

First Power Project Applying Preferential Interest Rate for Special Environmental Projects -Assistance for the Construction of Gas Combined Cycle Power Plant Friendly with the Environment-

OECF (President, Chairman of the Board, Mr. Akira Nishigaki) is to provide Azerbaijan Republic with a loan for the "Severnaya" Gas Combined Cycle Power Plant Project amounting to 20,699 million yen.

The loan agreement was signed today at OECF's Head Office in Tokyo by Mr. Akira Nishigaki, Chairman of the Board, and Mr. Abid SHARIFOV, Deputy Prime Minister of Azerbaijan Republic.

This is the first ODA loan to Azerbaijan Republic, the 89th country to receive an ODA Loan. This is also the first power project applying preferential interest rate for special environmental projects.

1. Loan Amount and Conditions

Project	Amount (Mil. Yen)	Interest Rate (%)	Repayment Period /Grace Period (years)	Tying Status
"Severnaya" Gas Combined Cycle Power Plant Project	20,699	0.75*	40/10*	General-Untied

*Preferential interest rate for special environmental projects

2. Project Description

"Severnaya" Gas Combined Cycle Power Plant Project

(1) Azerbaijan Republic

- Potentially oil rich country enjoying worldwide attention -

Azerbaijan Republic, one of the Caucasian countries which attained independence from the Former Soviet Union in 1991, is located in the middle of the Eurasian Continent. The country share the borders in the north with Russia and Georgia, in the south with Iran and in the west with Armenia. In the east, Azerbaijan faces the Caspian Sea. In the beginning of the 20th century, Baku, the capital of Azerbaijan, was called the most prosperous city in the world. Azerbaijan was the third-largest oil producer in the Former Soviet Union, the first was Russia, second Kazakstan. The total volume of oil reserves was estimated about 28.5 billion barrel at the end of 1995. The total estimated volume of oil reserves (74.6 billion barrel) of the three countries, namely Azerbaijan, Kazakstan and Turkmenistan all of which face the Caspian Sea, are second only to those of five countries in Middle East.

Azerbaijan suffered huge economic losses because of the prolonged conflict with Armenia. The gross domestic production (GDP) was once fallen down to about 37% of that of 1991, the year of independence. However, since April, 1994, when the cease-fire agreement was signed with Armenia, the political and economic situation has been stable, and as a result, the amount of direct investment has been increasing rapidly, especially for the oil exploitation in the Caspian Sea. Azerbaijan achieved real GDP growth for the first time since independence of 1.0% in 1996 (the statistics of CIS Committee), and the growth was strengthened to 5.8% (the statement of Government). The commercial production of oil from Caspian Sea came to start from last November and steady growth is anticipated in the future with the foreign investment.

(2) Background and necessity of the Project

The total installed capacity of electricity in Azerbaijan is approximately 5,100MW 84% of which is the thermal power using of abundant oil in Azerbaijan. However, because of its obsolete facilities and the lack of proper maintenance, generation capacity is fallen to nearly 4,200MW. Without proper investment, the capacity will continue to be fallen furthermore.

Since the independence from the Former Soviet Union in 1991, the GDP in Azerbaijan had been declined drastically, and the demand of electricity also decreased. However, after 1995, the economic situation is strongly recovering. Reflecting this, the demand of electricity is and will be increasing beyond existing capacity. Facing this situation, the Government of Azerbaijan drew up the Medium Term Public Investment Program (1997-1999). According to this Program, the power sector is regarded as the most important sector, and the total allocated amount towards this sector is nearly 600 million dollars which is equal to one fourth of the total investment of the Program.

Most of the power plants in Azerbaijan are oil-fired and are in a poor condition. Energy efficiency becomes worse and worse. On top of that, these plants have been emitting a large amount of SOx which brings damages to the environment. Therefore, the Government is planning not only to rehabilitate the existing power plant but also to convert to natural gas combined cycle plant, which is more energy efficient and more environment friendly.

(3) Purpose and Description of the Project

The purpose of this project is to construct gas combined cycle power plant (400MW) at the site of existing thermal power plant (150MW) in order to meet the increasing future power demand especially around Baku with due consideration to the environment.

According to the study, if compared with the existing plant, the new power plant will reduce air pollution as follows; [1]SOx will not be produced (the existing power plant discharges 3,309 ton per year, however, the new plant discharge 0, because the fuel converts from oil to natural gas) [2]the total amount of discharged NOx will be less than half, that is, the existing plant will discharge 1,728 ton per year, however, the new plant 772 ton, because the efficiency improves. The new plant is also expected to minimize CO2 emission which is considered as one of the factors of global warming. The total amount of CO2 emission will be approximately 1 million ton per year and this will be less than half of those emitted from the oil-fired thermal power plant of the same generation capacity, which is approximately 2.4 million ton.

The proceeds of the loan will be used for the procurement of goods and services and consulting services (assistance for procurement, supervision, assistance for Environmental Impact Assessment etc.) necessary for the implementation of the project.

The Executing Agency for the project is Joint-Stock Company "Azerenerji" (Address : 10, Academican Abdulkirim, Alizade Str., Baku, 370005 Azerbaijan, TEL: +994-12-937358, FAX: +994-12-985523)