

# High Level Forum on Lao-Thai Partnership in Sustainable Hydropower Development

7 September 2007

Small group discussion group in Thai/Lao. Chaired by Prutichai Chonglertvanichkul (EGAT) and Dr. Somboune Manolom (LHSE)

Notes by Tira Foran (Chiang Mai University, M-POWER)

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The group consisted of Thai commercial bankers (n≈4), officials from Thailand (EGAT) (n≈4) and GOL (n≈4), a World Bank expert in carbon finance (Nat Pinnoi) and one representative of academia/civil society (Tira Foran).

## Topics discussed and views of participants:

*Financial governance.* As a basic consideration, Lao participants strongly felt project companies should be registered under Lao law. The current practice of structuring a project's debt payment as 50% THB and 50% USD was discussed at length, resulting in a shared view that more flexibility to design currency profiles was desirable. The view was also expressed that lenders should manage exchange fluctuation risks by hedging.

*Equity financing* of hydropower was also discussed. Sustainable hydropower companies should perform well as publicly listed companies. Lao PDR lacks a stock market, but there is official interest in establishing one. [This may be unrealistic given the nation's weak economic fundamentals.] Legal reform would be necessary for Lao companies to be listed on foreign stock exchanges.

*Carbon financing* via the CDM (Clean Development Mechanism) was discussed as a way to improve returns on projects that might otherwise not appeal to public or private sector investors. Such CDM projects require good cooperation between the seller of carbon credits (in this case a Lao hydropower project), the buyer of credits, and the buyer of energy. The energy buyer (in this case EGAT) needs to compute baseline vs. alternative carbon emissions scenarios. The buyer of credits would normally be a country which has entered into firm commitments to reduce its GHG emissions under the Kyoto Protocol, e.g., a developed industrial country. However, Mr. Pinnoi told us the World Bank might set up a new fund for that purpose to aid implementation of the Kyoto protocol post-2012.

In essence the credit is given subject to an "additionality" criterion. The project must reduce emissions above and beyond what the buyer would do under a baseline scenario (UNEP 2007). Since these scenarios are socially constructed, a buyer might claim that a lower performance scenario was its "baseline" in order to exaggerate the carbon emissions savings of the alternative. The participants discussed the possibility of sharing CDM benefits between buyer and seller.

*Environmental and social standards* – participants noted the difference between the high environmental and social standards of Nam Theun 2, and another project now underway. The latter project, by contrast with NT2, has set no income targets for

affected people, has issues with resettlement, and other environment standards were also considered lower than NT2. Senior decision makers in both Lao and Thailand for involved in the latter project apparently pushed for an early financial close.

Participants evidently felt that better standards were inherently good, but also noted that the downside was high transaction costs. Lengthy and intricate documentation was produced in the NT2 case, and lawyers were immediate beneficiaries. There was interest in a more streamlined template for project documents, including the power purchase agreements (PPAs).

*Equator Principles as a mechanism to improve governance.* These are a set of voluntary principles and performance standards for social and environmental sustainability, adopted since 2003, by a number of financial institutions. They draw on standards developed by International Finance Corporation.

No Thai banks have adopted Equator Principles yet. [Indeed, a colleague who attended another session told me that one representative from Kasikorn Bank expressed concerns about them.] They may be poorly understood and thus somewhat controversial in Thailand. But in the case of NT2, the World Bank's use of them has meant that Thai lenders involved are also observing them *de facto*.

In conclusion our discussion of sustainability reflected a lenders,' and mainstream power engineers' approach to sustainable hydropower.

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Additional comments by TF on facilitation:

*[The purpose of these comments is to help organizers improve future dialogues on sustainability.]*

(1) Presentation of the instructions in English was slightly confusing: "(Five topics of concerns and expectations to buyer, Lao PDR, developer, financiers)." Other groups were able to interpret this satisfactorily and break out the concerns by stakeholder group, but we did not. A bullet point layout of instructions + translation into Thai/Lao would help.

(2) Facilitation: I felt slightly inhibited by the fact that the chair decided to avoid direct discussion of environmental and social sustainability. He cited the fact that our group was less qualified than people in other rooms. However, recent calls for energy planning to become more inter-disciplinary and holistic make this kind of professionalism less than helpful. Nat Pinnoi and I were the only people who occasionally brought up wider questions. The co-chairs tended to dominate the discussion.