

Room Document No. 6

Joint Meeting: ECG and
Participants to the Arrangement

DRAFT SECTOR UNDERSTANDING ON EXPORT CREDITS FOR COAL-FIRED ELECTRICITY GENERATION PROJECTS

Chairman

17 (afternoon) November 2015
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I. Context and drafting principles used

1. As directed by the Chairman, the Secretariat has prepared the following draft Sector Understanding (SU) on Export Credits for Coal-Fired Electricity Generation Projects, in Appendix I to this document.
2. The drafting of this SU has been made in accordance with the following principles:
 - (a) As drafted, this SU would become Annex VI to the Arrangement (with subsequent Annexes renumbered).
 - (b) In order to be easy to read and implement, this proposal has been structured by Chapters and Articles in compliance with the typical structure of existing SUs (e.g. NSU, CCSU, and RSU).
 - (c) Unlike other SUs, this new SU provides for equal or more restrictive terms and conditions than the existing Arrangement terms. It should therefore be clarified that the provisions of this new SU are not optional to those of the Arrangement, but are mandatory for every coal-fired power project falling within its scope. To this end a new Arrangement Article 6d) is proposed.
 - (d) In addition, it is suggested to clarify in Arrangement Article 7 that the provisions of Annex VII on project finance apply to this new SU.
 - (e) Similarly, Article 13 of the Arrangement has been amended to clarify that the repayment terms for non-nuclear power plants do not apply to projects covered by the new SU on coal-fired power projects.
 - (f) Also, in order to avoid any possible confusion, a clear separation between the scope of this new SU and that of the existing CCSU has been added to Article 1c) of this new SU.
 - (g) New Arrangement Articles 6, 7b) and 13a) are proposed in Appendix II to this document, in underlined mode.

II. Explanation of the drafting proposed

Article 1 on Scope

3. A distinction is suggested between the terms and conditions allowed for new and for existing coal-fired power plants.
4. The list of goods and services usually considered to be inside/outside the power project boundary has been added.
5. Article 1c) sets out a “Chinese Wall” principle between the new SU and the CCSU, by ensuring that any coal-fired electricity generation project that currently falls within the scope of the CCSU

(e.g. CFPP with operational CCS, hybrid power plants using coal, combined heat and power projects with a coal power source) shall apply the terms and conditions of the CCSU.

6. *A contrario*, a combined reading of Arrangement new Article 6c) and of this new SU Article 1c) ensures that any “plain” coal-fired power plant (*i.e.* not CCS-equipped and not part of a hybrid plant or a combined heat and power project) shall apply the terms and conditions of the new SU, and not those of the Arrangement or the CCSU which would be less stringent.

Article 2 on Maximum Repayment Terms

7. For new coal-fired power plants, the maximum repayment terms are set out in Table 1. Additional explanations as necessary are included under that Table.

8. For the modernisation of existing coal-fired power plants, it is proposed to limit the maximum repayment term to Article 12 of the Arrangement. The addition of a new unit to an existing plant would be considered a new plant subject to the maximum repayment terms of Table 1.

9. Specific provisions in this SU and in Annex VII on Project Finance have been added to set out the maximum repayment terms allowed for project finance transactions of goods and services covered by this SU.

Article 3 on Repayment of Principal and Interest

10. Repayment of principal and interest shall be in accordance with Article 14 of the Arrangement or, if applicable, Article 3 of Annex VII, with a maximum weighted average life of half of the repayment period plus one quarter of a year.

Article 4 on Prior Notifications

11. Prior notification with additional mandatory reporting requirements is required for every project falling into the scope of the SU; if applying the flexibilities for Project Finance transactions, the prior notification requirements of both Annex VI and Annex VII shall apply.

Articles 5 and 6 on Monitoring, Review and Revision

12. The monitoring provision is similar to that of other SUs.

13. The review provisions are inspired by the Participants’ proposals.

Article 7 on Transitional Arrangements

14. A one year transitional period is proposed, with a limited exception for projects for which an RFP has been issued and substantial progress on the projects has been made.

III. Next steps

15. This Chairman’s Proposal is for discussion and decision by the Participants at their November meetings.

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APPENDIX I

**DRAFT SECTOR UNDERSTANDING ON EXPORT CREDITS FOR
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The Participants to this Sector Understanding agree that the financial terms and conditions of the Sector Understanding, which complements the Arrangement, shall be implemented in a way that is consistent with the Purpose of the Arrangement.

CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING

1. SCOPE OF APPLICATION

- a) This Sector Understanding sets out the financial terms and conditions that apply to officially supported export credits relating to contracts for coal-fired electricity generation projects, for:
 - 1) The export of new coal-fired electricity generation plants or parts thereof, for the grid and for industrial use, located in plants without operational carbon capture and storage or carbon capture and utilisation technology, comprising all components, equipment, materials and services (including the training of personnel) directly required for the construction and commissioning of such plants. The addition of a new coal-fired electricity generation unit to an existing plant is deemed to be a new coal-fired electricity generation plant.
 - 2) The modernisation of, or supply of equipment to, existing coal-fired electricity generation plants, for the grid and for industrial use.
- b) This Sector Understanding does not apply to items located outside the coal-fired electricity generation project site boundary for which the buyer is usually responsible, in particular, water supply not directly linked to the power production plant, costs associated with land development, roads, construction villages, power lines and switchyard, as well as costs arising in the buyer's country from official approval procedures (*e.g.* site permits, construction permit), except:
 - 1) In cases where the buyer of the switchyard is the same as the buyer of the power plant and the contract is concluded in relation to the original switchyard for that power plant, the terms and conditions for the original switchyard shall not exceed those for the coal-fired electricity generation project; and

- 2) The terms and conditions for sub-stations, transformers and transmission lines with a minimum voltage threshold of 100kV located outside the coal-fired electricity generation project site boundary shall not be more generous than those for the coal-fired electricity generation project.
- c) If a coal-fired electricity generation project falls within the scope and meets the conditions of Appendix II of the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects, the financial terms and conditions applicable to such project shall be those set out in the said Sector Understanding.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS

2. MAXIMUM REPAYMENT TERMS

- a) For officially supported export credits for goods and services covered by the provisions of Article 1a)1) of this Sector Understanding, the maximum repayment term is set out as follows in Table 1 below:

**Table 1
Maximum repayment terms**

PLANT UNIT SIZE (gross installed capacity)	Unit > 500 MW	Unit ≥300 to 500 MW	Unit < 300 MW
Ultra-supercritical (<i>i.e.</i> , with a steam pressure >240 bar and ≥593°C steam temperature), OR Emissions < 750 g CO ₂ /kWh	12 years ¹	12 years ¹	12 years ¹
Supercritical (<i>i.e.</i> , with a steam pressure >221 bar and >550°C steam temperature), OR Emissions between 750 and 850 g CO ₂ /kWh	Ineligible	10 years, and only in IDA-eligible countries ^{1,2,3}	10 years, and only in IDA-eligible countries ^{1,2,3}
Subcritical (<i>i.e.</i> , with a steam pressure < 221 bar), OR Emissions > 850 g CO ₂ /kWh	Ineligible	Ineligible	10 years, and only in IDA-eligible countries ^{1,3}

Note 1: Where eligible for official support, an additional two years repayment term is allowed for project finance transactions consistent with paragraph d) below, subject to the maximum repayment terms in Article 2 of Annex VII.

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Note 2: To help address energy poverty, ten year export credit support may be provided in all countries where the National Electrification Rate (as per the most current IEA World Energy Outlook Electricity Access database) is reported as 90% or below at the time the relevant completed application for export credit is received.

Note 3: Export credit support may be provided in non-IDA-eligible countries for geographically isolated locations, where, (1) the alternatives analysis referred to in Article 4b)1) of this Sector Understanding deems that less carbon-intensive alternatives are not viable and (2) the physical/geographic and existing grid features (including inability to connect to a larger grid) justify the proposed project's efficiency category as the best available technology. In cases where the project is not located on a physical island, the interested Participant shall seek the consent of all Participants through the use of a Common Line procedure in accordance with Articles 58 to 63 of the Arrangement.

- b) For the purpose of the implementation of Table 1 above:
 - 1) With respect to eligible subcritical units, official support shall be limited to two co-located units in a given plant, not to exceed an aggregate gross installed capacity of 500 MW, except if the alternatives analysis referred to in Article 4b)1) of this Sector Understanding examines the possibility of one larger unit in a higher efficiency category, and demonstrates that this approach as not viable; in this case, official support shall be limited to two units, not to exceed an aggregate gross installed capacity of 600 MW.
 - 2) With respect to eligible supercritical units, official support shall be limited to no more than two co-located units in a given plant, except if the alternatives analysis referred to in Article 4b)1) of this Sector Understanding examines the possibility of achieving the same capacity through one or two larger units, and demonstrates that this approach as not viable.
 - 3) IDA-eligible countries are defined as countries eligible for International Development Association (IDA) resources (including IDA-only and IDA blend countries) at the time the relevant completed application for export credit is received.
- c) For officially supported export credits for goods and services covered by Article 1a)2) of this Sector Understanding, the maximum repayment term shall be determined by Article 12 of the Arrangement.
- d) Project Finance transactions are transactions of goods and services covered by this Sector Understanding that also meet the criteria set out in Appendix I of Annex VII. For such transactions, a Participant applying the relevant repayment term allowed by Table 1 of this Sector Understanding, shall also apply the other terms and conditions set out in Annex VII, subject to the provisions of Article 3 of this Sector Understanding.

3. REPAYMENT OF PRINCIPAL AND INTEREST

- a) Subject to the provisions of paragraph b) below, the repayment of principal and interest shall be provided in accordance with:
 - 1) Article 14 of the Arrangement, or
 - 2) For transactions of goods and services covered by this Sector Understanding that also meet the criteria set out in Appendix I of Annex VII, Article 3 of that Annex.
- b) The weighted average life of the repayment period supported shall not exceed half of the repayment period plus one quarter of a year.

CHAPTER III: PROCEDURES

4. PRIOR NOTIFICATION

- a) A Participant shall give prior notification in accordance with Article 48 of the Arrangement at least ten calendar days before issuing any commitment if it intends to provide support in accordance with the provisions of this Sector Understanding.
- b) Such notification shall:
 - 1) Indicate that an evaluation of less carbon-intensive energy alternatives has been carried out and such alternatives are demonstrated as not viable, and
 - 2) Include a demonstration that the project is compatible with the host country's national energy policy and climate mitigation policy and strategy, which is supported by a targeted policy to expand renewables and/or to enhance energy efficiency.
 - 3) For projects qualifying under Footnote 2, an explanation of how the supported project helps address energy poverty.
- c) A Participant notifying a transaction under "Project Finance" in compliance with Article 2d) of this Sector Understanding shall, in addition to the reporting requirements set out above, report the information required in accordance with Annex VII.

CHAPTER IV: MONITORING, REVIEW AND REVISION

5. MONITORING

The Secretariat shall report annually on the implementation of this Sector Understanding.

6. REVIEW AND REVISION

- a) This Sector Understanding shall be reviewed by no later than 30 June 2019 with the objective of further strengthening its terms and conditions in a second phase beginning no later than 1 January 2021, in order to contribute to the common goal of addressing climate change and to continue phasing down official support for coal-fired power plants, including with a view to reducing the use of less efficient coal-fired power plants.
- b) The review shall take into account:
 - 1) The most recent reports on climate science and the implications for global infrastructure investment decisions of remaining on the path to limit global warming to below 2 degrees Celsius higher than pre-industrial levels;

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- 2) Advancements in technology concerning coal-fuelled power plants, including Integrated Gasification Combined Cycle (IGCC);
 - 3) Availability of carbon capture and storage technology;
 - 4) The evolution of regulatory frameworks in both exporting and buying countries with regard to coal-fuelled power plants;
 - 5) The evolution of market conditions, in various countries, including commercial feasibility of, and operational experience with, various coal-fuelled power plant technologies, and
 - 6) Developments in the export credit financing policies and practices of non-OECD countries, especially the major exporting countries of coal-fuelled power plants, recognising the important role that Participants can play in encouraging the Participation of non-OECD countries in this area.
- c) How the present Sector Understanding has affected energy poverty and the National Electrification Rate.

7. TRANSITIONAL ARRANGEMENTS

The terms and conditions of this Sector Understanding are applicable to final commitments for goods and services covered by this Sector Understanding as of 1 January 2017, with the exception of those projects for which a request for proposals was issued prior to 1 January 2017, on the basis of a fully completed technical feasibility study and environmental and social impact assessment, and provided that an application for export credit support for any such project is submitted and acted upon expeditiously.

APPENDIX II: CHANGES PROPOSED TO THE ARRANGEMENT

ARRANGEMENT ARTICLES

6. SECTOR UNDERSTANDINGS

- a) The following Sector Understandings are part of the Arrangement:
- Ships (Annex I)
 - Nuclear Power Plants (Annex II)
 - Civil Aircraft (Annex III)
 - Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects (Annex IV)
 - Rail Infrastructure (Annex V)
 - Coal-Fired Electricity Generation Projects (Annex VI).
- b) The Participants to either Annex I, II, IV or V may apply the respective provisions for official support for export of goods and/or services covered by the relevant Sector Understandings. Where a Sector Understanding does not include a corresponding provision to that of the Arrangement, a Participant to that Sector Understanding shall apply the provision of the Arrangement.
- c) For the export of goods and/or services covered by Annex III, the Participants that are also Participants to that Sector Understanding shall apply the provisions of that Sector Understanding.
- d) For the export of goods and/or services covered by Annex VI, the corresponding provisions of that Annex shall be applied in lieu of those of the Arrangement. Where Annex VI does not include a corresponding provision to that of the Arrangement, a Participant to that Sector Understanding shall apply the provisions of the Arrangement.

7. PROJECT FINANCE

- a) The Participants may apply the terms and conditions set out in Annex VII to the export of goods and/or services for transactions that meet the criteria set out in Appendix 1 of Annex VII.
- b) Paragraph a) above applies to the export of goods and services covered by the Sector Understanding on Export Credits for Nuclear Power Plants, the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects,

~~and~~ the Sector Understanding on Export Credits for Railway Infrastructure, and the Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects.

- c) Paragraph a) above does not apply to the export of goods and services covered by the Sector Understanding on Export credits for Civil Aircraft or the Sector Understanding on Export Credits for Ships.

13. REPAYMENT TERMS FOR NON-NUCLEAR POWER PLANTS

- a) For non-nuclear power plants not covered by Annex VI, the maximum repayment term shall be 12 years. If a Participant intends to support a repayment term longer than that provided for in Article 12, the Participant shall give prior notification in accordance with the procedure in Article 48.
- b) Non-nuclear power plants are complete power stations, or parts thereof, not fuelled by nuclear power; they include all components, equipment, materials and services (including the training of personnel) directly required for the construction and commissioning of such non-nuclear power stations. This does not include items for which the buyer is usually responsible, in particular costs associated with land development, roads, construction villages, power lines, and switchyard and water supply located outside the power plant site boundary, as well as costs arising in the buyer's country from official approval procedures (e.g. site permits, construction permit, fuel loading permits), except:
- 1) in cases where the buyer of the switchyard is the same as the buyer of the power plant, the maximum repayment term for the original switchyard shall be the same as that for the non-nuclear power plant (i.e. 12 years); and
 - 2) the maximum repayment term for sub-stations, transformers and transmission lines with a minimum voltage threshold of 100 kV shall be the same as that for the non-nuclear power plant.

ANNEX VII – PROJECT FINANCE

2. MAXIMUM REPAYMENT TERMS

The maximum repayment term is 14 years, subject to the provisions of the Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects for projects falling within its scope.