Suggested U.S. Participants on the Environment 2 Panel
(U. S. Panel Contact: Peter Bowman)
(202) 482-8356

U.S. CO-CHAIR:

Environmental Protection Agency
Deputy Assistant Administrator
Dr. Alan Hecht

U.S. PROJECT PRESENTATIONS

Mr. Jerry Santillan, City Manager
Water Treatment Plant, Brawley, California: Construction of new water treatment plant which will improve water quality and services, by providing a reliable source of potable water. As an advisor and lead investor for the City of Brawley, NADBank has worked with the community: developing an affordable project; beginning a credit rating process; creating permanent reserves in the financial structure of the project aimed at avoiding future maintenance and operations problems; participating in public rate hearings; reviewing the project's first construction bids (30% over the original budget) as well as helping the City restructure the second bids which were 20% below the original budget. Construction is 100% complete.

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Mr. Ed Archuleta

Second Choice
Chemonics
Mr. David Lynn
Director of Infrastructure Finance with Chemonics

Alternate Second Choice
EA Engineering, Science and Technology
Mr. Don Deieso
CEO/President

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Ms. Rebecca Mark
Chairman and CEO of Azurix, Enron subsidiary

Fourth Choice

Inter-American Development Bank
Moises Pineda, **Executive Director of Mexico**

Fifth Choice
Border Environment Cooperation Commission
Mr. Rene Franco, **Project Development Director**

FAX TRANSMISSION

ENERGY DIVISION

DEPARTMENT OF COMMERCE
Room 4056
Washington, D.C. 20230
Fax: (202) 482-0170

Date: May 5, 2000 **Pages: 3 (Including this sheet)**

From: Michael Beeman
Caspian/Turkey Energy Officer - DOC
Tel: (202) 482-3492
Fax: (202) 482-0170

Janice M., please note. 5/8/00

To: Elizabeth Stewart
MDB Office - US Treasury
fax: 622-2505

Subject: Turkey Projects

MESSAGE

Dear Elizabeth,

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Our conversation was most helpful. I look forward to following-up again with you soon. In the meantime, please don't hesitate to contact me should you have any further questions/issues.

Best regards,

FACSIMILE TRANSMITTAL

THE WORLD BANK
OFFICE OF THE U.S. EXECUTIVE DIRECTOR
1818 H Street, NW Room D-13-004
Washington, DC 20433

DATE: 5/5/00 **NUMBER OF PAGES INCLUDING COVER SHEET:** 3

TO: Elizabeth Stewart

FAX NUMBER: 622-2505

FROM: Janice Mazur, Procurement Liaison
TEL: (202) 458-0118
FAX: (202) 477-2967

COMMENTS:

per Telcon earlier

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Treas. Mike Colby

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UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
ASSISTANT SECRETARY FOR TRADE DEVELOPMENT
Washington, D.C. 20230

APR 20 2000

Schuerch Rubin
Lichtenberger Rittertoff
Ladulot
Greene
Nugent
Lundsager
Galpern

Mr. Edwin M. Truman
Assistant Secretary for International Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Assistant Secretary Truman:

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These potential pitfalls are clear to us after holding conversations with a variety of Turkish and American business representatives, private and U.S. agency financing bodies, and representatives of Turkish and other U.S. agencies. Some of Turkey's energy planners in the Ministry of Energy and Natural Resources also share these concerns.

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00500000001751

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Michael J. Copps

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
ASSISTANT SECRETARY FOR TRADE DEVELOPMENT
Washington, D.C. 20230

APR 20 2000

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FAX TRANSMISSION

ENERGY DIVISION

DEPARTMENT OF COMMERCE
Room 4056
Washington, D.C. 20230
Fax: (202) 482-0170

Date: May 2, 2000 **Pages: 3 (including this sheet)**

From: Michael Beeman
Caspian/Turkey Energy Officer - DOC
Tel: (202) 482-3492

To: **Malachy Nugent**
Treasury Dept.
622-0037

Subject: **Memo on Turkish Reforms**

MESSAGE

Malachy,

Per our conversation, please see the attached memo. As I mentioned, things have transpired somewhat from the time this was written, but the basic ideas are the same.

As things are moving quickly in Turkey on decisions about energy projects, your attention to this matter as soon as possible would be greatly appreciated.

Please let me know if you have any further questions/concerns.

Michael B.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

MEMORANDUM

TO: Denise Carpenter
Office of Finance

FROM: Jim Wilson
Director
Office of Energy, Infrastructure and Machinery

RE: Pending World Bank Structural Adjustment Loan for Turkey

The World Bank is set to approve a major $760 million structural adjustment loan for Turkey in the coming weeks. Upon review of the World Bank recommendation to the Executive Directors Board on this loan, we support the general thrust of the effort that Turkey has pledged to undertake in the area of energy sector reform and privatization. On the other hand, we have some serious concerns about how the World Bank and the Turkish Treasury appear to be planning to move forward with measures that will be necessary to implement the loan that may negatively affect Turkey's ability to implement major power projects over the medium-term.

Investors traditionally have looked to the Turkish Treasury to provide guarantees for fuel supply from and electricity sales to government-owned entities in order to satisfy the risks that lenders to such projects are willing to accept. According to the language of the World Bank recommendation, Turkey now is agreeing to put "limits on the issuance of new guarantees." Under a deregulated and privatized market, there exists an assumption that a developed, market-based system for fuel supply and power purchases would be able to lead to an environment when sovereign guarantees are no longer required in most cases.

While this may prove true, after recent consultations with officials of the Turkish Treasury under the U.S.-Turkey Joint Economic Commission and with private discussions with officials of the World Bank it appears that both sides are viewing rather narrowly the scope for new guarantees -- in fact, possibly no further Treasury guarantees for power projects.

This development is of great concern to us as well as to the Turkish Ministry of Energy and Natural Resources. It will take some time for a market to develop that can support fully market solutions to investment needs in Turkey. After discussions with representatives of private banks and U.S. government finance agencies, we feel that investment will be frozen for a matter of a few years should Turkey undertake such a

Draconian program on sovereign guarantees. In essence, projects that currently under development and in search of financing would be unable to go forward for a several years, potentially damaging the ability of Turkey to have an adequate supply of power to meet its expanding need for energy to fuel economic growth.

In addition, as made apparent by the letter from Mr. Onal, Turkish Minister of State for Economic Affairs, to Mr. Wolfensohn, World Bank President, the Government of Turkey will pursue prioritization of energy projects that are "lower cost." We share a concern with the Turkish Ministry of Energy and Natural Resources that an emphasis on "lower cost" alone will deprive Turkey of important infrastructure projects, such as hydropower plants or facilities that use indigenous coal sources, that may have higher tariffs over the initial years but that have great longer term benefits to the economy, energy security, and the environment. While this issue is a matter for the Government of Turkey to decide how it will implement its reform program, the creation of priority list is a condition that the World Bank has insisted on informally through the negotiation process over the loan.

I wish to share our concerns with you prior to the decision of the Executive Directors on this loan program. While we have no objections to the language that the World Bank has used regarding its requirements for Turkey's receipt of this loan, we have strong concerns with how the program will be implemented and that if not properly managed, could freeze investment in many projects that Turkey has planned as necessary to meet growing demand for power.

cc: Michael Copps
Alan Bowser

From: Farah Naim [Farah_Naim@ita.doc.gov]
Sent: Tuesday, January 09, 2001 10:12 AM
To: Geetha.Rao@do.treas.gov
Subject: Ennore project-related article

[Hi! Were you able to speak with Mr. Bajpai? Thanks again!]

NEW DELHI, Jan. 8 Business Line article:
Govt to pull the plug on power
guarantees
Balaji C. Mouli
Shaji Vikraman

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The Government has argued that the need for guarantees in the first place is necessitated on account of the financially fragile monopsinic nature of the power market -- single buyer of power, namely, the State electricity board.

Since the Electricity Bill 2000, which is to be introduced in the Budget session of Parliament, allows for direct sale of power to consumers, the Centre has argued that the developer can negotiate with the existing State electricity board and enter into an arrangement whereby future consumers are earmarked.

Further, for legal endorsement of such an arrangement, the State or Central Electricity Regulatory Commission's approval can be sought for entry of power generation

capacity into the state power sector. Since the SERC will be verifying the cost of power using economic principles, the States will be contracting competitively-priced power.
The developers have asked the sponsors to seek the views of the lenders to the projects on such an arrangement.
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This, however, did not take off since the States did not accept the concept of `cherry picking' of consumers whereby the paying consumers to electricity boards will secure the payment for the mega power bills.
This is because the weaning away the paying consumers in the earlier non-reforming environment would lead to the deterioration of the finances of the State electricity boards, they argued.
At this point of time, the erstwhile Union Power Minister Mr P.R. Kumaramangalam mooted a revised structure involving sovereign guarantees for covering debt repayment in the event of termination of the power project besides the comfort mechanism to avert termination.
With the possibility of invoking of Central guarantees by the Enron looming over the Finance Ministry, the Government has decided to revisit the need to accord guarantees for the power projects.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
ASSISTANT SECRETARY FOR TRADE DEVELOPMENT
Washington, D.C. 20230

APR 20 2000

Schmerch Rubin
Lichtenberger Ritterhoff
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Nugent
Lundsager
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Environmental Protection Agency
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FAX TRANSMISSION

ENERGY DIVISION

DEPARTMENT OF COMMERCE
Room 4056
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Fax: (202) 482-0170

Date: May 5, 2000 **Pages: 3 (Including this sheet)**

From: Michael Beeman
Caspian/Turkey Energy Officer - DOC
Tel: (202) 482-3492
Fax: (202) 482-0170

Janice M. please note. 5/8/00

To: Elizabeth Stewart
MDB Office - US Treasury
fax: 622-2505

Subject: Turkey Projects

MESSAGE

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1818 H Street, NW Room D-13-004
Washington, DC 20433

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TO: Elizabeth Stewart

FAX NUMBER: 622-2505

FROM: Janice Mazur, Procurement Liaison
TEL: (202) 458-0118
FAX: (202) 477-2967

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APR 20 2000

Schuerch Robin
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APR 20 2000

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DEPARTMENT OF COMMERCE
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Date: May 2, 2000 **Pages: 3 (including this sheet)**

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Caspian/Turkey Energy Officer - DOC
Tel: (202) 482-3492

To: **Malachy Nugent**
Treasury Dept.
622-0037

Subject: **Memo on Turkish Reforms**

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MEMORANDUM

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Director
Office of Energy, Infrastructure and Machinery

RE: Pending World Bank Structural Adjustment Loan for Turkey

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Sent: Tuesday, January 09, 2001 10:12 AM
To: Geetha.Rao@do.treas.gov
Subject: Ennore project-related article

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APR 20 2000

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Assistant Secretary for International Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Assistant Secretary Truman:

I wish to bring to your attention some significant concerns in this Department over the effects that a pending World Bank Economic Reform Loan for Turkey may have on energy projects in that country. Our concerns are primarily two-fold.

1. While the overall thrust of the formal World Bank requirements for energy sector reform is, we feel, positive, it appears that the World Bank has been placing strong pressure on Turkey to avoid issuing any new sovereign guarantees on energy projects that have been necessary in the past to gain financing. We are concerned that immediate suspension of further guarantees for power projects, however, could easily put at substantial risk the ability for pending and new projects to go forward over the medium-term until new market conditions develop.

2. World Bank insistence that Turkey create a priority list of energy projects, according to some reports, also has been accompanied by an emphasis that only the lowest cost electricity projects be prioritized. If true, this development in turn would put at risk projects like hydro power facilities that tend to be costly in their initial phases yet contribute substantially in other ways to Turkey's economic development, energy diversity and security.

These potential pitfalls are clear to us after holding conversations with a variety of Turkish and American business representatives, private and U.S. agency financing bodies, and representatives of Turkish and other U.S. agencies. Some of Turkey's energy planners in the Ministry of Energy and Natural Resources also share these concerns.

I would welcome, through your good offices, the arrangement of a working-level meeting with relevant officials from the World Bank and involving Department of Commerce representatives to ensure that these concerns are expressed to, and clarifications received from, Bank officials as Turkey moves forward with these important commitments that will affect its overall economic development. We would hope that such a meeting could be arranged as soon as possible given the pending nature of the loan and the related developments in Turkey.

I thank you for your kind consideration of this important matter.

Sincerely,

Michael J. Copps