Policy
For Power
Generation Projects
Year 2002

FOREWORD

Electricity is the engine for the growth of the economy. Although the surplus power scenario of the late nineteen-nineties was harmful for the economy, but more damaging were the effects of the long load-shedding hours of the nineteen-eighties. The dark and frightening shadows of load-shedding have again started to loom large. From the year 2003-04, winters are again expected to experience power shortages. The city of Karachi, with a population base of above one crore, is already bearing the brunt of power shortages. WAPDA's power wing is being corporatized, on its way to be privatized. Thus, any future investment in electrical power is expected from the private sector. The previous power policy of 1998, however, had failed to attract the private power investors. The Government felt it necessary to create an environment and craft a new set of incentives which, on the one hand, offer attraction to investors and, on the other, keep the consumer prices within affordable limits.

Keeping in view these targets, this Policy for Power Generation 2002 has been brought out after thorough deliberation and brain-storming among all stakeholders over a period of above two-and-a-half years. The maximum effort has been put in to yield consensus among the stakeholders during drafting this policy. In the present circumstances, this Policy offers maximum incentives and assurances that an investor can expect.

The Government, therefore, invites the investors to invest in the power sector and assures them its fullest possible support in implementation of their projects.

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ABBREVIATIONS

AEB	Area Electricity Board
AJK	Azad Jammu and Kashmir
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
CBR	Central Board of Revenue
CPP	Capacity Purchase Price
CSA	Coal Supply Agreement
EPP	Energy Purchase Price
FBS	Federal Bureau of Statistics
FSA	Fuel Supply Agreement
GOP	Government of Pakistan
GSA	Gas Supply Agreement
IA	Implementation Agreement
ICB	International Competitive Bidding
IPP	Independent Power Producer
IRSA	Indus River System Authority
KESC	Karachi Electric Supply Corporation
kV	Kilo Volt
kW	Kilo Watt
kWh	Kilo Watt Hour
LOI	Letter of Interest
LOS	Letter of Support
MW	Mega Watt
NBP	National Bank of Pakistan
NEPRA	National Electric Power Regulatory Authority
NTDC	National Transmission and Despatch Company
PEPA	Pakistan Environmental Protection Agency
PPA	Power Purchase Agreement
PPIB	Private Power and Infrastructure Board
PPC	Private Power Cell
RFP	Request For Proposals
Rs	Pakistan Rupee
SCA	Sindh Coal Authority
SECP	Securities and Exchange Commission of Pakistan
SRO	Statutory Rules and Orders
TFC	Term Finance Certificate
US$	United States Dollar
WAPDA	Water and Power Development Authority
WPI	Wholesale Price Index
WUA	Water Use Agreement
WUL	Water Use License

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INTRODUCTION

1. Electricity constitutes one of the most important components of infrastructure and plays a key role in national growth and development. With only about half of nearly 140.5 million people (2001 population estimate) having access to electricity, a huge population base provides an ideal opportunity for expansion of electricity generation. The growing pace of urbanization and industrialization also puts a premium on demand for electricity.

2. Demands for augmenting the power infrastructure, unsatisfactory performance of public sector entities, ever-squeezing budgets in the public sector, the need to make the tariff free from subsidies and cross-subsidies and reflect market prices etc., provide motivation for resource mobilization, improving efficiency through involvement of the private sector, to reduce the burden on budgetary resources caused by ailing enterprises and more importantly, to meet consumer expectations within affordable limits of tariff.

3. Reform of the power sector through restructuring and deregulation is high on the agenda of the Government of Pakistan (GOP). The GOP is committed to pursue a far-reaching reform programme for the power sector and to help meet the country's future power needs. Implementation of the envisaged programme will bring about a gradual transition of the power system from integrated, state-owned utilities to a decentralized system with separate generation, transmission and distribution entities, having substantial private ownership and management, reflecting and encouraging a commercial and competitive operating environment.

1.1 Structure of the Power Sector

4. Pakistan has two vertically integrated public sector power utilities --- the Pakistan Water and Power Development Authority (WAPDA) and the Karachi Electric Supply Corporation (KESC). WAPDA supplies power to all of Pakistan, except the metropolitan city of Karachi, which is supplied by KESC. The systems of WAPDA and KESC are interconnected through 220 kv double circuit transmission line. Out of a total generation capacity of about 17,664 MW in the country, 9,949 MW is owned by WAPDA, 1,756 MW by KESC, 437 MW by the Pakistan Atomic Energy Commission (PAEC) and 5,522 MW by Independent Power Producers (IPPs).

1.1.1 Pakistan Water and Power Development Authority (WAPDA)

5. WAPDA was established in 1958 and entrusted with a massive agenda, which included generation, transmission and distribution of power along with irrigation, water supply, drainage, flood control, etc. It owns about 54 percent of the country's total power generation capacity, serves 88 percent of all electricity customers in Pakistan and has been, until of late, the principal power generation, transmission and supply system in the country. It has a customer base of over 10 million.

6. The privatization of WAPDA is to be preceded by corporatization, which is underway. WAPDA's distribution network has been divided into eight electric supply companies, which are successors of former Area Electricity Boards (AEBs). The AEBs were departments within WAPDA to administer the supply and distribution, construction, expansion, maintenance and operation of the distribution system. The newly incorporated electric supply companies have been structured in line with modern management practices. WAPDA's thermal power generation facilities have been restructured and incorporated to form three generation companies (GENCOs). In addition, a National Transmission and Despatch Company (NTDC) has been incorporated to perform transmission and despatch functions.

1.1.2 Karachi Electric Supply Corporation (KESC)

7. KESC was incorporated in 1913 and is responsible for the generation, transmission and distribution of electricity in Karachi and its adjoining areas. It has a customer base of 1.5 million predominantly urban consumers.

8. Privatization of KESC is underway, and KESC is planned to be divested as a vertically integrated utility through sale of its equity interest to a strategic buyer who will also be given control over its management.

1.1.3 Regulatory Environment

9. In order to promote fair competition in the electricity industry and to protect the rights of consumers as well as producers and sellers of electricity, the GOP has enacted the Regulation of Generation, Transmission and Distribution of Electric Power Regulation Act, 1997 (NEPRA Act). Under this Act, the National Electric Power Regulatory Authority

(NEPRA), has been established for regulation of electric power generation, transmission and distribution in Pakistan. In performing its functions under this Act, NEPRA shall, as far as practicable, protect the interests of consumers and companies providing electric power services.

1.2 Objectives of the Power Policy

10. The main objectives of the Policy are:-

- To provide sufficient capacity for power generation at the least cost, and to avoid capacity shortfalls;
- To encourage and ensure exploitation of indigenous resources, which include renewable energy resources, human resources, participation of local engineering and manufacturing capabilities;
- To ensure that all stakeholders are looked after in the process, i.e. a win-win situation for all; and
- To be attuned to safeguarding the environment.

1.3 Scope of the Power Policy

11. The scope of the Policy covers:

Private sector projects;

Public sector projects;

Public-private partnership projects; and

Projects developed by the public sector and then divested.

1.4 Transition Period

12. The transformation of the power sector into a privatized, competitive electricity industry will be an evolutionary process over a period of time. Initial steps during the transition period will include active solicitation of offers to build new generating plants, selling power under contracts initially to public sector utilities that can later be assigned to privatized distribution companies**,** NTDC or legal assigns/successors of the public sector utilities.

1.5 Requirement of Future Generation Capacity

13. Presently, the combined generation capacity available in the public and private sector is sufficient to meet the future power demand upto the year 2004-2005. However, it would require augmentation during subsequent years.

14. In view of the long lead-time required to bring new power plants on line, particularly those based on indigenous resources (hydel, coal & gas), work on new power projects has to be started forthwith. It is the GOP's intention: i) to solicit bids for hydel and indigenous fuel-based projects, for which feasibility studies are already available; and ii) to initiate feasibility study work on raw sites for exploiting indigenous as well as renewable resources.

15. WAPDA has prepared a 'Hydropower Development Plan --- Vision 2025' (Vision 2025). Vision 2025 suggests a plan to meet the upcoming deficits through additional power generation. The plan was further updated, and a consolidated list of potential projects to be implemented in the short, medium and long term has been prepared. A list of potential projects is attached as the Schedule hereto. The list of projects however, will be periodically reviewed and updated. Identified projects will be implemented by the public sector, private sector, or by public-private partnership. The choice of implementing projects by the public sector, private sector, or by public-private partnership will depend upon the urgency of meeting 'demand' while keeping in view the resource availability position.

1.6 **Features of the Power Policy**

16. The basis for selection of the successful bidder in each case will be the minimum levelized tariff, either through International Competitive Bidding (ICB) for solicited proposals or through negotiations/ICB for proposals on raw sites, i.e. locations whereof no feasibility study has been initiated. Variable tariffs over the life of the project will be permitted under the terms specified in the Request for Proposals (RFP). The process of selection will involve pre-qualification, issuance of the RFP and bidding and evaluation in accordance with the bid criteria clearly laid down in the RFP.

17. It is recognized that without a proper feasibility study for a particular site-specific hydel or indigenous fuel-based/renewable resource-based project, it will not be possible to invite competitive bids and receive firm offers. Thus detailed feasibility studies for such projects will be carried out by the public/private sector before bids are invited and the Letter of Support (LOS) issued. The feasibility study may be conducted by the private sector only on raw sites, provided the proposal for the project on raw site has been reviewed/accepted and a Letter of Interest (LOI) issued after submission of the required bank guarantee.

18. Hydel projects in the private sector will be implemented on Build-Own-Operate-Transfer (BOOT) basis. Thermal projects in the private sector, however, will be established either on BOOT or Build-Own-Operate (BOO) basis. Decision in the matter would be made on a case-to-case basis. The projects based on BOOT shall be transferred at the end of concession period to GOP.

19. Competitive tariffs will comprise an Energy Purchase Price (EPP) and a Capacity Purchase Price (CPP) with adequate provision for escalation. The CPP in case of hydel projects will be approximately 60% to 66% of the levelized tariff, because of the relatively low EPP.

20. The GOP will guarantee that the terms and conditions of executed agreements (i.e. the Implementation Agreement (IA), Power Purchase Agreement (PPA), Fuel Supply Agreement (FSA)/Gas Supply Agreement (GSA), Coal Supply Agreement (CSA) and Water Use Licence (WUL), including payment terms, are maintained during the term of the agreements for projects above 50 MW.

21. Power companies will be allowed to import plant and equipment not manufactured locally (for hydel and thermal projects including projects based upon renewable resources) at concessionary rates. Companies will also be completely exempted from the payment of income tax, including turnover rate tax, and withholding tax on imports. However, there will be no exemption from payment of income tax on oil-fired power plants.

22. To promote indigenization, the local engineering industry will be encouraged to form joint ventures with foreign companies in order to develop power projects with a cumulative capacity of at least 2000 MW by the year 2015.

2 INSTITUTIONAL ARRANGEMENTS

2.1 National Electric Power Regulatory Authority (NEPRA)

23. While performing its functions under the NEPRA Act, NEPRA shall, as far as practicable, protect the interests of consumers and companies providing electric power services in accordance with guidelines laid down by the Federal Government. NEPRA will provide to the Private Power and Infrastructure Board (PPIB) the standard forms required for tariff determination by NEPRA, which will be provided with the RFP to the bidders. PPIB will request NEPRA for determining tariff after receiving bids, under ICB.

24. NEPRA's role in the power business, *inter-alia*, will be to issue licenses for companies and to regulate their operations according to NEPRA rules and regulations.

25. The prospective applicants will be required to comply with all NEPRA rules/procedures, *inter alia*, for grant of license before security agreements are concluded for any project.

2. 2 Private Power & Infrastructure Board (PPIB)

26. The board governing PPIB, which includes representation from each of the four (4) provinces of Pakistan and AJK, will provide one-window support to IPPs. To facilitate co-ordination between various agencies and to help PPIB in taking timely decisions on various issues while implementing power projects, a committee under the Secretary, Water and Power, comprising representatives of PPIB, WAPDA, KESC, the Planning & Development Division, the concerned Provincial/AJK Private Power Cell (PPC) or Sindh Coal Authority (SCA) (for coal-based projects in Sindh) will be constituted to oversee implementation of the Policy for Power Generation Projects, 2002. The various agencies will designate specific officers duly authorized to take decisions on their behalf, or to coordinate with concerned officials in their parent organizations, and provide such decisions to PPIB within a specified period.

27. PPIB will provide a one-window facility for implementation of projects above 50 MW capacity, and will issue the LOI and LOS, prepare pre-qualification and bid documents, pre-qualify the Sponsors, evaluate the bids of pre-qualified sponsors, assist the Sponsors/project companies in seeking necessary consents/permissions from various governmental agencies, carry out negotiations on the IA, assist the power purchaser, fuel supplier, Provincial/AJK authorities in the negotiations, execution and administration of the PPA, FSA/GSA/CSA and WUL respectively, issue and administer the GOP Guarantee backing up the power purchaser, fuel supplier, Provincial/AJK Government's contractual obligations, and follow up on implementation and monitoring of the project.

2.3 Provincial and AJK PPCs

28. The provinces will manage investments for up to 50 MW power projects. For projects above 50 MW, the provinces would be the main drivers and catalysts for marketing and coordinating projects with the Private Power and Infrastructure Board (PPIB).

3. SOLICITED PROPOSALS

3.1 Schedule

29. A typical schedule to conduct competitive bidding for a private power project with capacity above 50 MW, is presented herebelow:-

S. No.	Activity	Typical Time Allowed (days)
(a)	Pre-qualification for specific projects --- PPIB will invite Sponsors for registration and for collection of pre-qualification documents through the press and all other channels normally prescribed by the Asian Development Bank and the World Bank	60
(b)	Submission of pre-qualification documents to PPIB	60
(c)	Evaluation of pre-qualification documents and notification to pre-qualified bidders by PPIB	60
(d)	PPIB's invitation for bids to pre-qualified bidders and collection of bidding documents by pre-qualified bidders	40
(e)	Time allowed for submission of bids to PPIB together with bid bond and evaluation fee in favour of PPIB	120
(f)	Evaluation of bids including tariff determination by NEPRA and notification of successful bidder by PPIB	90
(g)	Posting of Performance Guarantee by Sponsors @ US$ 5000 per MW in favour of PPIB	30
(h)	Issuance of LOS by PPIB	30

30. However, a specific schedule will form part of the RFP circulated for each project.

3.2 Pre-Qualification

31. Bids will only be considered from bidders who have been pre-qualified on meeting at least the following conditions:-

(a) One of the Sponsors, who will be designated as the 'Main Sponsor', will have at least a 20% stake in the equity and, together with other partners, will have direct and relevant experience/capability in the successful development or implementation or ownership or operation, of projects of similar magnitude.

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

(c) The main Sponsor should not own more than 25% of the total generation capacity in Pakistan at the time of bidding.

3.3 Lock-in-Period

32. The Sponsor identified as the "Main Sponsor" in the application for pre-qualification, having a lead role and possessing sufficient financial strength, will be required to hold at least 20% of the equity of the project company 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 together hold 51% of the equity for the same period.

3.4 Request for Proposal (RFP)

33. The RFP for projects with capacity above 50 MW is likely to specify the following, or as deemed appropriate, for each project offered for ICB:-

(a) Type of Project (hydel, indigenous coal/gas, fuel oil, renewable, etc.)

(b) Net capacity (MW)

(c) Reference annual plant factor (%)

(d) Transmission arrangements including the point of delivery to the Power Purchaser

(e) Term of Power Purchase Agreement

(f) Specific allowances for scheduled maintenance and excused forced outages

(g) Cooperation arrangements/agreement with local engineering companies, if any

(h) Evaluation criteria

(i) Tariff, including:

- Limitations on "Front-end loading"
- Limitations on proportion of capacity charge to overall tariff
- Reference date (s) for indexation, which would be 30 days prior to the bid submission deadline, unless specified otherwise
- Fuel price and indexation mechanism(s), if required
- Matching of debt-related capacity charge stream with loan repayment stream
- Sum of energy charge and non-debt-related capacity charge to be ‘constant’ or ‘increasing’ during the term
- Water use charge, if applicable

34. The following documents will also be included in the RFP:-

(a) Instructions to bidders

(b) General provisions for bidders

(c) Minimum technical standards

(d) Standardized forms for NEPRA's tariff determination

(e) Feasibility study of the project for hydel and indigenous coal/gas, renewable resource-based project (or essential information for thermal projects, if so advertised)

(f) Copies of relevant standard security package agreements and documents (i.e. LOS, IA, PPA, WUL/FSA/GSA/CSA (as applicable), etc.)

(g) Environmental laws, rules, procedures and guidelines of the GOP

35. If necessary, pre-bid conferences will be held to facilitate exchange of information with bidders in a transparent manner, giving equal and adequate opportunity to all prospective bidders.

3.5 Evaluation of Bids

36. Bids will be opened on the prescribed date in the presence of bidders' representatives who choose to attend the bid opening.

37. Detailed evaluation criteria will be given in the RFP. Evaluation of Hydel projects will be on the basis of levelized tariff calculated at 12% discount rate over the term of the project, on the basis of average hydrology or as otherwise specified in the RFP at an annual reference plant factor and within allowable levels of front-end loading.

38. The bid with the lowest evaluated levelized tariff will be ranked at Number 1. PPIB will reserve the right to reject any or all bids without assigning any reason thereof, and will not assume any liabilities or claims of compensation in connection therewith. Once the bid is accepted and tariff approved by PPIB, the successful bidder will be issued its LOS by PPIB against delivery of a Performance Guarantee in favour of PPIB in the required amount valid upto three months beyond the Financial Closing date specified in the LOS, and upon payment of the cost of the feasibility study to PPIB. Under normal circumstances, no extensions in achieving Financial Closing will be granted. However, on the Sponsors' request, if the Committee, under

the chairmanship of the Secretary, Ministry of Water & Power and comprising representatives of PPIB, WAPDA, KESC, the Planning & Development Division, the concerned Provincial/AJK PPC or SCA (for coal based projects in Sindh), is satisfied that delays are due to factors beyond reasonable control of the Sponsors and the Financial Closing can be achieved shortly, a one-time extension of upto a maximum period of six months will be given against extending the validity period of the Performance Guarantee (by the Sponsors) and increasing the guarantee amount by 100%.

4 PROPOSALS ON RAW SITES

4.1 Submission of Proposals

39. The proposals on raw sites for hydel, indigenous fuel and other renewable resource based projects with capacity above 50 MW, will be submitted to PPIB. Any Sponsor wishing to undertake a project at a raw site, must submit a detailed proposal to PPIB, which proposal must include at least the following information:-

(a) Project name / identification

(b) Project location

(c) Proposed capacity and plant factor

(d) Basic outline of structures and plant

(e) Summary programme indicating specific milestones and completion date of the feasibility study

(f) Pre-qualification details as required under Section 3.2 here above for the proposed Sponsors

(g) Previous history of the project / proposal, etc.

40. Proposals on raw sites will be examined by a Committee under the Secretary, Ministry of Water & Power, comprising representatives of PPIB, WAPDA, KESC, the Planning & Development Division, and the concerned Provincial/AJK PPC or SCA (for coal-based projects in Sindh). Proposals approved by the Committee will be further processed by PPIB for issuance of the LOI.

4.2 Letter of Interest

41. Sponsors of approved proposals will be issued their LOIs by PPIB, provided they post, in each case, in favour of PPIB, a bank guarantee of the value of US$ 1000 per MW

valid for a period not less than six months in excess of the then validity of the LOI. Initial validity of the LOI will be between 12-24 months, and will depend on the size of the project. In case the Panel of Experts (POE) is satisfied that the Sponsor's progress during conduct of the feasibility study is satisfactory and the feasibility study is likely to be completed shortly, a one-time extension may be granted by the Committee upto a maximum period of 180 days. Submission of a bank guarantee in double the original amount and valid beyond six months of the extended LOI period will be mandatory to qualify for extension in validity of the LOI.

42. The LOI will require the Sponsors to carry out a complete feasibility study to be monitored by a POE appointed by the PPIB. The Sponsors will have to meet the standards and milestones stipulated in the LOI. If the POE confirms that the Sponsors have failed to meet the relevant milestones/standards, PPIB will terminate the LOI and encash the bank guarantee. The Sponsors will have no claim for compensation against the GOP or Provincial/ AJK Governments and / or any of the GOP / Provincial / AJK agencies in such case.

43. On completion, the feasibility study will be reviewed by the POE. If the feasibility study is approved, the Sponsors will be allowed to negotiate, within three months, a tariff with the power purchaser.

4.3 Negotiations on Tariff

44. PPIB will be notified by the power purchaser, in case of successful tariff negotiations between the power purchaser and the Sponsors. The Sponsors will file the application with NEPRA for tariff approval. After NEPRA approval, PPIB will issue the LOS against delivery of the Performance Guarantee of the value of US$ 5000 per MW in favor of PPIB, valid upto three months beyond the Financial Closing date specified in the LOS.

4.4 Participation in Bidding

45. In case negotiations on tariff between the power purchaser and Sponsors of the feasibility study are not successful, or the three months negotiation period lapses, the project will be processed as a solicited proposal in accordance with Section 3 hereabove, except that the Sponsors who have conducted the feasibility study on the raw site, will be allowed to participate in the bid without submission of a bid bond and, if approved by PPIB, will be given a chance to undertake the project at the lowest tariff offered during the bidding process.

On their refusal, however, PPIB will appoint an independent auditor, and the successful bidder will reimburse the reasonable and independently audited cost of the feasibility study to the initial Sponsors before obtaining the LOS.

4.5 Schedule

46. The proposals received for projects above 50 MW capacity in the manner stated above, or through advertisement of raw sites by the PPIB, would follow the typical schedule here below:-

S.No	Activity	Typical Time Allowed (days)
(a)	Submission of proposal on raw site by the Sponsors	---
(b)	Review of proposal on raw site by a Committee under the Secretary, Ministry of Water & Power, comprising representatives of PPIB, WAPDA, KESC, the Planning & Development Division, the concerned Provincial/AJK PPC or SCA (for coal-based projects in Sindh)	60
(c)	Posting of bank guarantee by Sponsors @ US$ 1000 per MW in favour of PPIB	30
(d)	Issuance of the LOI by PPIB	30
(e)	Initial time allowed to carry-out feasibility study/Term of the LOI[1]	12-24 months, on case-to-case basis
(f)	Tariff negotiations between Sponsors and power purchaser	90
(g)	NEPRA's approval of tariff	180
(h)	Submission to PPIB of approved tariff.	15
(i)	Submission of Performance Guarantee @ US$ 5000/MW by Sponsors in favor of PPIB, if tariff is approved	30
(j)	Issuance of the LOS by PPIB	30

[1] In case Sponsors seek extension and their performance is satisfactory, the Committe e may allow extension upto a maximum period of 180 days for completing the feasibility study subject to extension of the bank guarantees and increasing the guarantee amount by 100%, i.e. @ US$ 2000/ - per MW.

5 THE IMPLEMENTATION PROCESS

5.1 Fee Structure

47. Fees are to be paid by Sponsors/project companies in US Dollars to PPIB/Provinces/AJK. All fees are subject to revision from time to time.

	Fee US$	Remarks
(a) Registration	100	PPIB will provide policy brochures upon registration
b) Pre-qualification Purchase of pre-qualification documents	1,000	
(c)Bidding (i) Purchase of the RFP (ii) Evaluation 0-5 MW 6-20 MW 21-50 MW 51 - 100 MW 101-400 MW 401-600 MW Above 600 MW	 2,000 1,000 10,000 15,000 20,000 30,000 50,000 75,000	The RFP by pre-qualified bidders shall also include the feasibility study where relevant standard, IA, PPA, FSA, GSA, CSA WUL/ WUA etc. as applicable.
(d) Legal fees	To be paid by Sponsors --- for negotiations or review of other legal matters on the basis of actual expenses plus 20% as ancillary charges. Suitable cap to this expense, however, will be suggested in the RFP	

5.2 Bid Bond, Letter of Support and Performance Guarantee

48. A bid bond of US$ 1000 per MW will be submitted by each bidder at the time of submission of bids. After selection of the successful bidder, the bid bonds of all bidders other than the Sponsors of the successful bid will be returned, and the successful bidder will be required to post a Performance Guarantee of US$ 5000 per MW (in favour of the PPIB) valid initially for a period of three months in excess of validity of the LOS. After submission of the PG by the successful bidder, the bid bond will be returned. The Performance Guarantee will secure the successful bidder's obligation to execute the IA, PPA and other relevant agreements and achieve Financial Closing within the specified time period.

49. The LOS will normally be issued to the successful bidder for a period of 15 --- 18 months (to be specified in the RFP), by which date the sponsors/project company must achieve Financial Closing for the project (as defined in the LOS). The Performance Guarantee shall be in the form of an irrevocable direct-pay letter of credit issued by an internationally recognized bank acceptable to the GOP in favour of PPIB. The Performance Guarantee must always remain valid for a period not less than three months in excess of the then-prevailing Financial Closing deadline.

50. The Sponsors will have an option to terminate the LOS and any of the project agreements executed at any time before the required date for Financial Closing as per terms and conditions of LOS. The 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 issuance of the LOS (rounded up to the next whole number) divided by the total number of months allowed in the LOS to achieve Financial Closing.

51. The Performance Guarantee will be encashable on call by PPIB. Neither the Sponsors nor the project company shall have any claims against the GOP or any of its Components/ Organizations/ Provinces/ institutions on any ground(s) whatsoever. Until Financial Closing, the LOS will govern the project and supersede all documents and agreements; thereafter the security agreements will supersede the LOS. If the LOS expires, the IA, PPA and WUL/GSA/FSA/CSA and all other agreements with any governmental entity, will automatically terminate.

5.3 Project Implementation

52. 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 the power purchaser will require the successful bidder to submit periodic progress reports regarding the status of contractual obligations, consents, financial and physical progress reports and a summary table showing progress towards achievement of such milestones. Delays in achieving Financial Closing due to events beyond control of the Sponsors/project company will be accommodated through a day-to-day extension allowed under the IA. Similarly, delays in achieving the Commercial Operations Date (as defined in the PPA) of the power complex, will incur liquidated damages as specified in the PPA. Equitable compensations against parties concerned may be specified in the IA/PPA for not meeting specified milestones under the security agreements.

6 TARIFFS

6.1 Point of Delivery

53. The power tariff payable under the PPA will be quoted at the point of delivery indicated in the RFP. The delivery point will either be the bus bar of the power plant or a specific location on the grid of the power purchaser, depending upon one of the following options specified in the RFP:

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

(b) The transmission line from the power complex to the grid will be built by the company and transferred to the power purchaser, who will then own and operate the transmission line. In this case, the power tariff will be the bid and paid for energy and net capacity delivered at the out-going bus bar of the power plant. The Sponsors will build in the cost of the transmission line in their tariff quote.

(c) The transmission line from the power complex to the grid will be built by the power purchaser and the Sponsors jointly and will then be transferred to the power purchaser, who will then own and operate the transmission line. In this case, the power tariff will be the bid and paid for energy and net capacity delivered at the out-going bus bar of the power plant. Details of cost sharing will be delineated in the RFP.

(d) Any other arrangement different from the above.

6.2 Fuel Cost

54. For projects requiring substantial investment in dedicated production and/or transportation facilities for indigenous fuel, expenses would be accounted for in the power tariff in the form of capacity and energy charges.

6.3 Tariff Structure

6.3.1 Currency of Tariff

55. The tariff will be denominated in Pakistan Rupees.

6.3.2 Capacity and Energy Components

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

57. The RFP may specify a maximum percentage of the overall tariff for the capacity component. The CPP in case of hydel projects, which traditionally have a relatively low EPP, will be approximately 60% to 66% and the EPP will be approximately 40% to 34% of the levelized tariff.

58. The CPP will be expressed in Rs/kW/month; the EPP in Rs/kWh.

59. The CPP will be paid provided the plant is available for despatch to standards defined in the PPA. The EPP will be paid based upon the amount of kWh of energy despatched.

60. In order to ensure sustained interest of the Sponsor during the entire life of the project, the sum of EPP and non-debt related CPP (computed on a kWh basis at the reference plant factor specified in the RFP) will remain constant or increase over time. The debt-related CPP stream may match the loan repayment stream.

6.3.3 Water Use and Fuel Charges

61. The EPP will include the Water Use Charge as explained in Section 10.2 hereof.

62. The EPP for thermal projects will consist of fuel component based on fuel price and variable operation & maintenance charges as stated in the RFP or quoted by the bidder as explained in Section 11.3 hereof.

6.3.4 Exchange Rate Variations

63. Bidders may include separate components in the CPP and the EPP which are subject to adjustment only for variations in the exchange rate between the Pakistan Rupee and US Dollar, between the reference date and the date of payment.

64. The reference rate for foreign exchange shall be the National Bank of Pakistan (NBP) TT&OD selling rate of the US Dollar prevailing thirty (30) days before the required date of bid submission. The specific reference date will be stated in the RFP.

65. Adjustment for exchange rate fluctuations will be effected quarterly. Exchange rate fluctuations in excess of 5% during any month will be allowed.

6.3.5 Escalation

66. Escalation for dollar components to cover dollar inflation will not be provided. However, bidders may include components in the EPP and CPP, which are escalable for Pakistan Rupee inflation. Such Pakistan Rupee escalation will be effected from the bid submission date by the Pakistan Wholesale Price Index (WPI) for 'manufacturing' as notified by the GOP's Federal Bureau of Statistics (FBS). The reference value of the WPI for 'manufacturing' will be the most recent value notified (not less than thirty (30) days before the date of submission of the bid) unless notified otherwise in the RFP. The RFP will specify the actual date for this reference value of WPI for 'manufacturing'.

67. The basis for escalation of the Water Use Charge will also be the WPI for 'manufacturing' using the same reference date.

68. Escalation will be effected quarterly except water use charges.

6.4 Yearly Profile of Tariff

69. All Sponsors would be required to submit yearly tariff profiles in real terms at the time of bidding.

7 FINANCIAL AND FISCAL REGIME

7.1 Financial Regime

70. This policy offers the following set of financial incentives:-

(a) Permission for power generation companies to issue corporate registered bonds.

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

(c) Permission for foreign banks to underwrite the issue of shares and bonds by the private power companies to the extent allowed under the laws of Pakistan.

(d) Non-residents are allowed to purchase securities issued by Pakistani companies without the State Bank of Pakistan's permissions and subject to the prescribed rules and regulations.

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

(f) Independent rating agencies are operating in Pakistan to facilitate investors in making informed decisions about the risk and profitability of the project company's Bonds/TFCs.

7.2 Fiscal Regime

71. This policy offers the following set of fiscal incentives:-

(a) Customs duty at the rate of 5% on the import of plant and equipment not manufactured locally.

(b) No levy of sales tax on such plant, machinery and equipment, as the same will be used in production of taxable electricity.

(c) Exemption is already available from income tax including turnover rate tax and withholding tax on imports; provided that no exemption of income tax on oil-fired power plants.

(d) Repatriation of equity along with dividends is freely allowed, subject to the prescribed rules and regulations.

(e) Parties may raise local and foreign finance in accordance with regulations applicable to industry in general. GOP approval may be required in accordance with such regulations.

(f) Maximum indigenization shall be promoted in accordance with GOP policy.

Non-Muslims and Non-residents shall be exempted from payment of Zakat on dividends paid by the company.

72. The above incentives will be equally applicable to private, public-private and public sector projects.

8 SECURITY PACKAGE

73. The security package for projects above 50 MW, provides the following salient features:-

(a) Model IA, PPA, FSA, GSA, CSA and WUL (as applicable), have been prepared for private/public-private partnership power projects to eliminate the need for protected negotiations.

(b) The GOP will:

(i) Guarantee the contractual obligations of its entities, namely WAPDA/KESC, etc. and Provincial/AJK governments, even though some or all of the utilities may be privatized during the term of various agreements.

(ii) Provide protection against specified "political" risks.

(iii) Provide protection against changes in the taxes and duties regime.

(iv) Ensure convertibility of Pakistan 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 servicing and payment of dividends. Tariff components, however, will be adjusted and indexed in accordance with this Policy, against exchange rate variation, inflation, etc.

9. THE ENVIRONMENT

74. All requirements of the Pakistan Environmental Protection Agency (PEPA) Act 1997, *interalia*, relating to environmental protection, environmental impact and social soundness assessment, shall have to be met.

10 SPECIFIC PROVISIONS FOR HYDEL PROJECTS

10.1 Despatch

75. The load despatch center shall despatch plants in accordance with the most economical despatch criteria (without any bias), which will be on the basis of the 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.

10.2 Water Use Charge

76. The Water Use Charge will be paid by the Generation Company to the Provincial /AJK Government for use of water by the power project to generate electricity. The Water Use Charge per kWh will be fixed at the rate of Rs.0.15/kWh. The water use charge shall be adjustable annually for inflation as per para 66.

10.3 Feasibility Studies

77. The feasibility studies will identify basic parameters of the project, such as, for hydel projects, the hydrological characteristics of the site, geological conditions, optimum net capacity, estimated annual plant factor, monthly profile of energy potential, transmission line requirements, identification of power delivery point, interconnection voltage, etc.

78. While feasibility studies will be carried out in accordance with internationally acceptable standards, the GOP will not guarantee their content or conclusions. The 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 additional studies and investigations to make its own assessment about the feasibility and viability of the project, as part of its due diligence.

79. A fund will be created to carry out internationally fundable feasibility studies, so as to invite competitive bids on solicited proposals. The fund will be administered by PPIB.

10.4 Hydrological Risk

80. The power purchaser will bear the risk of availability of water for hydel projects with capacity above 50 MW, by making fixed monthly CPPs between 60% and 66% of the total levelized tariff to the project company in accordance with the monthly average hydrology. The RFP will specify arrangements required to monitor and record water flows.

81. Sponsors will be asked to quote their plant's 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 flows, the project company will be liable 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 monitoring plant performance. For seasonal storage projects, a reservoir will be operated as per the directives of Indus River System Authority (IRSA), specific details whereof will be provided in the RFP.

11 SPECIFIC PROVISIONS FOR THERMAL PROJECTS

11.1 Despatch

82. The load despatch center will despatch plants in accordance with the most economical despatch criteria (without any bias), on the basis of the lowest energy cost component, transmission line losses, system stability and reliability, and other economic considerations.

11.2 Indigenous Fuels

83. The RFP for an indigenous coal-fired project with capacity above 50 MW will be for an integrated coal mining and or power generation complex. The RFP for indigenous gas-fired projects will either be for integrated or stand-alone power generation complexes. The feasibility study will identify the 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 development of the identified project. While feasibility studies will be carried out in accordance with internationally acceptable standards, the GOP will not guarantee their content 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 their own cost.

11.3 Thermal Projects other than Indigenous Fuel

84. For thermal projects with capacity above 50 MW based on other than indigenous fuels, solicitation will be made on raw sites. 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 etc. For choice of fuel, the RFP will specify one or more of the following options:

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

(b) The GOP may specify the price of a fuel, guarantee its availability in the RFP, specify an index, and ask the bidders to design and construct their power plant to use that fuel.

(c) The same as (b), with the bidders given the added option of offering any other fuel of their own choice and selecting one of the index/indexation mechanisms specified in the RFP.

12 PUBLIC – PRIVATE PARTNERSHIP

85. The GOP encourages establishment of power projects in public-private partnership. In line with the objectives set forth in Section 1.2 hereabove, the incentives/concessions available to private power projects will also be available to projects implemented under public-private partnership.

13 PROVISIONS FOR OTHER PROJECTS

13.1 Small Power Plants upto 50 MW Capacity

86. Small power plants of upto 50 MW capacity will be implemented through a one-window facility available at the provincial/AJK level. Provinces will be allowed to develop projects upto 50 MW under this policy or their own. The fiscal and financial incentives/ concessions outlined above will also be available to these projects.

13.2 Small Power Plants Intended to Serve Isolated Areas (Unlikely to be Connected to National Grid)

87. For small power plants intending to serve locations not connected or not likely to be connected to the national grid in the foreseeable future, the Provinces/AJK and respective agencies in these areas will not be required to follow this policy strictly.

13.3 Projects under Previous Policies

88. The projects approved under previous policy will be governed by the terms and conditions stipulated therein.

The Generation Expansion Plan contains a list of three sets of projects i.e.

a) **Short Term Plan**
b) **Medium Term Plan**
c) **Long Term Plan**

Inclusion of such projects in each respective set signifies the tentative commissioning dates to correspond to the three time frames i.e. Short Term, Medium Term and Long Term. Since each project has a different gestation period, efforts need to be initiated in a time frame commensurate with the expected commissioning date.

Note.
The private sector may select projects of their own and in such case is allowed to submit proposals in light with Section 4 of the Policy.

Short Term Plan (5 Years)

Name of Project	**Installed Capacity (MW)**	**Commissioning Date**
Jinnah (Indus), Punjab	96	Dec. 2005
Malakand-III , NWFP	81	Dec. 2005
Upper Jhelum Canal/New Bong Escape, AJK	74	Dec. 2005
Golan Gol , NWFP	106	June. 2006
Allai Khawar ,NWFP	121	June. 2006
Khan Khawar ,NWFP	72	June. 2006
Duber Khwar, NWFP	130	June. 2006
Mathin Kot, Punjab	100	June. 2007
Pehur High Level Canal, NWFP	12	Dec. 2004
Total (Short Term Plan)	**792**	

Medium Term Plan (15 Years)

Hydel

Name of Project	Installed Capacity (MW)	Commissioning Date
Matiltan, NWFP	84	To be ascertained by the Government of NWFP.
Summar Gah, NWFP	28	Dec. 2020
Swat Scheme A1, NWFP	105	2020
Swat Scheme B1, NWFP	429	2020
Rajdhani, AJK	86	2007
Neelum Jhelum, AJK	969	June 2010
Kalabagh	2400	Postponed until consensus is reached among all concerned.
Chakothi, AJK	139	June 2010
Raised Mangla, AJK	180	Dec. 2006
Thal Reservoir (CJ Link), Punjab	52	June 2007
Doyian ,NA	425	June 2015
Kohala (Jhelum), AJK	740	June 2010
Gulpur (Punch), AJK	60	Dec. 2007
Gomal, NWFP	130	Dec. 2006
Kurm Tungi, NWFP	58	Dec. 2007
Abbasian (Jhelum), AJK	245	Dec. 2010
Sub Total:	**6,130**	

Coal

Thar Coal 1, Sindh	600	Dec. 2015
Extension of Lakhra Project, Sindh	150	Dec. 2015
Sub Total:	**750**	

Gas

Bhikki Combined Cycle – 1, Punjab	630	Dec. 2010
Bhikki Combined Cycle – 2, Punjab	630	Dec. 2010
Dadu Combined Cycle, Sindh	600	Dec. 2010
Korangi Thermal Power Station (KESC), Sindh	360	Dec. 2006
West Wharf, Sindh	400	Dec. 2006
Sub Total:	**2,620**	

Nuclear

Chashma II, Punjab	600	Dec. 2009

Renewable (Miscellaneous)

Renewable (miscellaneous)	500	
Total (Medium Term Plan):	**10,600**	

Long Term Plan (5Years)

H y d e l

Name of Project	Installed Capacity (MW)	Commissioning Date
Harighel, AJK	53	Dec.2020
Kotli, AJK	97	Dec.2020
Munda Dam, NWFP	600	Dec.2015
Suki Kinari, NWFP	652	Dec.2015
Karrang, NWFP	454	Dec.2020
Tarbela 15-16, NWFP	960	Dec. 2008
Spath Gah, NWFP	851	Dec.2015
Basha, NA	3600	Dec.2012
Phandar, NA	87	Dec. 2015
Dasu (Indus), NA	2712	Dec. 2015
Patan (Indus), NA	1172	Dec. 2015
Thakot (Indus)	1043	Dec. 2015
Bungi (Indus), NA	1500	Dec. 2015
Naran (Kunhar), NWFP	219	Dec. 2015
Chor Nallah	1500	Dec. 2020
Patrind (Kunhar), NWFP	133	Dec.2015
Sub Total:	**15,633**	

C o a l

Thar Coal 2 & 3, Sindh	1200		
Thar Coal 4 & 5, Sindh	1200		
Thar Coal 5 & 6, Sindh	1200		
Sub Total:	**3,600**		

G a s

Ghakhar C.T 1 – 2	400	
Bhikki Combined Cycle – 3, Punjab	630	
Ghakhar C.T – 3	200	
Bhikki Combined Cycle – 4	630	
Ghakhar C.T – 4	200	
Sub Total:	**2,060**	

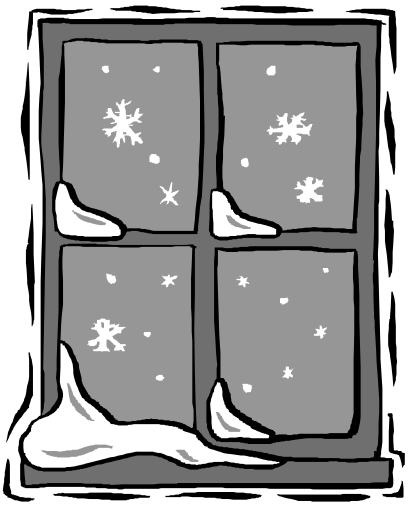
N u c l e a r

Chashma II & KANUPP II (Punjab & Sindh)	1200	

Renewables (Miscellaneous)

Renewables (Miscellaneous)	1000		
Total (Long Term Plan):	**23,493**		

GRAND TOTAL : 34,885



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