Guidelines for Setting Up of Private Power Projects Under Short Term Capacity Addition Initiative

AUGUST 2010





Private Power and Infrastructure Board Ministry of Water & Power Government of Pakistan



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PART A:

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INTRODUCTION

The Private Power and Infrastructure Board (PPIB), Ministry of Water & Power, Government of Pakistan invites technically and financially sound business parties to submit a proposal (the **"Proposal")** for a Private Power Project (IPP) on Build, Own and Operate (BOO) basis (the **"Project"**).

PROJECT DESCRIPTION

Scope of Work

Scope of work for the Project comprises all activities necessary to develop, finance, insure, install new plant and equipment, test, commission, own, operate and maintain the power generation facility and all activities incidental thereto in accordance with the provisions of the standard Implementation Agreement (IA) and the Power Purchase Agreement (PPA) and the sale of electricity to the Power Purchaser at the tariff to be determined by NEPRA.

The investors are free to offer any plant configuration however, the power plant should essentially comprise all materials, plant & equipment and services required to make the plant operationally safe, complete and environmentally compatible. The arrangement shall be complete in all respects.

Project Location

The Project(s) are required to be established within the jurisdiction of PEPCO/NTDC. Sponsors are required to finalize sites with concurrence of PEPCO/NTDC and provide site confirmation letter from PEPCO/NTDC in the Proposal.

Fuel /Technology

The Applicant / Sponsors may offer projects of any capacity (above 50 MW) based on technology and fuel, as finalized with Power Purchaser / PPIB and approved by PPIB Board. Procurement of the selected fuel shall be the responsibility of the Project Company, without any guarantee by the GOP. Sponsors are required to confirm the fuel availability with the proposed fuel supplier. Project Company shall maintain a minimum fuel inventory on site sufficient for 30 (thirty) days operation at full load.

Financing for the Project

Financing for the Project shall be in the form of equity and debt. Debt Equity ratio for financing of the Project should be 80:20 (min) and 70:30 (max). Arrangement of financing for the Project would be the sole and exclusive responsibility of the Applicant / Sponsor. The adjustments in tariff (payable in Pak Rupees) will be provided only for Pound Sterling, US Dollars, Japanese Yen and Euro, as per the mechanism defined in the standard PPA.

The Main Sponsor of the consortium shall be required to hold at least 20% of the equity of the Project Company during the "lockin period" which will be from the LOS issuance date until the sixth (6th) anniversary of the successful commissioning of the plant.

Term of the Project

The term of the Project will be 25-30 years.

Project Implementation Process

The sequence of activities to process the Project is as follows:

- Registration with PPIB by depositing US\$ 200 along with a request letter
- Submission of proposal to PPIB as per given guidelines, along with Proposal Processing Fee of US\$ 20,000

- Examination of proposal and evaluation of credentials of the sponsors by PPIB
- Approval by PPIB Board
- Submission of Performance Guarantee (PG) @US\$1000 per MW by Sponsors / project company to PPIB for Issuance of Letter of Intent (LOI), which PG would be encashable in case the sponsors fail to approach NEPRA for tariff determination within three (03) months from issuance of Notice to Proceed by PPIB or fails to obtain LOS thereafter
- Submission of Tariff Petition and application for Generation License to NEPRA by the sponsors
- Tariff Determination and issuance of Generation License
 by NEPRA
- Submission of PG @ US\$ 5,000 per MW with validity of three months in excess of committed COD along with Processing Fee (US\$ 80,000) to PPIB by the sponsors
- Issuance of Letter of Support (LOS) by PPIB, after acceptance of PG by PPIB
- Negotiations / Finalization of Project Agreements (IA, PPA, FSA/GSA)
- Achievement of Financial Close within nine (9) months from issuance of LOS
- Commencement of construction activities
- Achievement of Commercial Operation Date (COD) within
 the deadline stipulated in the LOS /IA /PPA

Project Schedule / Timeline

The Project is required to start commercial operations within 33 months after issuance of LOS or 24 months after execution of Project Agreements & Financial Closing, whichever is earlier. Typical timeline envisaged for these projects would be as follows:

Activity	Time (months)
Submission of proposal and registration	-
Evaluation / Approval by PPIB Board	2
Issuance of LOI upon	
submission of PG @US\$1000/MW, which	
would be encashable in case the sponsors	
fail to approach NEPRA for tariff determination	
within three (03) months from issuance of	
Notice to Proceed by PPIB or fail to obtain	
LOS thereafter	1
Tariff Determination and issuance of	
Generation Licence by NEPRA	3
Issuance of LOS by PPIB	
upon submission of PG @US\$5000/MW,	
which would be encashable in case the	
Sponsors / Project Company fail to execute the	
Project Agreements or achieve Financial Close	
or subsequently delay the achievement of	
COD as per terms &	
conditions stipulated in the LOS	1
Security Documents / Financial Close (FC)	9
COD from FC	24
Total	40

Requirements of the Proposal

The Applicant / Sponsors must submit the following documents, to the satisfaction of PPIB:

- Details of proposed power plant, as per Exhibit-I.
- Contact Details as per Exhibit-II.

- Consortium Details (Main Sponsors and Equity %age of each member, along with Equity Commitments by each), as per Exhibit-III.
- Credit Rating / Financial Statement Data of the Sponsors, as per Exhibit-IV.
- Experience of power projects, as per **Exhibit-V**.
- Consortium Agreement along with the Power of Attorney by each Consortium member **Exhibit-VI**.
- Affidavit(s) on Equity Commitment and Eligibility Requirements **Exhibit-VII**.
- Endorsement of the Power Purchaser for size, fuel and technology of the proposed plant.
- Exact site finalization of the plant after endorsement of the Power Purchaser.
- Confirmation on availability of equipment from the proposed supplier.
- Confirmation on fuel availability.

Eligibility Requirements

The Sponsors must fulfill all the following eligibility requirements, to the satisfaction of PPIB:

- The Sponsor(s) must submit complete information requested by PPIB. In addition, the Sponsors must submit all additional / supplemental information if requested for by PPIB during review of the Proposal.
- If the Sponsor(s) is/are a Consortium, there must be a Main Sponsor appointed through a Power of Attorney executed by all other Consortium members.
- The Net worth of the Sponsor(s) must be in accordance with the requirements.
- The Sponsor (or in the case of a Consortium one of the Consortium members) must have the requisite 'Power Projects Experience'.
- The Main Sponsor should not own more than 25% of the total generation capacity in Pakistan at the time of submission of Proposal.

- The Main Sponsor will be required to hold at least 20% of the equity of the Project Company during the "lock-inperiod" which will be from the issuance date of the LOS until the sixth anniversary of the successful commissioning of the plant. The Sponsor(s) must together hold 51% of the equity for the same period.
- When the Sponsor(s) form a new company specifically incorporated to undertake the Project, the eligibility requirements herein shall be applicable to the shareholders of the new company rather than to the new company itself.

Financial Information Requirements

Net Worth

Net Worth of the Sponsor(s) is the sum of total assets less the sum of total liabilities.

The Net Worth of the Sponsor(s) must not be less than 1.5 times of the proposed equity contribution in the Project. As per Policy the minimum equity contribution required by the Sponsor(s) is 51% of the total project equity. For calculation purposes the notional project cost should be taken as USD 1.0 Million per MW.

The Main Sponsor must also have a Net Worth at least equal to the proposed equity contribution in the Project. As per Policy, the minimum equity contribution by the Main Sponsor is 20% of the total project equity. For calculation purposes the notional project cost should be taken as USD 1.0 Million per MW.

In the case of a Company, the Net Worth will be determined on the basis of an average of the last three (3) years audited financial statements, and

In the case of an individual the Net Worth will be determined on the basis of cash, liquid assets, deposits, Government securities,

shares and property owned. Where immovable property is included in the total assets of an individual, the value of the property must be certified by an evaluator ranked in 'Category I' by the Banking Association of Pakistan (BAP). Sixty percent (60%) of the value of the total immovable property will be considered for purposes of determination of an individual's Net Worth. In the case of foreign immovable property a reputable foreign evaluator acceptable to PPIB may certify the same, and

In the case of a Consortium, the collective Net Worth of all consortium members constituting the Main Sponsor will be considered as Consortium Net Worth.

Information on Net Worth must be provided in the **Exhibit-IV**, accompanied with supporting documentary evidence.

Credit Rating / Financial Statement Data

The Applicant shall also submit the following information to PPIB:

- (a) in the case of companies or other business entities, audited financial statements for the last three (3) years demonstrating financial viability, duly audited by a reputable firm of qualified accountants, which shall consist of consolidated financial statements in case the Applicant is a holding company. Similar financial information for any parent company, affiliates and associated undertakings/companies should also be included accompanied with supporting documentary evidence.
- (b) in the case of individuals, details of cash, liquid assets, deposits, government securities, shares and property owned;
- (c) either:
 - bank credit references from at least two (2) banks of repute acceptable to PPIB. Credit references from banks should clearly state on the letterhead of the banks at least each of the following: (a) the period of dealing with the bank, (b) facilities availed, (c) present outstanding amounts under each facility and (d) confirmation that there is no continuing event of default; OR
 - credit rating of "A" or above assigned by a reputed / recognized credit rating agency acceptable to PPIB.

Information in respect of 'Credit Rating/Financial Statements' must be provided in the **Exhibit-IV**.

Power Projects Experience Information Requirements

The Sponsor (or in the case of a Consortium one of its members) must have prior experience of power projects with cumulative capacity of at least 50% of the capacity of the offered Project. Only commissioned projects or the projects on which construction have started, of 50 MW or above, will be considered. Power Projects Experience shall include successful experience of acting as all or one of the following:

- Lead Project Developer
- Lead Construction Contractor
- Direct or indirect Shareholder of at least 15% of an existing Project Company which has successfully commissioned a Power Project of 50 MW or above or construction has started thereon
- Lead Operation Manager

Information in this respect must be provided in the **Exhibit-V**, accompanied with supporting documentary evidence.

Achievement of Financial Close

The Project Company is required to achieve Financial Closing within nine (9) months from the issuance of LOS, failing which PPIB shall be entitled to encash the PG in the full amount thereof without any notice to or demand on the Main Sponsor or the Project Company, under the terms and conditions of LOS issued.

Achievement of COD

The Project is required to achieve COD by the deadline given in the LOS, IA and PPA, failing which the PG may be encashed on a pro rata basis over a period of ninety (90) days depending upon the extent of the actual delay in achieving the COD without any notice to or demand upon the Main Sponsor or the Project Company by PPIB.

Exhibit-I DETAILS OF POWER PLANT

1	Project Description			
2	Project Site			
3	Fuel			
4	No. of Units and Configuration of Power Plant			
5	Capacity of the Power Plant: Gross Capacity (ISO) of Power Plant (MW) Gross Capacity (at Mean Site Conditions) of Power Plant (MW) Net Capacity (ISO) of Power Plant (MW) Net Capacity (at Mean Site Conditions) of Power Plant (MW) Net Efficiency of Power Plant (at Mean Site Conditions)			
6	Equipment Description (Gas Turbine, Red Engines, Steam Turbine. HRSG, Generator Manufacturer Type/model Gross Capacity (ISO) of each unit (MW) Gross Capacity (at Mean Site Conditions) of each unit (MW) Net Capacity (ISO) of each unit (MW) Net Capacity (at Mean Site Conditions) of each unit (MW)			
7	Annual availability of Power Plant (%)			

Exhibit-II APPLICANT / SPONSOR'S INFORMATION

No.	ltem	Information
	Organization	
	of the Sponsor	Individual Single Company Consortium (please tick the correct box)
1	Address for official communication	
2	Telephone for official communication	
3	Fax for official communication	
4	Email for official communication	
5	Authorized Person for contact for the Project	
6	Contact Address of Authorized Person	
7	Telephone/Fax/Email of Authorized Person	

Exhibit-III DETAILS OF CONSORTIUM

No.	Item	Single Company or Main Sponsor of Consortium	Other Member of Consortium	Other Member of Consortium	Other Member of Consortium
1	Name				
2	Country of Registration/ Incorporation				
3	Address				
4	Telephone/Fax/Email				
5	Name and Position of Contact Person				
6	Address of Contact Person				
7	Telephone/Fax/Email of Contact Person				
8	Share in Total Equity of the Project (%)				

Each consortium member must provide written equity commitments in %age

Exhibit-IV CREDIT RATING / FINANCIAL STATEMENT DATA

1. The Sponsor, or each of the Sponsors in the case of a Consortium, must submit Bank Credit References from at least two (2) banks **OR** fill the Credit Rating Information in Table B-1 below, accompanied with supporting documentary evidence.

	Table B-1: Credit Rating Information		
	Name of Sponsor (Individual/Corporation/Consortium Sponsor)		
1	Rating agency		
2	Most recent credit rating		
3	Type of credit rating		
4	Date of most recent credit rating		

2. The Sponsor, or each of the Sponsors in the case of a Consortium, must fill Table B-2 below accompanied with supporting documentary evidence.

	Table B-2: Financial Statement Data			
	Name of Sponsor (Individual/Corporation/Consortium Sponsor)			oonsor)
	(All figures	s in equivalent	USD)	
		2007	2008	2009
1	Current assets			
2	- Cash and cash			
	equivalents			
3	- Other current assets			
4	Fixed assets			
5	Other assets			
	(please specify)			
6	Total assets			
7	Current liabilities			

8	Long-term liabilities		
9	Other liabilities		
10	Total liabilities		
11	Net Worth (6 minus 10)		
12	Shareholders' equity		
13	- Paid up capital		
14	- Retained earnings		
15	- Others (please specify)		
16	Other Reserves (please		
	specify		
	Operating Results		
17	Revenues		
18	Gross profit		
19	Income before interest and		
	tax		
20	Financial charges		
21	Тах		
22	Net profit after tax		
23	Dividends paid		

Notes

- 1. In case the Sponsors are a Consortium, please provide a separate Annex for each Sponsor.
- Please provide last three (3) years audited financial statements. In case the Sponsors are a Consortium, attach last three (3) years audited financial statements for all Consortium Members.
- In case any Sponsor has subsidiary companies, consolidated financial statements are also required.
- 4. In the case of listed companies please also attach most recent quarterly financial statements.
- 5. In case the reporting currency in the financial statements is not in US Dollars, conversion rate prevailing on last business day of the preceding week shall be used which rate must be specified below:

Reporting Currency in Financial Statements Conversion Rate used

Exhibit-V POWER PROJECT EXPERIENCE

The Sponsor (or in the case of a Consortium one of its Sponsors) must have prior experience of power projects with cumulative capacity of at least 50% of the capacity of the offered Project. Only commissioned projects or the projects on which construction have started, of 50 MW or above, will be considered. Power Projects Experience shall include successful experience of acting as all or one of the following:

- Lead Project Developer
- Lead Construction Contractor
- Direct or indirect Share holder of at least 15% of an existing Project Company which has successfully commissioned a Power Project of 50 MW or above or construction has started thereon
- Lead Operation Manager

The Sponsor, or each of the Sponsor in the case of a Consortium, must fill Table-VII below separately for each project completed by it accompanied with supporting documentary evidence.

	Name of Sponsor ([Name of previous project] Power Project)		
No.	o. Item Information		
1	Name of the Sponsor		
2	Sponsor's role in the project	i.e. Lead Project Developer,	
	completed	Lead Construction Contractor,	
		Share holder or Lead Operation	
		Manager	

3	Name of Project	
4	Sponsor's share in the	
	equity of the completed	
	project (if applicable)	
5	Location of plant	
6	Name of owner	
	(including contact person,	
	his address and	
	telephone, fax No./ email	
	address)	
7	Name of power purchaser	
8	Capacity of plant	
9	Type of plant	
10	Fuel of plant	
11	Number and rated	
	capacity of units	
12	Status of plant	[Under construction or
		commercial operation]
13.	Number of years of	Total number of years
	successful operation	fromto

14	Principal manufacturers of	
	major equipment	
15	List of specific major	
	tasks/services performed	
	by Sponsor	
16	Date of award of project	
17	Duration of construction	
	period	
18	Commercial operations	
	date of each unit	
19	Total capital cost of project	
20	Companies and	[names and amounts in USD,
	institutions who financed	required if the Sponsors were
	the project	equity partners in the project]
21	Value of contract	[amount in USD required if
		Sponsor was a Lead contractor]
22	Any other details	

Exhibit-VI CONSORTIUM AGREEMENT

(Only applicable in the case of a consortium)

The consortium agreement must clearly state:

- the equity stake (in %) committed by each of the constituent member of the consortium in the total equity to be injected in the Project;
- (b) the role of each constituent member in the Consortium;
- (c) Main Sponsor's obligation to subscribe to not less than twenty percent (20%) of the total equity in the Project Company and maintain such equity from the issuance of the LOS until the sixth (6th) anniversary of successful commissioning of the Project; and
- (d) The Sponsor (comprising of all constituent members of the Consortium) shall together hold at least fifty one percent (51%) of the total equity in the Project Company and maintain such equity from the issuance of the LOS until the sixth (6th) anniversary of successful commissioning of the Project.
- (e) Where the Consortium Agreement is governed by a law other than Pakistani law, the Beneficiary will require a legal opinion from a law firm, acceptable to the Beneficiary, qualified to issue opinions on the law governing the Consortium Agreement, confirming that the Consortium Agreement is legal, valid, binding and enforceable.

Exhibit-VII AFFIDAVIT(S) ON EQUITY COMMITMENT AND ELIGIBILITY REQUIREMENTS

Instructions for Sponsors:

Affidavit, strictly as per Sample given below to be printed on legal paper; for example for a company incorporated in Pakistan it must be on the stamp paper, and properly signed and notarized. Sponsor **if it is Single Company or each constituent member in case of a Consortium must submit an Affidavit.**

Sample for Affidavit (s)

AFFIDAVIT OF [Name]

LOCATED AT [•]

The following is hereby declared and affirmed on oath:

- 1. That ______[Insert name either of Sponsor if it is Single Company or Main Sponsor/constituent member in case of a Consortium] is not presently under default with any financial institution and has not been declared as bankrupt or insolvent under the laws of any country which has jurisdiction over _________ [Insert name either of Sponsor if it is Single Company or Main Sponsor/constituent member in case of is a Consortium] in the last three (3) years.
- (Only the Main Sponsor is required to submit this point) That the Main Sponsor does not own more than 25% of the total generation capacity in Pakistan at the time of submission of the Proposal for the Project.

- 3. (Only the Main Sponsor is required to submit this point). That the Main Sponsor hereby commits irrevocably to hold at least twenty percent (20%) of the equity of the Project Company during the "lock-in-period" which will be from the issuance date of the Letter of Support (LOS) until the sixth anniversary of the successful commissioning of the plant.
- 4. That the Sponsor hereby commits to provide in total at least fifty one percent (51%) of the total equity in the Project and to hold such minimum equity from the date of the LOS to the sixth anniversary (6th) of the Commercial Operations Date of the Project, if the Sponsor is issued an LOS to undertake the Project.
- 5*. That within its shareholders, owners and companies there is no individual working for PPIB, GOP or the Power Purchaser.

Deponent

Verification

Verified on oath this ------[day/month] of, [year] at [•] that the contents of this Affidavit are true and correct to the best of my knowledge and belief and that nothing has been concealed therein.

Deponent

*Note:

- 1. In case of public listed companies, undertaking is applicable only to the shareholdings not listed on the stock exchanges.
- 2. In case of public listed companies, this undertaking is not applicable to the extent of GOP/WAPDA shareholding.

Methodology for Processing of Proposals under Short Term Capacity Addition Initiative

PART B: METHODOLOGY FOR PROCESSING OF PROPOSALS UNDER SHORT TERM CAPACITY ADDITION INITIATIVE

Following methodology will be followed for processing of Proposals for setting up Private Power Projects (IPPs) under Short Term Capacity Addition Initiative:

- Interested party/parties will request to PPIB for registration, on their letter-head, along with a non-refundable Registration Fee of US\$ 200 in form of a demand draft/pay order or through wire transfer.
- The demand draft/pay order shall be drawn in favour of PPIB and payable at a bank branch in Islamabad Pakistan. For details on wire transfer, please visit our website <u>www.ppib.gov.pk.</u> Registration Fee would also be acceptable in Pak Rs. (at prevailing exchange rates) from Pakistani companies/Sponsors.
- The request should clearly indicate at least the following information:
 - Proposed Project size, fuel, technology and tentative location.
 - Brief introduction of the Sponsors.
 - Complete contact address, phone numbers, email address.

- In case party/parties are interested to develop more than one IPP, separate registration will be required for each Project.
- PPIB will register the party/parties for a specific Project and will issue registration letter.
- The party/parties will then submit a detailed Proposal as per Guidelines for setting up Private Power Projects (IPPs) under Short Term Capacity Addition Initiative. A non-refundable Proposal Processing Fee of US\$ 20,000 in form of a demand draft / pay order or through wire transfer must accompany the Proposal.
- Incomplete Proposal or the Proposal without Project Processing Fee will not be entertained.
- The Proposal will be evaluated by PPIB. After evaluation, the Proposal will be submitted to PPIB Board for approval.
- PPIB reserves the right to reject any or all Proposals without assigning any reason thereof.
- After approval of the Proposal by PPIB Board, a Notice to Proceed will be issued to the Sponsors/Project Company, requesting it to submit a Bank Guarantee @ US\$ 1,000 per MW to PPIB for Issuance of Letter of Intent (LOI). The Bank Guarantee would be encashable in case the Sponsors fail to approach NEPRA for Tariff Determination within three (03) months from issuance of Notice to Proceed by PPIB or fail to obtain LOS thereafter.

- The Bank Guarantee should be issued by a scheduled bank operating in Pakistan acceptable to PPIB with credit rating of 'A' or higher.
- Upon acceptance of the Bank Guarantee, LOI will be issued to the Sponsors/Project Company asking them to approach NEPRA for Tariff Determination and issuance of Generation License.
- The Sponsors/Project Company will submit a tariff petition and application for Generation License to NEPRA, within the stipulated time.
- NEPRA will then determine the Tariff for the Project and issue Generation License.
- After Tariff Determination by NEPRA, PPIB will request the Sponsor / Project Company to submit a Performance Guarantee @ US\$ 5,000 per MW with validity of three months in excess of committed COD along with the nonrefundable Processing Fee of US\$ 80,000 to PPIB, for issuance of LOS. The Performance Guarantee would be encashable in case the Sponsors / Project Company fail to execute the Project Agreements or achieve Financial Close or subsequently delays the achievement of COD as per terms & conditions stipulated in the LOS.
- The Performance Guarantee should be issued by a scheduled bank operating in Pakistan acceptable to PPIB with credit rating of 'A' or higher.

- Upon acceptance of the Performance Guarantee and Processing Fee, LOS will be issued to the Sponsors/Project Company and the initial Bank Guarantee (@ US\$ 1,000 per MW) will be returned.
- The Sponsors / Project Company will then be required to negotiate / finalize the Project Agreements (IA, PPA, FSA/GSA etc.) and achieve Financial Close within nine (9) months from issuance of LOS.
- Thereafter the construction activities and achievement of Commercial Operations will be managed in accordance with the provisions of LOS and finalized Project Agreements.

This document is also available in soft form at PPIB's website <u>www.ppib.gov.pk</u>

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