiling. There should be provisions for guaranteed completion and performance provisions. Penalties for non-performance should be backed up by appropriate bonding arrangements.

GUARANTEED FUEL SUPPLY

It is essential that any power project has a secure source of fuel. In this context, security means both assured delivery and predictable pricing over the life of the project. The availability of fuel transportation must also be guaranteed. Fuel prices should be linked to revenues, or alternatively, power prices should be linked to fuel costs.

FIRM POWER SALES CONTRACTS

Agreements should include take-or-pay arrangements. For sales of steam, a take-if-tendered contract is desirable, with a term equal to the life of the project.