

Veolia Water PPP track record on Polish and Czech Market

PPP in water and wastewater sector - VEOLIA Water track record in Continental Europe

- ▶ Apa Nova Bucharest, Romania
- ▶ BerlinWasser, Germany
- ▶ Gorlitz Stadtwerke, Germany
- ▶ Apa Nova Ploesti, Romania
- ▶ FCSM Budapest, Hungary
- ▶ Segedi Vismu, Hungary
- ▶ PVK Prague, Czech Republic
- ▶ SCVK Liberec, Czech Republic
- ▶ Banska Bystrica, Poprad, Slovakia
- ▶ Pwik Tarnowskie Góry, Poland
- ▶ Yerevan Dur, Armenia

Examples of PPP in water and wastewater sector in Poland:

▶ AQUA SA - Bielsko Biala (United Utilities BV)

Since 1999, United Utilities is a strategic investor of AQUA SA Bielsko Białą, holding 33% shares

▶ PWiK Sp. z o.o. - Tarnowskie Góry (Veolia Woda)

Thanks to the equity injection, contribution of knowledge and experience of Veolia Woda, the company is modernizing and expanding the water supply network, carry out renovation and expansion of the wastewater network and modernizing machinery and equipment. Since 2002, VW holds a majority shares in PWiK Tarnowskie Góry

▶ PWiK Sp. z o.o. - Dabrowa Górnicza (RWE)

Since 2002, RWE is the strategic investor PWiK in Dąbrowa Górnicza holding 34% of shares

▶ PWiK Sp. z o.o. – Głogów (Gelsenwasser)

In 2002, 46% of shares of the Company was sold to the Gelsenwasser Company. Regional Fund for Environmental Protection and Water Management in Wrocław holds 3% of shares, while the Municipality of Głogów holds remaining 51% of shares in the company

▶ Saur Neptun Gdańsk S.A. – Gdańsk i Sopot (SAUR)

Since 1992, SNG operates the water and wastewater infrastructure in the city Gdansk and Sopot. City of Gdańsk holds 49% of shares in the company, SAUR 51%

2009- the year of opening for projects such as PPP (also in the water sector)

- ▶ In 2009, 41 announcements has appeared * for concessions and public-private partnership, including 4 of water and sewer projects **
- ▶ Of the 41 announcements, 16 investigations had been canceled, 21 are in the process of negotiations with interested partners, and 2 enterprises signed a contract with a private partner. In the course of negotiations, there are 7 concession, 8 service concessions and 6 PPP projects. In total, 46 investors have signed up to the published proceedings in 2009
- ▶ The most expensive projects - worth some 330 mln zł each - are in the water and sewerage ***.
- ▶ Public budgets are close to the statutory threshold of 60% of the debt, so the prospect of use of private money in public tasks seems to be unavoidable,
- ▶ Resource allocation was exhausted within POliŚ for water and sewage projects (priority I)
- ▶ A positive sign is the government stemming from the fact that most of them want to use PPP ****

** Some projects have been repeatedly the subject of the announcements, so the actual number of concessions and PPP projects is less than announcements (34).*

*** Reported water supply and sanitation projects are being prepared for implementation in the formula of service concessions. In 2009 there were 3 projects PPP / concessions in the water and sewage. Motion from Siemianowice Slaskie was announced twice.*

**** The average reduction in the sector strongly affected by a project whose value does not exceed 5 mln zł.*

***** A study conducted in April 2009 by GfK Polonia among local governments on PPPs indicates that 54% of them want to use the PPP in the future, while 40% believe that the new legislative solutions will facilitate public-private cooperation.*

Projects PPP / concession in water and sanitation sector, announced in 2009

Localisation	Grantor	Project
Będzin /Śląskie	MPWiK w Będzinie	The concession to operate a collective supply collecting water and sewage in the Town Bendzin
Kiszkowo /Wielkopolskie	Municipality Kiszkowo	The concession to operate a collective supply collecting water and sewerage in the municipality Kiszkowo
Siemianowice Śląskie /Śląskie	Aqua - Sprint Sp. z o.o.	Provision of services in the management of water services, collective water supply and public sewerage, conduct repairs and modernization of water and sewage networks in the city of Siemianowice Slaskie, together with infrastructure maintenance services.

Three-year concession agreement was concluded with the Cooperative Housing in Rybno Wielkie ul. Główna 22, 62-280 Kiszkowo

Projects PPP / concession in water and sanitation sector, announced in 2010

Localisation	Grantor	Project
Przygodzice/Wielkopolskie	Municipality Przygodzice	Services for the Municipality Przygodzice within the scope of collective water supply and collective sewage, using the water supply and sewerage assets leased from the Municipality Przygodzice
Biskupice/Małopolskie	Municipality Biskupice	Provision of services in the management of the water supply, ie, the exercise of collective water supply in the municipality Biskupice with repair and maintenance services and infrastructure maintenance and operation of sewage treatment

Conditions for participation in the proceedings*

The criteria used in water and sanitation sector were mainly:

- experience,
- references,
- technical and human resources potential
- possession of funds or credit,
- possession of an insurance policy

In all announcements from the water and
sewage sector
special emphasis on experience and
insurance.

* na podstawie ogłoszeń w Biuletynie Zamówień Publicznych oraz Tenders Electronic Daily

Example of the implementation of concession model in Będzin

Water and wastewater system of the City of Bedzin - current state

Currently MPWiK Bedzin Sp. z.o.o. is responsible for water supply and wastewater treatment, including the operation of the infrastructure and for selected projects. City of Bedzin implements and co-finances Cohesion Fund Project (28.4 m €), which is the beneficiary. To ensure sustainability of the Project constructed infrastructure will remain in town.

Water and wastewater system of Będzin (2008)

Length of the water network	190,4 km
Tech. failures rate	2,05 tech. failures/year*km
Number of intakes	3 (49,2% of water demand covered from external source)
Length of the wastewater network	106,1 km + 40,4 km (FS)
Tech. failures rate	0,69 tech. failures/year*km
Number of pump stations	14 + 16 (FS)
Number of treatment plants	1 (Disposal of sewage to 3 external treatment plants)

Key information (2008)

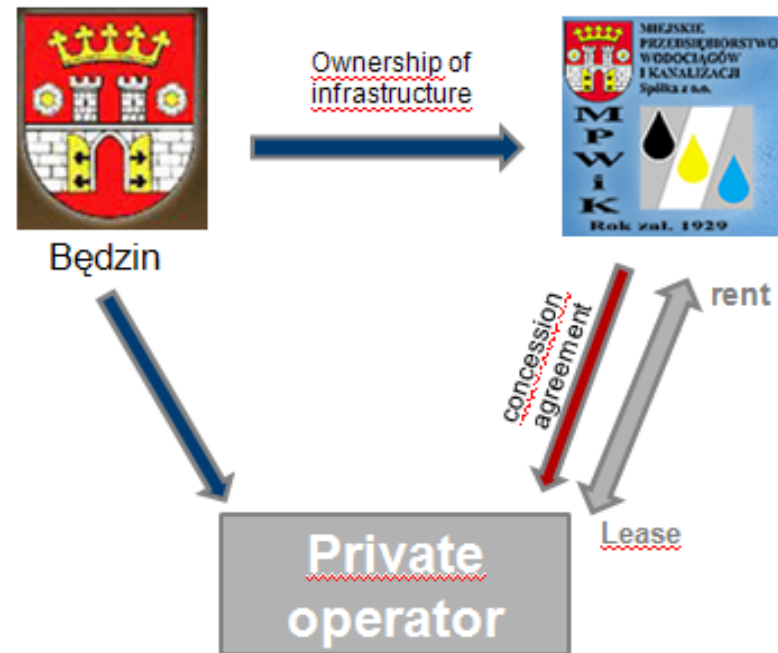
Water sales	2,8 mln m3
NRW	40%
Wastewater sales	1,9 mln m3
Income	5,3 m€
Employment	171
Tariff – water (2010)	1,16 €/m3
Tariff – wastewater (2010)	1,25 €/m3

Purposes of the concession model implementation in Będzin

- ▶ Cost of services for water and wastewater treatment optimization
- ▶ Acquiring funds for further investments related to wastewater network construction
- ▶ Acquiring know - how from the branch private partner in order to increase the efficiency of service
- ▶ Improving the quality of services provided
- ▶ Improving the quality of distributed water
- ▶ Maximizing water quantity of own water intakes
- ▶ Reducing water losses
- ▶ Implementing innovative and energy-efficient technologies and solutions
- ▶ Solving sludge management
- ▶ Increasing the range of provided water and wastewater services

Potential model operator in Bedzin

- ▶ Transformation of MPWiK Sp. z o.o. into asset company (100% Będzin)
- ▶ Asset company is responsible for the realisation of the financial investments including the rent
- ▶ (prywatny operator) Choosing a private investor based on the Law on public works concessions and services to provide the services for water supply and sewage collection(private operator)
- ▶ Lease of the infrastructure from the company's and exploitation of infrastructure assets created through Project Cohesion Fund by the private operator



- ▶ Model accepted by NFOŚiGW - there are no legal obstacles to dispose of assets produced or acquired by the CF by providing a service concession to a private entity, although the change of network management was not included in the Feasibility Study

The benefits of public-private cooperation in the water and sewerage systems:

- ▶ Access to capital and expertise of the private partner - the expansion and modernization of infrastructure, water and sewage,
 - ▶ Greater satisfaction of residents arising from the quality, quantity and availability of water and sewage services,
 - ▶ Improving the effectiveness of water and sewerage companies such as visible water losses reduction and the number of failures,
 - ▶ Optimization of water treatment and sewage treatment
 - ▶ Reducing the cost increase.
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- ▶ **PPP is cheaper than the traditional form of the investment - the PPP can achieve savings of 15-17% * compared with the traditional model of project execution**
 - ▶ **PPP projects are implemented faster and more efficiently than the traditional method, (in the traditional method, only 30% of the investment is completed in accordance with the established timetable, and 27% according to the scheduled budget **).**

PPP and European Funds

- ▶ **Gdańsk – Gdańsk - Gdansk Waterworks and Sewerage Infrastructure Sp. z.o.o.**
 - ▶ Obtaining a grant of Cohesion Fund for the implementation of project "Gdansk project water - drain" in cooperation with the private operator (SNG SA), who will conduct the operation of the newly-produced infrastructure by the EU

- ▶ **Tarnowskie Góry –Tarnowskie Góry Municipality**
 - ▶ Obtaining the support of the Project "Construction of sanitary sewage and storm water and waste water treatment plants Tarnowski Gory - Phase I" under POIiŚ service provision by the private operator PWiK Sp. z.o.o. in Tarnowski Gory, who will take over the lease of the infrastructure produced by the EU
 - ▶ It is planned to implement the second stage of the project in the same formula, the PPP, on the list of individual projects POIiŚ

- ▶ **Będzin – Municipality Będzin**
 - ▶ Is carried out a tender for the concession contract, including its scope and infrastructure generated under the Cohesion Fund Project, which will be operated by a private operator.
 - ▶ According to opinion of NFOŚiGW the model operator implemented during the Project will not result in the necessity of return obtained financing from EU funds

Sustainability of the Project *

- ▶ NFOŚiGW sees no legal obstacles to dispose of the assets produced or acquired by the CF by providing a service concession to a private entity, although the change of network management was not included in the Feasibility Study provided the following key conditions:

- ▶ **No change in the ownership structure on the side of the Beneficiary**

Municipality beneficiary of the FS will continue to implement its own project in accordance with the agreement on co-financing and will continue to own the newly-built network.

- ▶ **Failure to obtain undue benefits from realisation of the project by a public or private entity**

Lack of ownership transformation of the newly-built network with FS preclude obtaining unfair advantage.

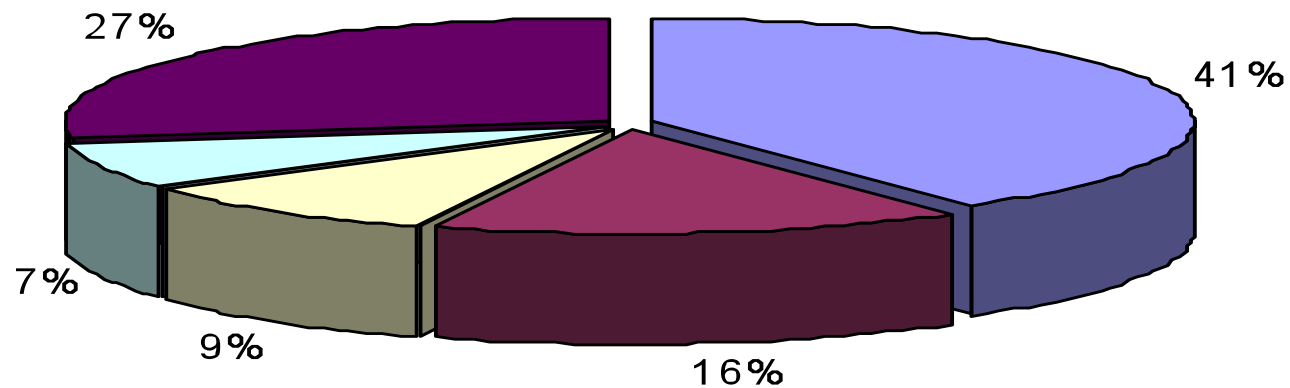
- ▶ **Whether a change in the network operator will have an impact on the amount of fees paid by local residents**

Transformation (establishment of the company's assets and the private operator) assumes maintain an optimal structure and level of the operating costs of the two entities that form the basis for determining the amount "required revenue" within the meaning of the Regulation. In addition, the tariff for the private operator will be as previously approved by the City Council.

Provision of services by a private operator in the model operator under the concession contract does not affect the sustainability of the Project

Competition on the Czech market

Market share of different water utilities



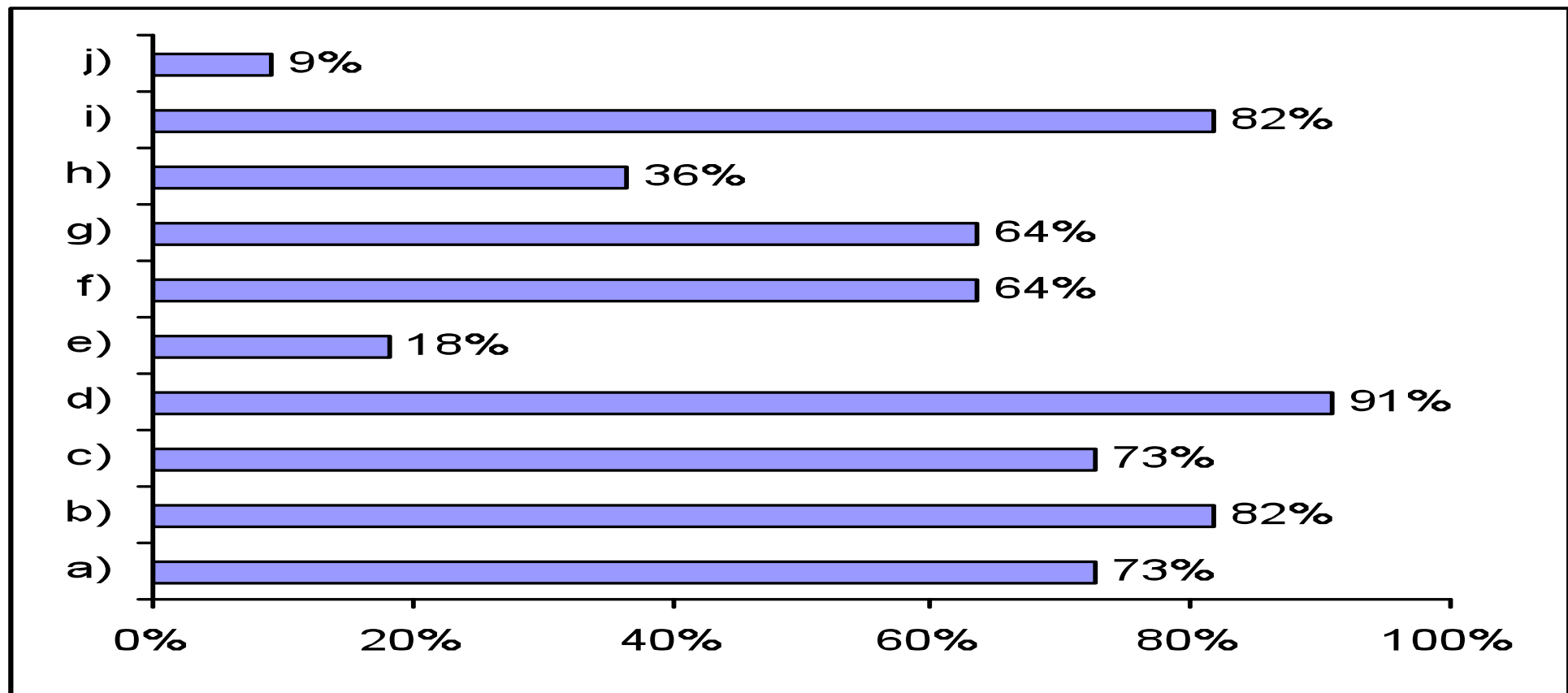
Different operation models

Character	Number of contracts	% of contracts	Population served	% population
Not operated, yet	8	2 %	22 748	0 %
Municipality operates on its account	19	4 %	62 863	1 %
Ownership model (municipality owns 100 % of the operator)	27	5 %	204 092	2 %
Mixed model	140	27 %	1 736 096	18 %
Operational model	223	43 %	6 409 092	67 %
Combined model	20	4 %	394 905	4 %
Not reported	77	15 %	781 298	8 %
Total	514	100%	9 611 094	100%

Source: MŽP

PPP - efficiency drivers

Independent studies trying to establish an effect of private operation on various performance criteria. E.G. CMEC, 2009 – major positive effects on service coverage (d), satisfaction with customer services (i) and increased range of offered services (b).



Practical experience and conclusions

Performance criteria linked to a incentive/penalty system, applied and evaluated annually is absolutely necessary (e.g. model of Bucharest).

Longer duration contracts brings safety on both sides (e.g. Scottish Water - 30 years) and enables transfer of investment obligations on the PPP partner. European Commission and DG Regio in particular is however not very keen on this issue. Also protectionism on local markets prevents from further development of PPP projects

Practical experience and conclusions

Financial crisis and lack of public funding is currently an important driver to substitute diminishing national resources by PPP resources. EU support deeper involvement of PPP project in development of such needed public water/wastewater infrastructure (official communication of European Parliament for Water Forum as of 12/3/2009).

- The involvement of private operators is not only solution to existing problems! A very thorough analysis shall always be carried out to find, whether this solutions can be applied and risks can be shared between the asset owner and operator.**

Thank you for your attention.

Please do not hesitate to ask any questions !

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