



October 2008

Multitranche Financing Facility India: Uttarakhand Power Sector Investment Program Annual Report

First Tranche: Loan Number: 2309
Second Tranche & later: To be confirmed

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 June 2008)

Currency Unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.025
\$1.00	=	Rs40.0

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
IA	–	implementing agency
GOU	–	Government of Uttarakhand
kV	–	kilovolt
MMF	–	Multitranches Financing Facility
MW	–	megawatt
PIU	–	project implementation unit
PMO	–	project management office
PTCUL	–	Power Transmission Corporation of Uttarakhand Limited
RFP	–	request for proposal
SHPP	–	small hydropower plant
UED	–	Uttarakhand Energy Department
UERC	–	Uttarakhand Electricity Regulatory Commission
UJVNL	–	Uttarakhand Jal Vidyut Nigam Limited

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I. BACKGROUND

A. Impact and Outcome

1. The Uttarakhand¹ Power Sector Investment Program, supported by the Asian Development Bank (ADB) under the multitranche financing facility approved on 30 March 2006, is part of the Investment Program for 2006–2012, whose goal is to increase power capacity to meet demand in the state and achieve a year-round exportable surplus by 2010. New small hydropower plants (SHPPs) will provide additional clean power to local grids in rural areas and meet about one third of the projected nonindustrial power demand in the state at the time of commissioning. The expansion of the state transmission grid will (i) improve system reliability, (ii) facilitate power transfers within the state and between regions, (iii) help reduce system losses, (iv) improve the utilization of power plants, and (v) promote the further development of a national electricity market by connecting to the northern region grid. The power delivery attributable to the Investment Program will serve more than 12 million people in Uttarakhand and the northern region grid service area. Parallel efforts in rural electrification and local grid improvement will complement ADB's intervention.

2. The Investment Program will encourage reform, promote clean energy and energy efficiency improvements, and build capability to manage the ongoing multibillion-dollar expansion program effectively. Capability-building activities will center at first on implementing investments funded by ADB, but will later be expanded to support the broader sector reform agenda under the leadership of the Government of Uttarakhand (GOU).

B. Outputs and Components

3. The ADB-supported subset of the Investment Program will cover the following three areas:

- (i) **Clean energy development.** Generating capacity will expand as new SHPPs are built and energy efficiency improves at hydropower plants connected to local grids. ADB will also fund the design, development, and commissioning of a hydrometeorological monitoring system to support the operation of the hydropower system in the state, and the planning and design of the future expansion of hydropower.
- (ii) **Transmission system expansion.** Time-critical transmission lines, substations, and auxiliary equipment will be installed to evacuate power from the new associated hydropower plants.
- (iii) **Capability building.** The state government, the Uttarakhand Energy Department (UED), and the implementing agencies will undergo institutional strengthening to improve their capability for the cost-effective expansion of the power system. At the start the activities will be concerned with implementation through the project management office (PMO) and will involve (a) the training of UED and implementing agency staff in transmission, generation, maintenance, and rehabilitation design and operations; (b) consulting services in design and construction management; (c) the acquisition of computer hardware and software for the PMO and the project implementation units (PIUs); (d) field supervision, including oversight of compliance with safeguards and external monitoring; and (e) corporate development, including advisory services in restructuring, initial design of an independent power trading company, and other activities to be defined in consultation by the state government, UED, and ADB.

¹ Originally, the name of the MFF was "Uttaranchal", which was later requested to be corrected in reference to first loan agreement to "Uttarakhand".

C. Cost Estimates and Financing Plan

4. The 6-year (2006–2012) power sector investment program for the state of Uttarakhand is estimated to cost \$5.2 billion, of which up to \$300 million is being financed by ADB from its ordinary capital resources. The financing is being provided under a multitranche financing facility in accordance with ADB policy.² Details of the cost estimates and the financing plan are presented in Table 1.

² ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila.

II. STATUS OF IMPLEMENTATION

A. Project Management

5. UED is the overall Executing Agency (EA) for the Investment Program. A PMO has been created in UED under the UED secretary.

6. The Implementing Agencies (IAs) are and Uttarakhand Jal Vidyut Nigam (UJVNL, the state generating company) for the clean energy development subprojects, Power Transmission Corporation of Uttarakhand Ltd. (PTCUL, the state transmission company) for the transmission system expansion subprojects, and UED, through the PMO, for the capability-building subprojects. PIUs have been established in UJVNL and PTCUL.

B. Status of Tranche 1 (Loan 2309-IND)

1. Cost Estimates and Financing Plan

7. On 2 January 2007, Loan 2309-IND: Uttarakhand Power Sector Investment Program³– Tranche 1 for \$41.92 million was approved. The Loan and Project Agreements were signed on 22 February 2007, took effect on 29 March 2007, and will close on 30 June 2012. Of the total cost of \$59.89 million for Tranche 1 (Table 1), \$41.92 million is being financed by ADB. The loan covers (i) four new SHHPs, (ii) a hydrological information system (for UJVNL), (iii) hardware and software for transmission planning and operations (for PTCUL), and (iv) consulting services in design and construction management (for PTCUL and UJVNL).

Table 1: Cost Estimates and Financing Plan for Tranche 1
(\$ million)

Item	Total Cost	Bank Financing (70%)	State Gov't (30%)
Part A			
Kaldigad Hydropower Plant	12.81	8.97	3.84
Kaliganga-I Hydropower Plant	6.05	4.23	1.81
Kaliganga-II Hydropower Plant	9.50	6.65	2.85
Madhyamaheshwar Hydropower Plant	16.92	11.85	5.08
HIS	9.60	6.72	2.88
Consulting Services for Preparation of DPR for HIS	0.98	0.69	0.29
Subtotal (A)	55.86	39.11	16.75
Part B			
Consulting Services for Project Implementation	3.88	2.71	1.17
Information Technology	0.15	0.10	0.05
Subtotal (B)	4.03	2.81	1.22
Total	59.89	41.92	17.97

DPR = detailed project report, HIS = hydrological information system.

Source: Review Mission in October 2007

8. Retroactive financing has been approved under this loan. Withdrawals from the loan account, up to 20% of the loan amount, may be made for the reimbursement of expenses incurred up to 12 months before the date of the Loan Agreement.

³ ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed MMF to the India for the Uttarakhand Power Sector Investment Program*. Manila (MMF for \$300, approved on 30 March 2006).

2. Tranche Implementation

9. Tranche 1 was prepared with the help of consultants under an ADB-financed project preparatory technical assistance.⁴

10. The status of implementation of works, materials and equipment, and consulting services is summarized in Table 2 below.

Table 2: Status of Implementation of Tranche 1
(\$ million)

Project Name	Estimate	Status	Contract Amount (ADB Portion)
A. Small Hydropower Plant			
Madhyamaheshwar (10 MW)	16.92	Contract signed in Nov 2007. Advance (10%) & initial progress payment has been disbursed.	12.4 (7.4)
Kaliganga-I (4 MW)	6.05	Contract signed in Nov 2007. Advance (10%) & initial progress payment have been disbursed.	6.4 (3.8)
Kaliganga-II (6 MW) a. E & M b. Civil Works	9.50	a. Contract signed in June 2008 and advance (10%) has been disbursed	2.8 (1.7)
		b. Contract signed in Apr 2008 and advance (10%) had been disbursed	6.2 (3.7)
Kaldigad (9 MW) a. E & M b. Civil Works	12.81	a. Bidding completed for contract signing in October 2008	NA
		b. Re-tendering to be completed Nov 2008	NA
Subtotal (A)	45.28		
B. Consulting Services			
Project Implementation	3.88	Contract was signed in August 2008	3.4 (3.4)
HIS	0.98	Official request of dropping HIS and fund allocation is awaited	NA
Subtotal	4.86		
C. Equipment			
HIS	9.60	Official request of dropping HIS and fund allocation is awaited	NA
Information Technology	0.15	Not yet arranged	NA
Subtotal (C)	9.75		
Total	59.89		31.2 (20.0)

ADB = Asian Development Bank, HIS = hydrological information system, MW = megawatt. NA; Not Available
Source: Review Mission in October 2007

11. Two SHHP contracts—those for Madhyamaheshwar (\$12.4 million) and Kaliganga-I (\$6.4 million)—were signed in November 2007 while Kaliganga II, Civil Works (\$6.2 million) and E & M (\$2.8 million) were signed in April and June 2008, respectively. The other two contracts, E&M for Kaldigad (\$3.2 million) and Civil Works for Kaldigad (\$8.6 million) are expected to be signed by October and November 2008, respectively.

⁴ ADB. 2005. *Technical Assistance to India for the Uttarakhand Power Sector Capacity Building*. Manila (TA 4630-IND, for \$500,000, approved on 11 August 2005).

12. The loan finances two consulting service contracts: (i) project implementation (design and construction supervision) (\$3.88 million), and (ii) the hydrological information system (\$0.98 million). The Contract for the project implementation consultant was signed in August 2008 and the consulting team is being mobilized from October 2008. On the other hand, consulting services for the hydrological information system is withheld because of difficulties of getting concurrence from the Central Water Commission. GOU's official request for drop of the HIS component and fund reallocation is awaited.

3. Contract Awards and Disbursements

13. As of 30 September 2008, contract awards and disbursements were at \$20.04 million and \$1.77 million, respectively. Table 3 shows the overall contract awards and the disbursement of the ADB-financed portion of Tranche 1.

Table 3: Overall Contract Awards and Disbursement of ADB Portion, Tranche 1
(\$ million)

Investment Component	Allocation	Contract Awards	Disbursements
Civil Works, Equipment, and Materials	38.52	16.62	1.77
Consulting Services	3.40	3.42	0
Total	41.92	20.04	1.77

14. As of 30 September 2008, 30% of Tranche 1 had been implemented.⁵ Overall progress should be improved substantially at the fourth quarter of 2008 after all procurement is completed and the project implementation consultant is mobilized.

4. Social Safeguards

15. Land acquisition has been completed for the Kaliganga-I, Kaliganga-II, and Madhyamaheshwar SHPPs, and is in process for the Kaldigad SHP. The environmental management plan prepared according to the environmental assessment review framework agreed on by the state government and ADB and provisions for complying with the applicable labor laws have been included in the signed contracts for the Kaliganga-I and Madhyamaheshwar SHPPs.

5. Project Risks

16. The state government has allocated sufficient funds for counterpart portions of the project costs. Three SHPPs in Mandakini valley (Kaliganga-I, Kaliganga-II, and Madhyamaheshwar) will be connected to the existing 33 KV pooling station by the existing 33 KV line. Kalidigad SHPP will be connected to the existing switchyard for Asiganga-I SHPP. Therefore, no major risk to project implementation from delay in the construction of power evacuation lines or lack of counterpart funding is foreseen.

⁵ Based on the project progress calculation formula developed in accordance with Appendix 2 of PAI 5.01 (<http://www.adb.org/Documents/Manuals/PAI/pai-5.01-dec01.pdf>) and mutually agreed on by UJVNL and ADB at the Inception Mission in October 2007.

C. Compliance with Loan Covenants

17. The status of compliance with loan covenants is summarized in Appendix 1.

D. ADB Staff Inputs

18. During the Inception Mission on 1–11 October 2007 ADB and the EA agreed on the project administration memorandum (PAM) for this loan. While its main objective was to assist the EA and the IAs in the smooth implementation of the tranche and to reach agreement on the PAM, the mission likewise supported the state government in the preparation of the second and subsequent periodic financing requests under the Investment Program.

19. At the request of the EA and the IAs, ADB trained their staff in ADB's disbursement procedures and presented in detail (i) the eligibility criteria for ADB financing under the loan, (ii) documents to be prepared and submitted with statement-of-expenditure claims, and (iii) documents to be prepared and submitted in support of documented claims in October 2007. Follow-up review missions were conducted in March, June, and September 2008.

III. MOVING FORWARD

A. Sector Road Map

20. The state government appointed two other members to the Uttarakhand Electricity Regulatory Commission (UERC). UERC is fully functional as an independent regulator and is expected to play a key role in commercializing utility operations and promoting private sector participation in the state power sector.

21. The road map envisaged the addition of 1,284 megawatts (MW) of generation capacity in 2005/06 and 723 MW in 2006/07. The actual capacity added was 285 MW in 2005/06 and 1404 MW in 2006/07. The state's transmission development plan approved in 2004 has been substantially revised on the basis of a new concept of linking four valley subsystems. The revised plan was approved by the Central Electricity Authority of India in January 2007 and the Ministry of Power in April 2007 and resulted in some changes in the subprojects in the Investment Program. New projects will be subjected to additional due diligence to make sure that they meet the subproject selection criteria under the Investment Program.

B. Preparation of Second Tranche

22. Subsequent tranches of the Investment Program will finance transmission subprojects and consulting services in human resource development and corporate management. Tranches 2 & 3 combined are estimated to cost about \$131.70 million and will include (i) the 400 kilovolt (kV) D. C. Lohari Nagpala–Koteshwar line, (ii) a 400 kV substation at Srinagar, and (iii) consulting services in human resource development and corporate management. All due diligence work for the proposed tranches 2 and 3 are complete, and bidding for the transmission and sub-station subprojects were started from March 2008 and now ADB is reviewing technical bid evaluation reports for both projects. Invitation for Expression of Interest (EOI) for human development consulting services was advertised in newspapers and ADB website and contract is expected to be signed by March 2009.

Appendix 1

MAJOR LOAN COVENANTS

Loan Covenant	Compliance Status	
Project Management Office (PMO)	UED shall establish PMO on or before 1 January 2007, which shall be headed by the head of UED or such other officer as nominated by the State, and have representatives of: (i) UED; (ii) UJVNL; (iii) PTCUL and (iv) other State departments, if necessary. PMO shall maintain expertise in planning, design, construction management, financial management, accounting, auditing, procurement, contract management, and environmental and social safeguards management.	Partly complied with additional 4 staffs but full staffed PMO with experienced advisors is expected to be achieved by Dec. 2008.
Project Coordination	UED through PMO shall have the primary responsibility for the Project coordination. PMO through the related IAs shall be responsible for the processing and implementation of the subprojects.	Complied with.
Implementing Agencies	PTCUL and UJVNL each shall establish one PIU on or before 1 January 2007 at their respective offices in Dehradun, Uttarakhand.	Complied with.
Financial Covenants	The State through UED shall prepare and provide ADB, within 45 days from close of each quarter, with quarterly progress reports on Subprojects' implementation.	Being complied with.
Sector Reforms	The State acting through UED shall cause PTCUL and UJVNL to: (i) conform to the tariff charges issued from time to time by UERC to ensure reduced transmission and distribution losses, rational power pricing, and graduated rationalization in tariffs as determined by UERC, (ii) file tariff applications with UERC in a timely manner.	Ongoing.
Financial Governance	In accordance with tariff orders issued by UERC, the State acting through UED shall ensure that PTCUL and UJVNL maintain the following financial management objectives from FY2006–2007 until FY2011–2012: (i) debt-service coverage ratio of not less than 1.2, and (ii) accurate accounts receivable of no more than 2 months of billing.	Being complied with.
Financial Management	The State shall ensure that internal controls shall be strengthened to be consistent with international standards by setting up and maintaining independent and autonomous internal audit departments of the IAs.	Ongoing.
Computerized Accounting and MIS	The State shall cause IAs to adopt, by end of 2007, computerized accounting and management information systems, including online billing and collection systems, where appropriate and practical.	Ongoing.
Subprojects Selection Criteria	EA and IAs shall be jointly responsible for selection and preparation of the Subprojects and shall follow the subproject selection criteria set out in the loan agreement.	Complied with for the first tranche.
Resettlement and Social Matters	The State acting through UED shall cause PTCUL and UJVNL to (i) make available all land and rights-of-way required for the Subprojects in a timely manner and that the provisions of RF and any necessary RP, including compensation and entitlements for affected households and persons, shall be implemented in conformity with all applicable laws and regulations of the Borrower and the State; (ii) ensure that people affected by each Subproject are consulted and fairly compensated in a	Being complied with.

Loan Covenant	Compliance Status	
	timely manner on replacement values in accordance with the related RPs and RF; (iii) submit progress and completion reports on land acquisition and resettlement under the quarterly progress reports of each subproject; (iv) prepare and implement for the Subprojects IPDP in accordance with the IPDF; and (v) engage with 3 months of the Effective Date independent external experts for monitoring and grievance redress.	
	The State acting through UED shall ensure that contracts under the Project follow all applicable labor laws of the Borrower and the State.	Being complied with.
Environment	The State acting through UED shall cause PTCUL and UJVNL to ensure that (i) each Subproject is undertaken and the Project facilities are operated and maintained, in accordance with all the applicable laws, rules and regulations of the Borrower and the State and ADB's Environment Policy, 2002, as amended from time to time; (ii) prepare and implement for each Subproject, the necessary IEE, EIA, and EMP (with budget) in accordance with EARF; and (iii) for any category A or B sensitive Subprojects, summary EIA or IEE shall be prepared according to ADB's Environment Policy, 2002, as amended from time to time and made available to the public 120 days in advance of the approval of the Subproject.	Being complied with.
Due Diligence	The State shall carry out of the Project with due diligence and efficiency, and in conformity with sound, administrative, financial, engineering, environmental and power sector development practices.	Complied with.
Counterpart Fund	The State shall ensure that UED and the IAs make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.	Being complied with.
Procurement	Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Sch. 4 and Sch. 5 to the Loan Agreement.	Being complied with.

ADB = Asian Development Bank, EIA = environmental impact assessment, EARF = environmental assessment and review framework, EMP = environmental management plan, IA = implementing agency, IEE = initial environmental examination, IPDF = indigenous peoples development framework, IPDP = indigenous peoples development plan, PIU = project implementation unit, PMO = project management office, PTCUL = Power Transmission Corporation of Uttarakhand Limited, RF = resettlement framework, RP = resettlement plan, UED = Uttarakhand Energy Department, UERC = Uttarakhand Electricity Regulatory Commission, UJVNL = Uttarakhand Jai Vidgut Nigam Limited.