



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
MODERNIZATION AND UPGRADE OF TRANSMISSION SUBSTATIONS
APPROVED ON NOVEMBER 23, 2016
TO THE
REPUBLIC OF UZBEKISTAN

ENERGY & EXTRACTIVES GLOBAL PRACTICE

EUROPE AND CENTRAL ASIA REGION

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ABBREVIATIONS AND ACRONYMS

GIS	Gas Insulated Switchgear
ICB	International Competitive Bidding
IFRS	International Financial Reporting Standards
MS	Mobile substation
MUTS	Modernization and Upgrade of Transmission Substations Project
NEGU	Uzbekistan National Power Networks
REN	Regional Electric Networks



BASIC DATA

Product Information

Project ID P156584	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 23-Nov-2016	Current Closing Date 31-Dec-2022

Organizations

Borrower Republic of Uzbekistan	Responsible Agency JSC "Uzbekistan National Power Networks", UZBEKENERGO
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Project Development Objective (PDO)

Original PDO

The project development objective is to improve the technical efficiency and reliability of the power transmission networks in Uzbekistan.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-86640	23-Nov-2016	20-Sep-2017	28-Dec-2017	31-Dec-2022	92.00	34.72	57.28
IDA-59160	23-Nov-2016	20-Sep-2017	28-Dec-2017	31-Dec-2022	39.16	39.16	0
IDA-59170	23-Nov-2016	20-Sep-2017	28-Dec-2017	31-Dec-2022	18.84	18.71	.13

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

The Modernization and Upgrade of Transmission Substations Project (MUTS) has been demonstrating good implementation progress over the last year despite the COVID-19 restrictions. Progress towards achievement of the PDO and Overall Implementation Progress have both been rated Satisfactory for over a year. All packages, except one (GIS substation), are already contracted and at the implementation stage. Autotransformers, which have been procured using advance procurement, have successfully been installed and connected to the grid in eleven substations. Various obsolete equipment including switchgears and protection devices are being replaced with modern ones, allowing the transmission system operator, Joint Stock Company “National Power Grid of Uzbekistan” (NEGU), to operate the national transmission network more efficiently and reliably.

The project's Institutional Development and Technical Assistance (TA) Component has also advanced during the last two years. The Project has been supporting NEGU's transition to International Financial Reporting Standards (IFRS) and strengthening its institutional capacity, after its unbundling from the vertically integrated company Uzbekenergo (UE). As a result, NEGU's opening balance of 2019 financial statements have been transformed into IFRS standards and audited by an audit company. The first-ever IFRS-based financial statements of the company for 2020 were prepared and audited satisfactory to the Bank. The Project has also been supporting NEGU in developing a Ten-Year Transmission Network Master Plan based on the Government's development program for the electricity sector for 2019-2030. The Master Plan also analyzes integration of renewable energy (RE) sources to ensure stable and reliable power system operations in light of the increasing amount of intermittent solar and wind generation. The Project also hired an international manager to support NEGU with its operationalization and corporate transformation after its unbundling. A series of RE integration workshops and knowledge exchange events were conducted to raise awareness of NEGU and build its institutional capacity in light of large-scale deployment of solar and wind energy in Uzbekistan.

The project has disbursed US\$92.41 million, which is 61.6 percent of the total financing. Notably, the project was the top disburser in the Uzbekistan country portfolio in FY22 with a total US\$37.86 million disbursed during the fiscal year. Thirteen out of a total of sixteen contracts have been completed and the remaining three will complete the delivery of equipment and goods by October 2022. The last procurement package – GIS substation, an innovative technology for the Uzbekistan power system, – was completed and is at the contracting stage. This package faced some delays due to COVID-19 disruptions. Design, manufacturing, delivery, installation and commissioning of the new GIS substation is expected to require around twelve to sixteen months. The Project has generated savings of around US\$32 million as a result of competitive bidding. The Government has requested the Bank to extend the project closing date by one year from December 31, 2022, to December 31, 2023, to complete the GIS substation package and utilize the savings to fully achieve the project development objectives.

Safeguards. NEGU prepared Environmental and Social Management Plans (ESMPs) for all targeted 22 substations and public consultation meetings on the ESMPs were held in virtual and face-to-face formats. The Project also completed PCB (Polychlorinated Biphenyls) testing on decommissioned transformers from 12 substations, the results of which found that the amounts of PCBs were much lower than the international threshold of 50 ppm (in the range between 1-15 ppm). NEGU agreed to further monitor the implementation of safe and sound construction works on site using the site-specific ESMP checklists prepared for each substation.

Financial Management (FM). FM arrangements (planning, budgeting, funds flow, etc.) were all found acceptable and FM risk was rated as Moderate. It should be noted that NEGU was established in 2019 as a result of JSC Uzbekenergo's



unbundling, and it issued its first entity financial statement (FY 2020) per IFRS in 2021. There are no overdue audit reports currently under the Project. NEGU also finalized the hiring of an FM specialist in meeting the effectiveness condition under the Electricity Sector Transformation and Resilient Transmission (ESTART) Project. As the IFRS transition in the country's energy sector remains to be one of the Bank's main areas of support (through DPOs, Energy Sector Programmatic ASA and the MUTS project), the Bank team continues supporting NEGU on this initiative.

B. Rationale for Restructuring

The Bank has received a letter from the Ministry of Finance/Borrower dated June 16, 2022 requesting a project restructuring in order to: (i) exclude Subcomponent 1.2 from the Project scope, namely *“Establishment of an emergency outage management system through acquisition of one or two 110 kV/medium-voltage mobile substations and emergency restoration system for speedy repair of outages in high voltage transmission lines”*; (ii) utilize the project savings for priority transmission system investment needs included in the scope of the project to strengthen the reliability of electricity supply in the country; and (iii) extend the project closing date from December 31, 2022 to December 31, 2023 to allow for sufficient time to complete and commission the GIS substation package and utilize the project savings. Details of the proposed restructuring were discussed and agreed between the Bank team, NEGU, Ministry of Energy and Ministry of Finance during the mission in April 2022.

In accordance with the Presidential Decree of the Republic of Uzbekistan No. PD-4249 dated March 27, 2019, "On the strategy for further development and reform of the energy industry of the Republic of Uzbekistan", JSC "Uzbekenergo" - the original Project Implementing Entity - was unbundled to 3 companies in 2019: JSC "National Electric Grid of Uzbekistan" (transmission, NEGU), JSC "Regional Electric Networks" (distribution, REN) and JSC "Thermal Power Plants" (thermal generation, TPP). Subsequently, NEGU had been assigned the Project Implementing Entity for MUTS, as the successor to "Uzbekenergo". Due to this sector restructuring and REN taking over the ownership and management of the low voltage electricity distribution network of 35-110 kV, the Borrower requested to exclude Subcomponent 1.2 Emergency Outage Management Systems (*Establishment of an emergency outage management system through acquisition of one or two 110 kV mobile substation and emergency restoration system for speedy repair of outages in high voltage transmission lines*) from the Project scope. The cancellation of this subcomponent will not impact the Project Development Objective, Results Framework, disbursement projections and implementation schedule. Loan/credit proceeds assigned for this activity (US\$1 million) will be reallocated along with the above-referenced savings.

Based on preliminary discussions with NEGU, the project savings would be mainly utilized for procurement of additional priority equipment (transformers, circuit breakers, disconnectors, surge arrestors, etc.) for the substations included under the Component 1 of the project. Details of proposed priority investments and activities proposed for procurement out of the project savings will be discussed and agreed between NEGU and Bank in July 2022.

As indicated above, the extension of the project closing date is required to complete the GIS substation package, an innovative technology for the country, as well as for the full utilization of project savings.

II. DESCRIPTION OF PROPOSED CHANGES

Components & Costs: Removal of subcomponent 1.2 Emergency Outage Management Systems - *“Establishment of an emergency outage management system through acquisition of one or two 110 kV/medium-voltage mobile substations and emergency restoration system for speedy repair of outages in high voltage transmission lines”* - from the project scope. Thus, the Financing and Loan Agreements will be amended in order to remove Part 1(b) of Schedule 1 in the Project Description. Utilization of project savings will not entail any changes to the project components and costs.



Implementation schedule and disbursement of remaining funds and savings will span over the proposed extension period.

Loan Closing Date: Extension of the project closing date from December 31, 2022 to December 31, 2023. This is the first extension of the closing date and will also be reflected in the Amendment to the Financing and Loan Agreements.

Upon the request from the Government, NEGU was confirmed by the World Bank as a legal successor of JSC Uzbekenergo (implementing agency) in 2019, which didn't entail amendment to the Financing and Loan Agreements.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Implementing Agency	✓	
Loan Closing Date(s)	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓



Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

IMPLEMENTING AGENCY

Implementing Agency Name	Type	Action
JSC "Uzbekistan National Power Networks"	Implementing Agency	No Change
UZBEKENERGO	Implementing Agency	Marked for Deletion

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-86640	Effective	31-Dec-2022		31-Dec-2023	30-Apr-2024
IDA-59160	Effective	31-Dec-2022		31-Dec-2023	30-Apr-2024
IDA-59170	Effective	31-Dec-2022		31-Dec-2023	30-Apr-2024

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2017	5,000,000.00	0.00
2018	20,000,000.04	18,000,000.00
2019	20,000,000.04	7,000,000.00
2020	35,000,000.04	17,000,000.00
2021	35,000,000.04	37,000,000.00
2022	20,000,000.04	31,000,000.00
2023	15,000,000.00	40,000,000.00



The World Bank

Modernization and Upgrade of Transmission Substations (P156584)
