

EPRC MONTHLY NEWSLETTER

MAY 2009

Initial demand analysis for proposed Zamyn Uud PPP Logistics Park completed

With assistance from international expert Patricio Mansilla, the project concluded an initial analysis of charges for road-to-rail and rail-to-rail cargo trans-shipment in Zamyn Uud. Using data collected from customs and railways, the project processed and analyzed monthly data of the last five years of operations to arrive at initial estimates of revenue of the “core” business of the proposed logistics park—trans-shipment charges—and prepared thirty-year projections of revenue streams, under different scenarios, for the proposed PPP (Public-Private Partnership) facility.



The project organized and held three workshops during the month to present, discuss, and validate the findings of the initial demand analysis for the proposed Zamyn Uud PPP logistics facility. The first workshop was held on 7 May for the Railway Regulatory Authority; the second was co-organized with the Mongolian Freight Forwarders Association and held on 25 May; the third workshop was held for Customs on 26 May.

For 2008, transshipment revenues were estimated at \$3.8m; road-to-rail accounted for \$2.11m, rail-to-rail provided \$1.56, and rail-to-road supplied \$0.13m. Based on customs data, Exhibit 1 provides unadjusted estimates of the total annual cargo tonnage processed through Zamyn Uud during 2004 – 2008.

Volumes of rail and road cargo processed through Zamyn Uud tripled during the last five years—from 524,292 in 2004 to 1,540,539 tons in 2008—and so did the monthly averages. The

statistical series, however, exhibit strong seasonality, with cargo volumes during November through February being generally half of those registered during the peak season of May through September.

Exhibit 1: Road and railway cargo processed through Zamyn Uud (Tons, 2004-2008) and Growth Rate

Year	Yearly total	Growth rate
2004	524,292	-
2005	585,521	11.7
2006	644,562	10.1
2007	992,183	53.9
2008	1,540,539	55.3

Source: Unadjusted data from Customs.

The demand estimate included an adjustment of customs data according to the annual information received by railways in addition to a seasonality adjustment. The results of the present value of revenues are provided in Exhibit 2 below and are based on the current mix of cargo and tariffs. The potential revenues were estimated conservatively and depending on the final project plans and definition, revenues could increase substantially.

Exhibit 2: Present Value of Revenues (PVR) in Zamyn Uud for 30 years of Concession

Estimation Case	PVR	PVR
	Discount Rate (12%) Million USD	Discount Rate (15%) Million USD
A	50	38
B	39.8	32
C	42.5	33.8
D	45.9	36.0
E	48.4	37.7
F	50.5	38.9

The results of the demand estimate depict a profitable project that should be attractive for private sector participation. More detailed estimations of potential profitability can be made once a specific PPP structure and final project specifications are defined.

There is an undisputable need for improved transshipment and logistics facilities in Zamyn Uud. Using a standard 20 percent opportunity cost on the value of cargo and 5 percent for indirect costs, the technical demand analysis report calculates an *average weekly opportunity cost* of \$1.9m and a high of \$2.78m weekly for the May-July season. These “hidden costs” of inadequate transshipment infrastructure facilities constitute a significant drag on the economy and contribute to Mongolia being ranked next to bottom—133 out of 134 countries ranked—just above Chad, in the 2008 *World Economic Forum* indicators on adequacy of infrastructure.



The GoM has made a decision to improve the logistics infrastructure facilities in Zamyn Uud through a PPP structure and the technical demand analysis report is a step on the way to determine the optimum capital investment requirements of the facility. The project will continue to assist the diverse GoM agencies and private sector stakeholders to develop a working



consensus on their participation so that an international tender can be prepared to select a strategic investor and operating partner through an open and transparent process. Once prepared for publication, the demand analysis report will be made available on the project website.

Workshop on energy issues held for journalists

On 8 May 2009 in cooperation with the Press Institute and the Energy Regulatory Authority (ERA), the project co-sponsored a half-day workshop for journalists on the “Energy sector financial situation and tariff issues.” Nineteen journalists from eight newspapers, six TV stations, two radio stations, two magazines and the MONTSAME News Agency attended the event. Presentations covered the energy sector’s current financial situation, tariff setting, protecting low income residential consumers from price increases, energy sector regulation and the possibility of a public private partnership mechanism to attract private investment in the energy sector. The objective of the workshop was to provide the media with fact-based information about the energy sector’s financial situation and to create a better

understanding of the role that an independent regulator plays in sector sustainability.

Ms. Ganchimeg M., Head of ERA’s Tariff Department, described the energy sector’s current financial situation as “on the brink of bankruptcy” and explained the rationale for step-by-step tariff increases. According to the ERA’s estimation, cumulative financial losses of the eighteen main energy production and distribution companies totaled 3.89 billion MNT in 2007 and increased to 24.41 billion MNT in 2008. Repayment of long-standing debts and fluctuations in hard currency exchange rate contributed to the significant increase in losses. The rapid exchange rate fluctuations alone resulted in a loss of 9.9 billion MNT in 2008. While companies have taken the responsibility to repay overdue or long-standing debts, ongoing urgent investment requirements to replace obsolete equipment compound the financial deficit. Ms. Ganchimeg reported that in order for the energy sector to provide customers with reliable and normally functioning electricity, there is an urgent need for 170 billion MNT in infrastructure investment.



At the workshop, Mr. R. Myagmar, one of the three ERA regulators, informed the media about the ERA’s plan to increase tariffs on 15 July 2009 to increase the sector’s ability to recover costs. According to the ERA, currently the tariff for one kilowatt of electricity is 68 MNT, but to recover associated costs, this needs to be increased to at least 80 MNT.

The workshop also included a panel discussion on “Who should set energy tariffs” and “How to protect vulnerable groups from tariff increases.” Panel participants included the President of the Confederation of Mongolian Trade Unions (CMTU), Mr. Ganbaatar S., Ms. Khajid S. from the Mongolian Society to Protect Consumer Interests and Mr. Jantsannorov A., Head of UB Electricity Distribution Network’s Planning & Economics Division, in addition to ERA leadership. Following the panel discussion, Mr. Ganbaatar made a statement emphasizing the importance of the ERA’s independence and separation from political influence.



Subsequent to the workshop, seven newspapers published articles and interviews on energy tariff issues based on the information and enhanced knowledge obtained during the workshop, and five television stations broadcasted news coverage and interviews about the workshop and tariff issues. Most coverage explained to the general public the rationale behind tariff increases and the urgent need to replace obsolete equipment.

Workshop on Joomla! content management system held for GoM website administrators

On 19 and 26 May, EPRC sponsored a workshop on the Joomla! Content Management System (CMS) at the Academy of Management for twenty-five administrators from four government ministries and twenty-one government agencies. The workshop was part of "e-Government Training Week" for government administrators held from 18 to 29 May. The training provided detailed information on various topics including free, open-source Joomla! CMS, recent web development trends, and the advantages of using open-source software for government organizations.



Training presentations highlighted popular open source software that government organizations can use for various tasks including server management, office applications, groupware collaboration tools and content management systems for public websites. Participants also discussed the importance and advantages of obtaining community input for the development of government websites to ensure that websites address citizens' information needs.

Broadcast of 'Hot Topix' TV Program on UB Heating demand and conservation

During the week of 4 May and as part of the 'Hot Topix' TV series, the project broadcasted a TV program focused on household energy conservation. Mongolian National TV aired the program three times and UBS TV four times. The Ulaanbaatar Heating Network (UBHN) sponsored the TV program and worked closely with the EPRC production team to develop the program content.

UBHN is responsible for the transmission and distribution of heat in Ulaanbaatar, while housing service companies provide the heat supply service directly to customers. Currently the majority of the UB heating system pipe network is obsolete and inefficient. The

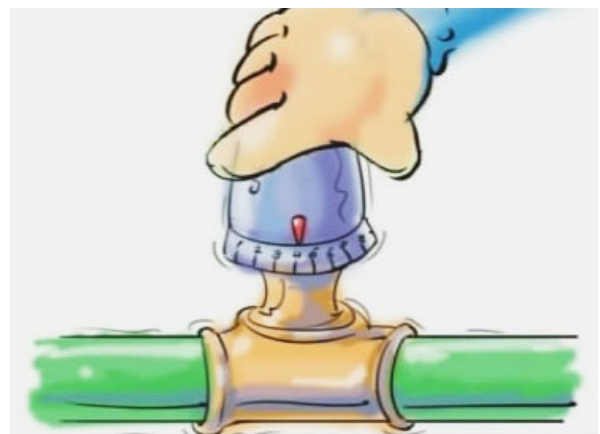
system has almost reached maximum transmission capacity and the inefficiency of the aged infrastructure results in significant network water losses. Additionally, in some areas of the city there are major consumer complaints about the insufficient heating supply causing apartments and homes to be cold in the winter months. While heating system infrastructure is partially responsible for cold apartments and homes, there are other infrastructure issues in apartment buildings, individual apartment units and homes that also hinder heating efficiency. UBHN believes that end-user efficiency, enhanced through apartment and home upgrades, will help maximize the efficiency of the heating system's existing infrastructure in the absence of the required investment for major system infrastructure upgrades.



Ulaanbaatar power plants

To encourage individuals to make personal investments in home and apartment heating infrastructure, UBHN identified the need to raise consumer awareness of the steps to take to conserve heat and the roles and responsibilities of home-owners, condominium/apartment building associations, housing service companies and UBHN.

The program provided home owners with information on how to make small infrastructure upgrades to conserve heat, including replacing wood-frame windows with vacuum sealed windows, replacing old radiators, installing adjustable valves on radiators, cleaning pipes regularly and insulating walls. The program encouraged home-owners to call condominium/apartment building associations to invest in building infrastructure upgrades, such as building pipe networks. Consumers also received information on the Housing Service Companies' role of maintaining substation equipment to maximize efficiency.



Adjustable valve for in home installation

After the initial program broadcast, UBHN received positive feedback from consumers who were encouraged to explore options for upgrading homes and apartments to conserve heat. As a result of consumer feedback, UBHN requested EPRC to re-broadcast the program, which the project scheduled for early June. To view the *Hot Topix: UB Heating Demand and Conservation* program, please go to the EPRC project website home page (www.eprc-chemonics.biz) and look under the "Multimedia" section.

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