POLICY FOR
NEW PRIVATE INDEPENDENT
POWER PROJECTS

JULY 1998

GOVERNMENT OF PAKISTAN

ABBREVIATIONS USED

AJK	Azad Jammu and Kashmir
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
FSA	Fuel Supply Agreement
GOP	Government of Pakistan
IA	Implementation Agreement
IPP	Independent Power Producer
IRSA	Indus River System Authority
KESC	Karachi Electric Supply Corporation
kW	Kilo Watt
kWh	Kilo Watt Hour
LOI	Letter of Interest
LOS	Letter of Support
LTCF	Long Term Credit Facility
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
PPA	Power Purchase Agreement
PPC	Private Power Cell
PPIB	Private Power and Infrastructure Board
RFP	Request for Proposals
Rs	Pakistan Rupee
SRO	Statutory Revisionary Order
TFC	Term Financing Certificate
WAPDA	Water And Power Development Authority
WPI	Wholesale Price Index
WUA	Water Use Agreement
WUL	Water Use Licence

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1 INTRODUCTION

1.1 Power System Changes

It is the intention of the Government of Pakistan (GOP) to move towards the creation of a competitive power market in Pakistan. It proposes to do so by restructuring and privatizing the existing thermal power generation, the power transmission and distribution functions and assets of existing public sector utilities (WAPDA/KESC), by the creation of a fully autonomous regulatory authority, the National Electric Power Regulatory Authority (NEPRA), and through its future IPP policy.

WAPDA's restructuring will involve a corporatisation process in which its eight area electricity boards will be converted into eight public limited companies, its 11 thermal power stations into a number of public limited companies and its transmission system will become a single public limited company. At the apex there may or may not be a holding company, depending upon whether competition is introduced before or during the privatization process. It is GOP's intention to privatise the distribution and thermal generation companies. The transmission company may remain in the public sector in the medium term. WAPDA will revert to its original role as an organization responsible for the maintenance of existing dams, the building of additional dams on the main rivers and a generator of electricity from these dams. The restructuring and corporatisation process will be accompanied by the creation of contractual relationships amongst the various legal entities which will be created.

The NEPRA Act has been approved by Parliament and signed into law in December 1997. It seeks to create an autonomous, independent regulatory authority, which will be solely responsible for the power sector. It will be responsible for the oversight of the power sector and will exercise control through its power to licence power generation, transmission and distribution. It will regulate tariffs for all these activities. It will perform its functions through transparent processes to be enshrined in rules that are being framed in a transparent manner through appropriate rules.

Once the restructuring, corporatisation and privatization of WAPDA/KESC's thermal power generation, power transmission and distribution is complete and NEPRA is fully operative, all future investment in power generation, transmission and distribution facilities will become market driven and of no direct concern to GOP. Investors will deal with purchasers, the distribution companies; enter into supply contracts with them, develop their projects under NEPRA licence and operate under its oversight. In the interim, however, before this structure is established there is a need for an IPP policy to encourage the private sector to invest in power sector with the support of GOP.

1.2 Transition Period

The transformation of the power sector into a privatised, competitive electricity industry will be an evolutionary process occurring over a number of years. The initial steps during the transition period will include active solicitation of offers to build new, privately-owned generating plants, selling power under contracts that can later be assigned to privatised distribution companies or the national grid company.

1.3 Requirement of Future Generation Capacity

The total power demand in the country is expected to range between 19,000 and 25,500 MW by July 2008. The existing generation units and already committed additions to capacity in both the public and private sector are expected to meet all the increases in the future demand up to the year 2002/2003. Additional capacity, however, would be required beyond these years. The shortfall in the capacity, taking into account seasonal variations in hydel and requirements for adequate system reserve margins by July 2008 is expected to range between 5,000 and 8,500 MW.

In view of the long lead time required to bring new power plants on line, particularly those based on indigenous coal and hydro, work on new power projects must be started in the near future. It is the GOP's intention to solicit bids during 1998/1999 for hydel and indigenous coal-fired projects, which already have feasibility studies, and to initiate feasibility study work on further hydels and indigenous coal-fired projects. Projects of other types may follow in subsequent years, as appropriate, to meet the latest projections of capacity requirement and taking into account the experience of the first rounds of bidding.

1.4 Major Departure from Previous Policy

Pakistan has established a track record of successfully attracting IPPs in two successive policy rounds. The 1292 MW Hub Power Project in the private sector started construction in 1993 as a result of a negotiated tariff essentially based on a "cost plus" approach. The 1994 Private Power Policy Framework and the 1995 Hydel Power Policy Framework were based on a tariff announced up-front by the government and attracted private investment for over 3000 MW of capacity. While the up-front tariff approach greatly simplified and accelerated the process of acquiring new capacity in the backdrop of severe load shedding, it was not based on a competitive framework for acquisition of new capacity. The new Power Policy framework being proposed now is based on setting a tariff as a result of a competitive process through which private sector entrepreneurs will be invited to offer the lowest tariff per kWh for delivered energy.

Previous private power policy frameworks have predominantly resulted in private investment in oil and gas fired power plants, mainly based on imports. The government will now play a proactive role in promoting the use of indigenous coal and hydroelectric resources in power generation under this new power policy. It is intended that the initial invitations to bid will only be for hydel and indigenous coal based projects.

The previous power policy framework had provided almost blanket exemptions from all duties and taxes. This meant that Pakistan's fledgling engineering industry and equipment manufacturers for power plants could not compete with imports because of the duties paid on their inputs. The new power policy framework is eliminating this inequity.

1.5 Features of this New Policy

The basis for selection of private power project will be minimum levelized tariff through International Competitive Bidding. Variable tariffs over the life of the project will be permitted under terms specified prior to bidding. The process of selection will involve pre-qualification, issuance of a Request for Proposals (RFP), bidding and evaluation of bids against bid criteria <u>clearly laid out in the RFP</u>.

It is recognized that without a proper feasibility study for a particular site-specific hydel or indigenous coal based project, it will not be possible to invite competitive bids and receive firm offers. Thus, detailed feasibility studies for such projects will be prepared before bids are invited.

Hydel projects will be implemented on a Build-Own-Operate-Transfer (BOOT) basis; to be transferred to the province in which it is situated at the end of the concession period, and thermal projects on a Build-Own-Operate (BOO) basis.

Competitive Tariffs will comprise an Energy Purchase price and a Capacity Purchase Price with adequate provisions for escalation.

The GOP will guarantee that the terms of executed agreements, including payment terms, are maintained during and after the transition to the private sector companies that result from the system restructuring described above.

Companies will be expected to operate according to the applicable Tax Laws of Pakistan.

2. INSTITUTIONAL ARRANGEMENTS

2.1 NEPRA

NEPRA has been recently established as an autonomous, independent regulatory authority, to promote the establishment of a competitive and efficient power sector while safeguarding the interest of both electricity consumers and power sector investors.

NEPRA's role in independent private power production will be to approve a tariff for a particular project before a Letter of Support is issued by the Private Power and Infrastructure Board (PPIB). It may also advise the PPIB or the Provincial or AJK Private Power Cell (PPC), as the case may be, on the maximum acceptable tariff for a project before it is bid. This maximum tariff may then be specified in the Request for Proposals as the maximum acceptable to the GOP.

2.2 PPIB

One window support at the Federal level will be provided by the Private Power and Infrastructure Board (PPIB). It will include a representative from each province and AJK.

The PPIB will assist the private sponsors in coordination with the various governmental agencies, carry out negotiations of the Implementation Agreement (IA), issue the Letter of Support (LOS), monitor and follow up on progress of the project, etc.

2.3 Provincial and AJK PPCs

One window supports at the Provincial level would be provided by Provincial and AJK Private Power Cells (PPCs) for the projects located in the respective territories. The Provincial or AJK PPC, in consultation with PPIB and the power purchaser, will issue pre-qualification documents, pre-qualify the bidders, issue bidding documents (prepared by PPIB in consultation with Provincial or AJK PPC) and evaluate the bids. The issuance of Letter of Support (LOS) will be the responsibility of PPIB. The Provincial or AJK PPC will also assist the private sponsors in coordination with the Provincial Government Agencies to carry out negotiations on the Water Use Licence/Agreement.

3. BIDDING FOR IPPs

3.1 Schedule

A typical schedule to implement a private power project is as follows. However, a specific schedule will form part of the Request for Proposals (RFP) for each project.

		<u>Typical Time Allowed (days)</u>
1.	Pre-qualification for specific projects - the Provincial or AJK PPC (in consultation with PPIB and power purchaser), as the case may be, will invite applications for registration and submission of pre-qualification documents through the press and all other channels normally prescribed by the Asian Development Bank and the World Bank.	25
2.	Submission of pre-qualification documents to Provincial or AJK PPC, as the case may be.	30
3.	Evaluation of documents and notification to pre-qualified bidders by Provincial or AJK PPC (in consultation with PPIB and power purchaser), as the case may be.	30
4.	Invitation to bid to pre-qualified bidders by Provincial or AJK PPC, as the case may be, and collection of bidding documents.	10
5.	Time allowed for submission of bids to Provincial or AJK PPC, as the case may be, along with bid bond/performance guarantee in favour of PPIB.	120
6.	Evaluation of bids and notification of winning bidder by Provincial or AJK PPC (in consultation with PPIB and power purchaser), as the case may be.	60
7.	Issuance of Letter of Support (LOS) by PPIB.	15

Note that the time allowed for item 5 may be increased appropriately for large or complex projects.

3.2 Pre-Qualification of Bidders

Proposals will only be considered from bidders who have been pre-qualified at meeting at least the following conditions:

i) One of the sponsors, who will be designated as the main sponsor, will have at least a 20% stake in the equity, and will have direct and relevant experience of the successful development, implementation, ownership or operation of projects of similar magnitude and type.

ii) Demonstrated capability for financing (equity and debt) or arranging finance for projects of similar size.

iii) Good reputation and must not be in litigation or arbitration against GOP.

iv) Availability of adequately trained/experienced manpower.

3.3 Lock-in-Period for Sponsors

The sponsor identified as the "main sponsor" in the application for pre-qualification, based upon its experience and financial strength, will be required to hold not less than 20% of the equity of the project company and must hold such equity during the “lock-in period” which will be from the LOS issuance date until the sixth anniversary of the successful commissioning of the plant. The pre-qualified sponsors must hold 51% of the equity for the same period (see section 3.2).

3.4 Request for Proposal (RFP)

The RFP may specify the following, as deemed appropriate, for each project offered for competitive bidding:

i) Type of Project (Hydel, Indigenous Coal, Gas etc.)

ii) Net capacity (MW)

iii) Reference annual plant factor (%)

iv) Transmission arrangements including the Point of delivery to the Power Purchaser

v) Maximum acceptable levelized tariff (optional)

vi) Term of Power Purchase Agreement

vii) Specific allowances for scheduled maintenance and excused forced outages

viii) Tariff Regime including:

- Limitations on "Front end loading"
- Limitations on proportion of Capacity Charge to overall tariff (optional)
- Rupee escalation reduction factor `X' (as explained in section 5)
- Reference date(s) for indexation
- Fuel price and indexation mechanism(s) as required
- Discount rate to be applied in the evaluation
- Matching of debt-related capacity charge stream with loan repayment stream
- Sum of energy charge and non-debt related capacity charge to be constant during the term

ix) Evaluation criteria

The following documents may also be included in the RFP:

(a) Instructions to bidders
(b) General Provisions for bidders
(c) Minimum technical standards
(d) Feasibility study of the projects on hydel and indigenous coal (or essential information for other thermal projects).
(e) Copies of relevant standard security package agreements and documents (i.e. Letter of Support, Implementation Agreement, Power Purchase Agreement, Fuel Supply Agreement (if applicable), etc.)

Wherever necessary, pre-bid conferences will be held. In case the nature of the project warrants exchange of bidding documents with bidders before finalization, the same will be done in a transparent manner, giving equal and adequate opportunity to all bidders.

3.5 Evaluation of Bids

Bids will be opened on the prescribed date in the presence of bidders' representatives.

Detailed evaluation criteria will be given in each RFP. Evaluation will be on the basis of the levelized tariff (at a reference annual plant factor, as specified in the RFP) within allowable levels of front-end loading, at a discount rate which will be prescribed in the RFP. The levelized tariff will be determined after applying the appropriate escalation rates on the tariff profiles (to convert them into nominal terms) quoted by the bidders on yearly basis. (For this purpose, the RFP will specify a regime of projected indexation and inflation rates to be used for evaluation purposes only).

The bid with the lowest evaluated levelized tariff will be ranked as Number 1. The Government will reserve the right to reject any bid without assigning any reason and assuming any liabilities. Once the bid is accepted, the sponsors of the winning bid will be issued a Letter of Support against the delivery of a Performance Guarantee in the required amount in favour of PPIB, and will be required to achieve Financial Closing within the specified time.

3.6 Unsolicited Bids

For hydel and indigenous coal projects, unsolicited proposals will be permitted from sponsors when there does not exist a feasibility study for the project. A sponsor wishing to make an unsolicited proposal must submit detailed proposal to PPIB. The proposal must include at least the following information:

(a) Project location
(b) Proposed capacity and plant factor
(c) Basic outline of structures and plant.
(d) Summary programme to commissioning date including a specified time to complete the Feasibility Study.
(e) Full pre-qualification details as required in Section 3.2 for the proposed sponsors.

The PPIB will issue a Letter of Interest (LOI) at this stage provided the project is not in conflict with existing plans and the pre-qualification criteria are met. The LOI will require the sponsor to carry out a complete feasibility study at an internationally acceptable standard and within an agreed period of time according to agreed milestones. If the sponsor fails to complete the feasibility study in the specified time period, or is lagging in progress as determined from the agreed milestones, then PPIB will have the right to terminate the LOI with adequate notice. In such a case the sponsors nor the Project Company shall have any claim for compensation or damages against GOP or any of its agencies.

PPIB will appoint a panel of experts to review the conduct of the feasibility study and its results to ensure that the implementation of the project would be consistent with national and provincial needs. If the feasibility study is approved by this panel, a bidding process will be initiated as defined in sections 3.1 to 3.4 and section 4. However as the sponsor of the unsolicited bid has provided the feasibility study, he will not be required to submit a bid bond.

On the conclusion of the bidding process, the sponsor of the unsolicited proposal will be offered the opportunity to undertake the project at the lowest tariff offered by the bidders. If he rejects this offer the successful bidder will repay the reasonable and independently audited cost of the feasibility study to the original sponsor before the issuance of LOS.

Unsolicited bids will also be permitted for small hydel power plants or those based on other renewable energy sources without any requirement for competitive bidding, as explained in section 11.

4 THE IMPLEMENTATION PROCESS

4.1 Fee Structure

Fees are to be paid in US Dollars, all fees are subject to revision from time to time

	Fee $US	Remarks
Registration	nil	PPIB will provide policy brochures upon registration.
Pre-qualification		
Purchase of pre-qualification documents	1,000	

Bidding

a) Purchase of the bidding documents by pre-qualified bidders	2,000	Including feasibility study where relevant, standard IA, PPA, FSA, WUL/WUA etc. where relevant
b) Evaluation		
0-5 MW	1,000	
5-20 MW	10,000	
20-100 MW	20,000	
100-400 MW	30,000	
400-600 MW	50,000	
Above 600 MW	75,000	

Legal fees - for negotiations of agreements or other legal matters — To be charged to developers on actual cost, plus 20% for expenses

4.2 Letter of Support and Performance Guarantee

A bid bond of US$ 1000 per MW will be required from each bidder at the time of submission of bids. Upon the award of the LOS to the winning bidder, the bid bond of all other bidders will be returned and the successful bidder will be required to post a Performance Guarantee of US$ 5000 per MW in favour of PPIB. The Performance Guarantee will secure the winning bidder's obligation to execute the IA, PPA and other relevant agreements and achieve Financial Closing within the time periods allowed.

A LOS will normally be issued to the winning bidder for a period of 15 - 18 months (to be specified in the RFP), by which date, the project company must achieve Financial Closing for the project (as defined in the Implementation Agreement). The Performance Guarantee shall be in the form of an irrevocable direct-pay letter of credit issued by an internationally recognised bank acceptable to the GOP and favouring the PPIB. This Performance Guarantee must always be valid for not less than three months after the then-prevailing Financial Closing deadline.

Sponsors will have an option to terminate the Letter of Support and any of the project agreements executed at any time before the required date for Financial Closing. This termination option may be exercised by foregoing a portion of the Performance Guarantee equal to the face value of the Performance Guarantee multiplied by the number of months since the issue of LOS (rounded up to the next whole number) divided by total number of months allowed in the LOS to achieve Financial

Closing.

The Performance Guarantee will be encashable on call by PPIB. The LOS will terminate automatically on the last validity date thereof. Neither the sponsors nor the project company shall have any claims against GOP, or any of its components/ organizations/ Provinces/ Institutions on any ground whatsoever. Until Financial Closing, LOS will govern the project and supersede all documents and agreements. If the LOS expires, the IA, PPA and FSA and all other agreements with any governmental entity will automatically terminate.

4.3 Project Implementation

The successful bidder will be required to submit to PPIB on a format specified by PPIB, a mutually acceptable implementation schedule with specific milestones for progress monitoring. PPIB and WAPDA/KESC would require submission of monthly financial and physical progress reports and a summary table showing progress towards achievements of such milestones from successful bidder who is issued an LOS. Delays in achieving the commercial operation of power complex by the required date therefor will invite liquidated damages as specified in the Power Purchase Agreement (PPA). Other penalties may be specified in the Implementation Agreement (IA) for not meeting certain major milestones.

5 TARIFFS

5.1 Point of Delivery

The power tariff payable under the Power Purchase Agreement will be quoted at the point of delivery as indicated in the RFP. The delivery point would either be the bus bar of the power plant or specified location(s) on the grid of the Power Purchaser depending upon one of the following options specified in the RFP:

(a) Transmission line upto the power complex would be built, owned, maintained and operated by the Power Purchaser. In this case, the power tariff will be bid and paid for energy and net capacity delivered at the out-going bus bar of the power plant.

(b) Transmission line from the power complex to the grid would be built and transferred by the company to the Power Purchaser, who will then own and operate the transmission line. In this case, the power tariff will be bid and paid for energy and net capacity delivered at the Power Purchaser's grid. The sponsor will build in the cost of transmission line in its tariff quote.

(c) Any other arrangements different from the above.

5.2 Fuel Complex

For projects requiring substantial investment in dedicated production and/or transportation facilities for fuel, the tariff may include the charges for these facilities in the Capacity Purchase Price and the Energy Purchase Price.

5.3 Tariff Structure

5.3.1 Currency of Tariff

Tariffs in bids will be denominated in Rupees

5.3.2 Capacity and Energy components

Bidders will be asked to quote their tariff in two parts: (1) Energy Purchase Price and (2) Capacity Purchase Price.

The RFP may specify a maximum percentage of the overall tariff for the Capacity component.

The Capacity Purchase Price will be expressed in Rs/kW/month; the Energy Purchase Price in Rs/KWh.

The tariff to be paid by the Power Purchaser under the Power Purchase Agreement will be bid and paid for energy delivered at the point of delivery as indicated in the RFP.

The Capacity component will be paid provided the plant is available for Despatch to standards defined in the RFP. The Energy component will be paid based upon the amount of KWh of energy dispatched.

In order to ensure sustained interest of the sponsor during the entire life of the project, the sum of energy charge and non-debt related capacity charge (computed on a kWh basis at the reference plant factor specified in the RFP) will remain constant or diminish over time. The debt-related capacity charge stream must match the loan repayment stream of the project (including principal, interest and fees payment).

5.3.3 Water Use and Fuel Charges

The Energy Purchase Price will include the Water Use Charge explained in section 9.2

The Energy Purchase Price for thermal projects not based on indigenous coal, will include a fuel element/KWh based on the fuel price stated in the RFP or quoted by the bidder as explained in section 10.3.

5.3.4 Exchange Rate Variation

Bidders may include separate components in the Capacity Purchase Price and the Energy Purchase Price which are subject to adjustment for variations in the exchange rate between the Rupee and US Dollar between the base date and the date of payment. No protection against exchange rate fluctuations will be available through the tariff in respect of any other currency.

The reference rate for foreign exchange shall be the State Bank of Pakistan's TT&OD selling rate of US Dollar prevailing on the last business day 28 days (or more) before the date of submission of the bid. The specific date will be given in the RFP.

Adjustment for Exchange Rate fluctuations will be effected quarterly. A true up on exchange rate fluctuations in excess of 5% during any month will be allowed on a monthly basis.

5.3.5 Escalation

Escalation for dollar components to cover dollar inflation will not be provided. However bidders may include components in the Energy and Capacity Purchase Prices which are escalable for rupee inflation. Such rupee escalation will be effected from the bid date by the Pakistan Wholesale Price Index (WPI) as published in the Economic Survey of Pakistan, minus a factor 'X'. The reference value of the WPI will be the most recent value published and available not less than fifteen days before the date of submission of the bid. The RFP will specify the date for this reference value of WPI and the value of

‘X’ (if any) by which the WPI will be reduced in each year thereafter. Escalation of the Water Charge will be full WPI using the same reference date.

Escalation will be effected quarterly.

5.4 Yearly Profile of Tariff

All sponsors would be required to submit yearly tariff profiles both in constant and nominal terms taking into account the indexation parameters given in the RFP.

6. FINANCIAL AND FISCAL REGIME

6.1 Financial Regime

(a) permission for power generation companies to issue corporate bonds, both bearer and registered.

(b) permission to issue shares at discounted prices to enable venture capital to be provided at higher rates of return and proportionate to the risk.

(c) permission for foreign banks to underwrite the issue of shares and bonds by the private power companies.

(d) same tax facilities for private sector instruments as available to non-banking financing institutions subject to approval by Corporate Law Authority.

(e) State Bank of Pakistan’s Prudential Regulations must be adhered to.

(f) removal/reform of Section 13 of 1947 Foreign Exchange Regulation Act to enable non-residents to purchase securities issued by Pakistani companies without State Bank's permissions.

(g) Abolition of 5% limit on investment of equity in associated undertakings.

(h) An independent rating agency is being allowed to commence operation in Pakistan, so that individual investors can make informed decisions about the risk and profitability of the project company's Bonds/TFCs.

(i) An LTCF facility is available that can provide long term low interest loans for a portion of the project funds.

6.2 Fiscal Regime

Private power producers must implement the project within the applicable Tax Laws of Pakistan.

In addition:

(a) Hydel power plants and power plants based on indigenous coal will be allowed a 90% First Year Allowance (FYA), for the cost of plant, machinery and equipment. FYA can be used to set off against statutory income in the year of assessment, and the balance can be carried forward to subsequent years.

(b) The companies are allowed to import plant and equipment on payment of customs duties, sales tax, Iqra, Flood relief and other surcharges as well as Import License Fees.

(c) Repatriation of equity along with dividends is freely allowed.

(d) Private parties may raise local and foreign finance in accordance with regulations applicable to industry in general. GOP approval will be required in accordance with such regulations.

(e) Maximum indigenisation shall be promoted in accordance with the GOP Policy and import substitution as well as S.R.O. No.193(I)/98 dated 26th March 1998 and CGO No.07/98 dated 24th March 1998.

(f) Orders received by local engineering and manufacturing companies from private power companies will be treated as an export for refinance under the State Bank of Pakistan's Export Finance Scheme.

(g) Non-Muslims and Non-residents shall be exempt from payment of Zakat on dividends paid by the company.

7. SECURITY PACKAGE

Following are the salient features of the security package:

i) Model Implementation (Concessions) Agreement, Power Purchase Agreement, Fuel Supply Agreement, Water Use Licence (if applicable) and other agreements that have been prepared for private power projects to eliminate the need for protracted negotiations.

ii) The GOP will:

(a) guarantee the contractual obligations of its involved agencies, namely WAPDA/KESC, and provinces even though some or all of these may be privatized during the term of the various agreements.

(b) provide protection against specified "political" risks.

(c) provide protection against changes in taxes and duties from those on the basis of which bids are prepared.

(d) ensure the convertibility of Rupees into US Dollars at the then-prevailing exchange rates and the remittability of foreign exchange to cover necessary payments related to the projects including debt service and the payment dividends; however, the tariff components will be adjusted and indexed as per this Policy against exchange rate variation, inflation, etc.

8 THE ENVIRONMENT

All environmental guidelines of the GOP will have to be satisfied. PPIB will provide copies of the same at the time of pre-qualification.

9 SPECIFIC PROVISIONS FOR HYDEL PROJECTS

9.1 Despatch

The load despatch centre will despatch plants in accordance with optimal despatch criteria (without any bias) which will be on the basis of lowest Energy Cost Component, transmission line losses, system stability and reliability, and other economic considerations. Because of their very low variable cost, hydel plants are likely to be despatched with the highest priority.

9.2 Water Use Charge

The Water Use Charge will be paid to the Provincial Government for use of water by the power complex to generate electricity. The Water Use Charge per kWh will be fixed by the Provincial and AJK Governments and will be quantified in RFP.

9.3 Feasibility Studies

The feasibility study will identify basic parameters of the project, such as the hydrological characteristics of the site, geological conditions, optimum net capacity, estimated annual plant factor, monthly profile and transmission line requirements etc. The feasibility study will pay particular attention to eliminating, as far as is possible, uncertainties relating to the geological conditions at the site.

While feasibility studies will be carried out in accordance with international standards, GOP will not guarantee their contents or conclusions. The private bidder will have the right at its own cost to examine, evaluate and form its own conclusions on any or all aspects of the feasibility study and to carry out any studies and investigations to make its own assessment about the feasibility and viability of the project as part of its due diligence.

To provide funding for the feasibility studies, a fund may be created (with the assistance of donors and GOP's own resources) to carry out feasibility studies to enable international competitive bidding.

Projects will only be offered for bidding if they meet national financial and economic criteria assuming project costs as estimated in the feasibility study. The successful bidder for a specific project will reimburse the GOP or the relevant Provincial or AJK Government, as the case may be, for the cost of the feasibility study at the Financial Closing of the project.

9.4 Hydrological Risk

The GOP will bear the risk of availability of water by making fixed monthly Capacity Payments to the project company. The RFP will specify arrangements required to monitor and record water flow.

The sponsors will be asked to quote its generation efficiency curve. If the efficiency of the power plant goes down, or the generation of electricity is reduced for any reason other than a reduction in water flow, the project company will be penalized for the value of the electricity lost due to a fall in efficiency or reduced availability of the power complex. For run of the river projects with storage for daily peaking, specific measures will be specified in the RFP for the monitoring of the project performance. For seasonal storage projects, a reservoir will be operated as per the directives of Indus River System Authority (IRSA) - specific details will be provided in the RFP.

10. SPECIFIC PROVISIONS FOR THERMAL PROJECTS

10.1 Despatch

The load despatch centre will despatch plants in accordance with optimal despatch criteria (without any bias) which will be on the basis of lowest Energy Cost Component, transmission line losses, system stability and reliability, and other economic considerations.

10.2 Indigenous Coal

The Request for Proposals (RFP) will be for an integrated coal mining and power generation complex. The feasibility study will identify basic parameters of the project, such as geological conditions, optimum net capacity, estimated annual plant factor, transmission line requirements, etc., necessary to allow firm bids for the development of the identified project. While feasibility studies will be carried out in accordance with international standards, GOP will, however, not guarantee their contents or conclusions. Bidders will have the right to examine, evaluate and form their own conclusions on any or all aspects of the feasibility study and to make any additional investigations at its own cost. The arrangements for funding and review process as outlined in Section 9 for hydel projects will also be applicable to indigenous coal based projects.

10.3 Thermal Projects other than Indigenous Coal

For thermal projects based on fuels other than indigenous coal, the RFP will designate the basic parameters of the project such as delivery point(s)/region(s) for delivery of power and net capacity, minimum annual plant factor, availability of the power plant. As far as choice of fuel is concerned, the RFP will specify one or more of the following options.

i) The GOP gives no guarantee about the availability or supply of the fuel and allows the bidders to make their own choice of fuel and arrangements for its supply. The bidders will be required to give a fuel price, which will be the basis of their power tariff bid. For the purposes of bid evaluation, the fuel price would be escalated using the index specified in the RFP.

ii) The Government states the price of one fuel, guarantees its availability in the RFP, specifies an index, and asks the bidders to design and construct their power plant to use that fuel.

iii) Same as (ii), with the bidders given the added options of offering any other fuel of their own choice and selecting one of the index/indexation mechanisms specified in the RFP.

11 PROVISIONS FOR OTHER PROJECTS

11.1 Small Power Plants (including Cogeneration Units) of Less Than 20 MW Based on Renewable Resources

To promote establishment of small power plants, including cogeneration plants, of less than 20 MW based on renewable resources, unsolicited proposals will be accepted without a requirement of competitive bidding at any stage. They will be offered a tariff equal to the average levelized tariff derived from competitive solicitations for indigenous resource based projects over the previous twelve months. However, in order to ensure that the tariff for a predominant part of capacity additions to the entire system is arrived at through the competitive solicitation process, the total capacity from such plants shall be limited to not more than 5% of total capacity additions in any years.

11.2 Small Power Plants Intended to Serve Isolated Sites (Unlikely to be Connected to National Grid)

It is expected that for small power plants intended to serve locations not connected or likely not to be connected to the national grid in the foreseeable future, NEPRA may allow deviations from this policy and establish separate procedures for attracting private investment and setting tariff for both generation and sale of electricity to the consumers in the area.

For further information, please contact:

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