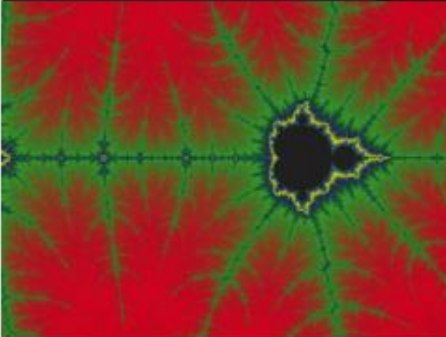


**ЕВРАЗИЙСКИЙ**



# Water and Wastewater Development Programme of Rostov-on-Don as one of the most efficient PPP Contracts in Russia

*Dmitry PUZANOV*  
Deputy CEO, Evraziyskiy JSC



**WORLD BANK GROUP**  
Water



**European Bank**  
for Reconstruction and Development

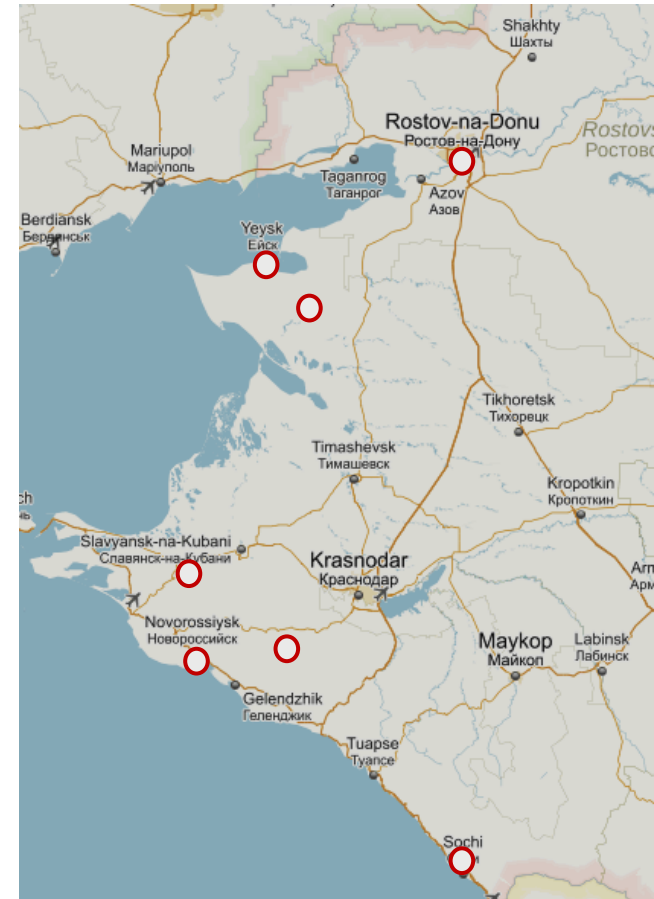




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## 10 years Experience in Water Sector

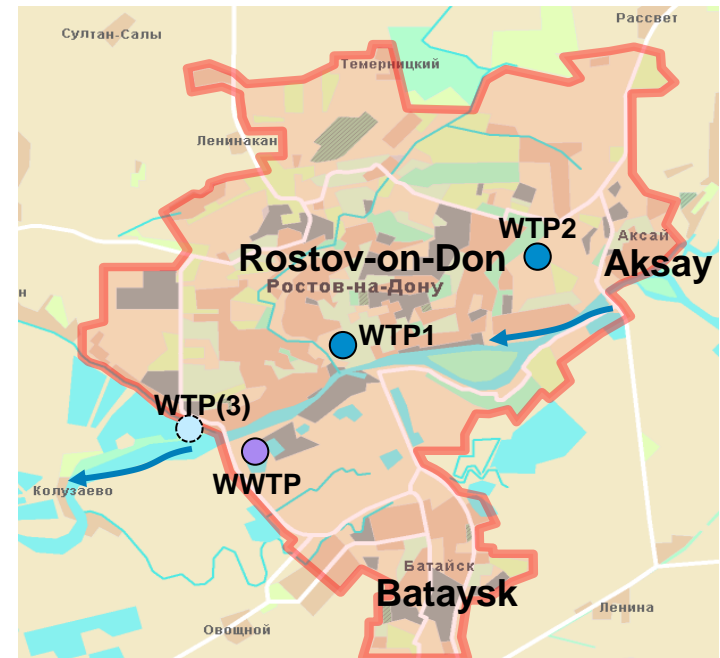
- 2004** First contract in Water Sector (Omsk 1M, sold in 2008)
- 2005** Lease & investment contract in Rostov-on-Don (< 1M)
- 2007** Lease contract in Sochi (< 400K)
- 2010** Concession contract in Krasnodar Region (1,5M)
- 2011** Short-term lease contracts in Novorossiysk, Eysk, Taman and other small cities (<450K)
  
- < 4M** Population coverage by Evraziyskiy in season peaks
- < 7K** Employees in all subsidiaries
  
- \$ 1 430M** Total CAPEX programme
- \$ 1 000M** Investment arranged by Evraziyskiy
- \$ 105M** Loan from Vnesheconombank (2008 for 14 years)
- \$ 22M** Loan from World Bank (2003 for 15 years)
  
- \$ 180M** Consolidated turnover



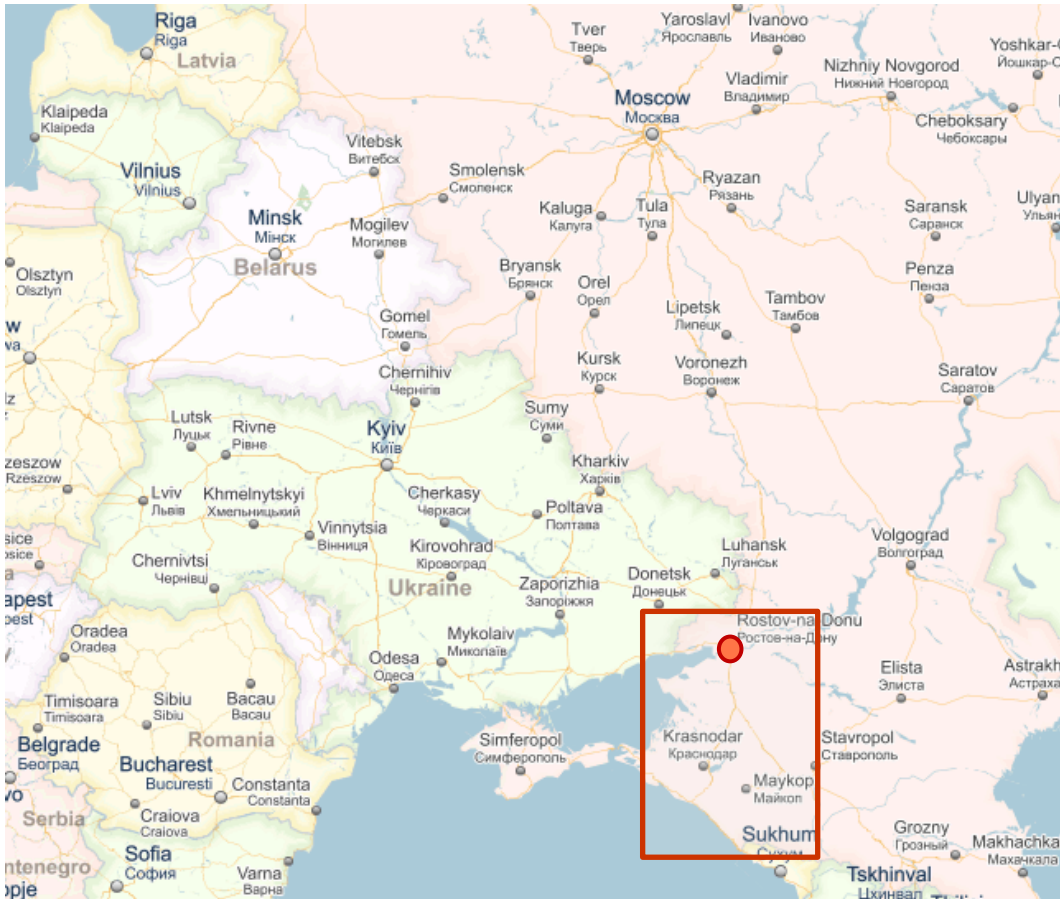
## Overview of the Systems (2014)

Water and Wastewater Utility Company of Rostov-on-Don is the largest water operator in the South of Russia:

- 1,3M** Total population in service
- 474K** Drinking water production (m<sup>3</sup>/day)  
*surface intake: river Don*
- 274K** Wastewater plant capacity (m<sup>3</sup>/day)  
*discharge: river Don*
- 2 694** Water network (km)
- 137** Water pumping stations
- 1 414** Wastewater network (km)
- 70** Wastewater Stations
  
- \$ 110M** Turnover
- 2,6K** Employees



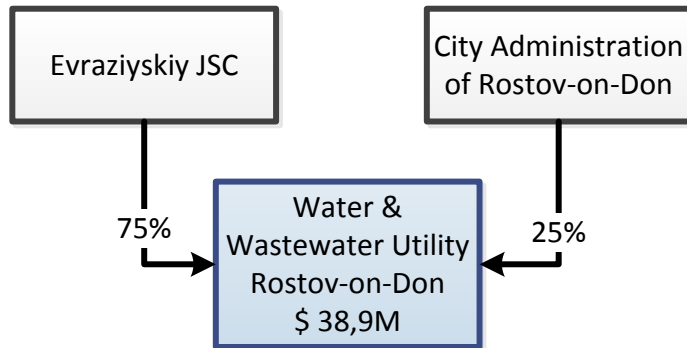
## Long-Term Capital Assets Improvement



### Pre-conditions:

- Deteriorated water system: shortage in water supply; worn out (by 80%) assets; high unaccounted for water (by 60%)
- Demand from developers for new water and wastewater infrastructure needed for building of 6M m<sup>2</sup> residential and 2M m<sup>2</sup> commercial property
- Stable population (migration from Siberia and other regions of Russia)
- International investors willing to place production in the region (PepsiCo, Coca-Cola, Carlsberg)
- Limited access to financing from budget (federal and local)

## Corporate Structure



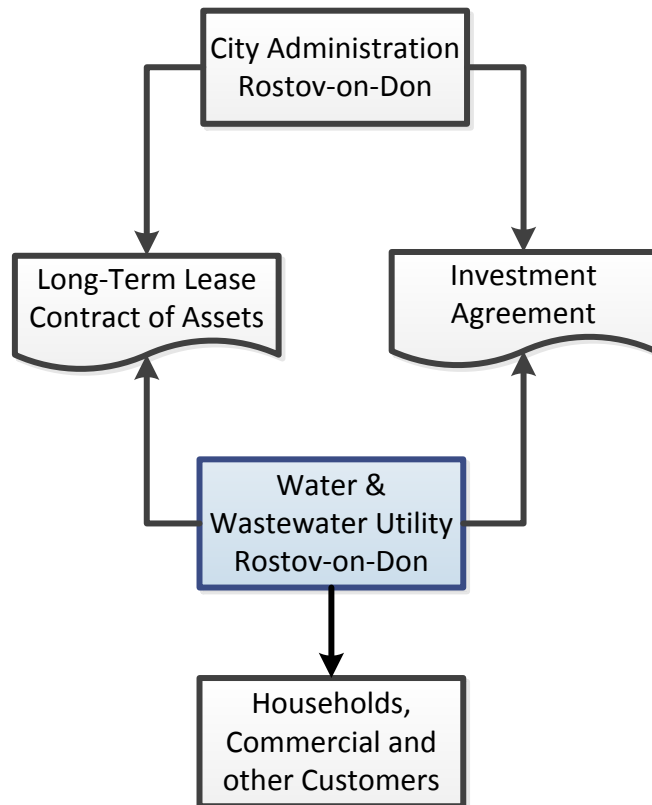
Participation of the Municipality in equity of the Project Company (non-productive assets):

- Mitigation of political risks of the project
- Key decisions made in accordance with corporate governance

Participation of Evraziyskiy JSC in equity of the Project Company (money):

- Funding of the immediate investment programme (2 years)
- New management
- Business processes to cut costs and win benefits

## PPP Structure



Long-term lease contract over operational assets of the Municipality (25 years):

- Tender procedure
- Infrastructure built from private money belongs to Project Company
- Buy-out of private property on early termination

Investment agreement to implement two long-term rehabilitation and construction programmes (\$928,14M+\$111,77M):

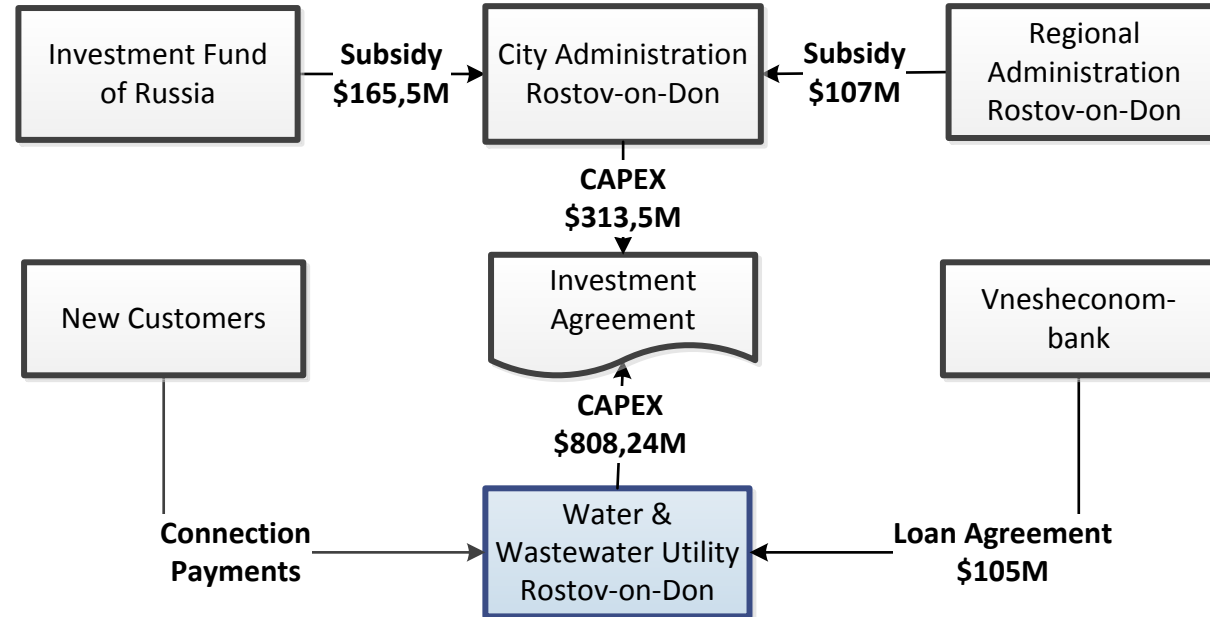
- Meeting of standards for drinking water
- Significant improvement of assets condition
- Extension of networks; reduction of power consumption and losses; mitigation of load on environment
- Connection of new individual and collective customers



## Financing of CAPEX

### Contribution from Private Partner:

- Arrangement of a loan provided by the State Corporation Vnesheconombank
- Reinvestment of operational profit
- Equity
- Collection of connection payments from new customers
- Other sources



### Contribution from Public Partner:

- Application by Investment Fund of Russia to obtain support in the form of budget subsidy from federal and regional levels to the Municipality of Rostov
- Setting of connection tariffs for new customers covering needs of the Private Partner
- Subsidy to the Private Partner to cover a part of interest cost on loans



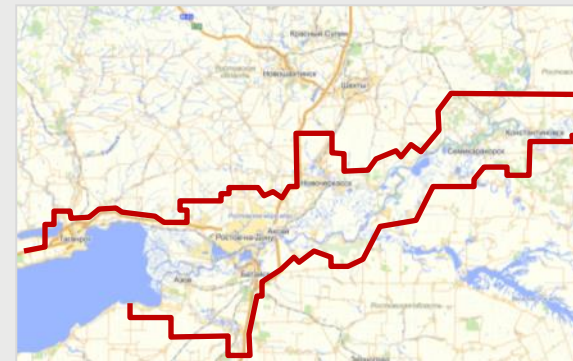
## Overview



2004 – 2012:  
City  
\$ 434,47M



2013 – 2018:  
City + Suburbs  
\$ 192,02 M



2019 – 2023:  
Rostov Agglomeration  
\$ 301,64M

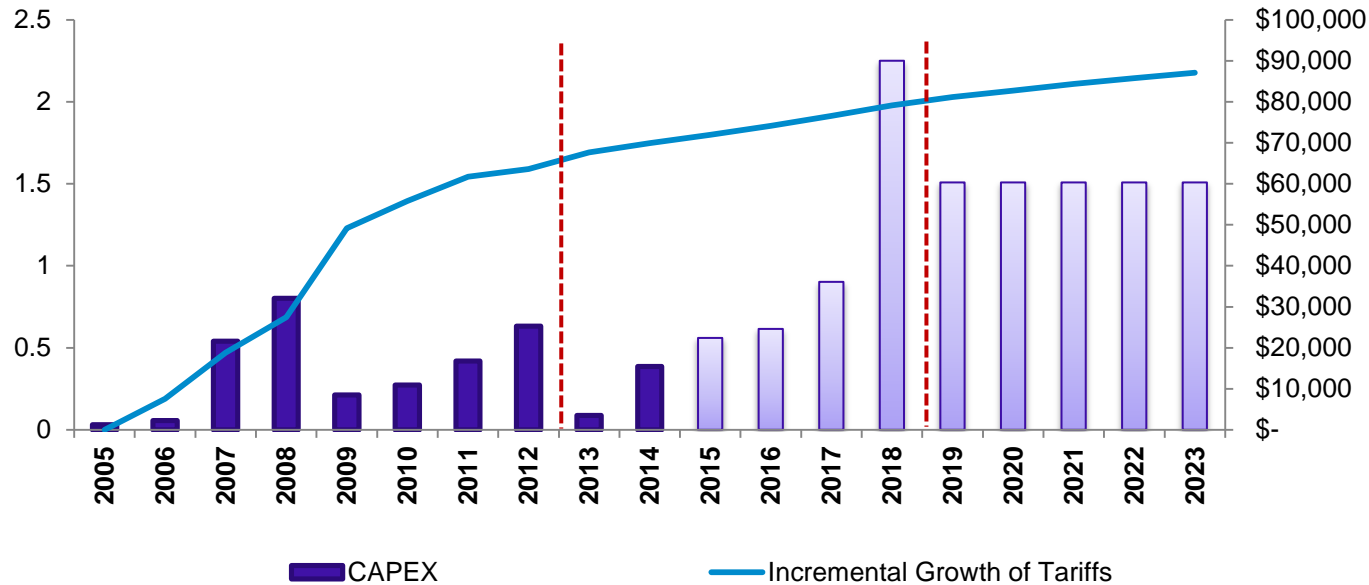
The total amount of capital expenditures is over \$ 1 039M, which is distributed as follows:

- 67%** new construction and extension of existing facilities and networks to enable connection of new customers due to the growth of the service area
- 27%** reliability of operation improvement to ensure stable services meet quality standards for drinking water and wastewater discharged in Don river
- 6%** operational efficiency enhancement to gain economical benefits





## Economic Environment



**2004-2012** significant tariff increases (+60%) have covered OPEX & CAPEX needs; cost savings have allowed to reinvest profit (\$17M)

**2013-2018** limitation of operational tariffs growth: CAPEX is financed from connection fees only, which include costs for reconstruction of existing facilities and construction of new infrastructure; significant drop of consumption (-20%)



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# Capital Investment Programme

## Components Examples



Reconstruction of the biggest WTP, replacement of free Cl by NaClO



Creation of a dispatch and control system



Building of new water mains (41,7 km)



Construction of 3 ultraviolet units at WTP



Building of the hydraulic model for water network



Reconstruction of 4 water PS



## Goals Achieved

Power  
Consumption  
-15,7%

Power in the Cost  
Structure  
37% => 25%

Accident Rate in  
Network  
-17%

Plastic Pipes  
Increase  
4% => 39%

Steel Pipes  
Decrease  
52% => 37%

## Lessons Learned

### Positive:

- Flexible PPP contract structure allowed to fund money from banks and to receive support from the State Investment Fund
- Close cooperation between stakeholders helped to adjust project parameters in line with economical environment
- Experience obtained during project preparation and implementation was used in other projects (Sochi, Krasnodar region)

### Negative:

- Lack of supporting mechanisms from the public partner for loans security
- Change in tariffs policy at the federal level slowed down implementation of the project
- Very difficult and expensive procedures of Vnesheconombank resulted in additional cost for the private partner