



National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-299/PQEPCPL-2015/2922-2924
February 23, 2018

Subject: **APPROVAL OF THE AUTHORITY IN THE MATTER OF
CONFIRMATION OF THE O&M CONTRACT FOR COAL
UNLOADING JETTY OF PORT QASIM COAL-FIRED POWER
PROJECT [CASE NO. NEPRA/TRF-299/PQEPCPL-2015]**

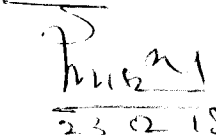
Dear Sir,

Please find enclosed herewith the subject Approval of the Authority (11 pages) in Case No. NEPRA/TRF-299/PQEPCPL-2015.

2. The Decision is being intimated to the Federal Government for the purpose of notification of the approved tariff in the official gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997).

3. Please note that Order of the Authority needs to be notified in the official Gazette.

Enclosure: As above


23 02 18
(Syed Safeer Hussain)

Secretary
Ministry of Energy
(Power Division)
'A' Block, Pak Secretariat
Islamabad

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.

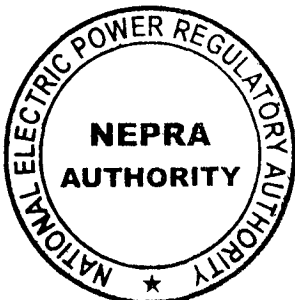
**DECISION OF THE AUTHORITY IN THE MATTER OF CONFIRMATION OF THE O&M
CONTRACT FOR COAL UNLOADING JETTY OF PORT QASIM COAL-FIRED POWER
PROJECT**

BACKGROUND

1. Port Qasim Electric Power Company Limited (hereinafter referred to as "PQEPCL" or the "Company") has set-up a 2x660 MW imported coal based power complex in Port Qasim, Karachi with a dedicated coal unloading Jetty. The Authority vide its decision dated February 13, 2015, approved upfront tariff on imported coal based on foreign financing in favour of PQEPCL. The Authority vide its decision dated December 29, 2016 also accorded approval of the capital cost of US\$ 226.121 million for the construction of the dedicated coal unloading jetty.
2. According to Para 49 of the Decision of the Authority dated June 26, 2014, in the matter of Upfront Coal Tariff, "the jetty cost including its O&M cost will be subject to adjustment on the basis of verifiable documentary evidence. The Authority expects that before requesting an adjustment in jetty cost, the Petitioner will have to thoroughly investigate into the possibilities of changing the design of jetty in a way that least cost and reliable coal offloading facility is arrived through transparent competitive process while taking onboard the PPIB, Pakistan Navy, Pakistan Coast Guard, Ministry of Ports and Shipping and clearance from all relevant departments."
3. PQEPCL vide letter No. PQEPC/NEPRA/2017-15, dated August 3, 2017, requested for approval of the O&M cost of the jetty. According to PQEPCL, in order to ensure the timely mobilization and smooth operation & maintenance of the jetty, the Company has conducted an international competitive open tendering for the selection of the O&M contractor. PQEPCL has provided, along with its request, the Bidding Document (RFP), Tender Documents from the Bidders, Bid Evaluation Report, Jetty O&M Contract and PPIB's NOC to Jetty O&M contractor.

SCOPE OF O&M CONTRACT

4. The scope of the O&M Contract, as prescribed in the Bidding Documents, is reproduced hereunder:
 - a) Formulate mobilization plan and implement mobilization work.
 - b) Establish safety, environmental protection, occupational health and hygiene management system, and carry out the relevant work with safety, environmental protection, occupational health and hygiene and the management work.
 - c) Establish production dispatching system at the jetty, and implement operation work and management work of the jetty.

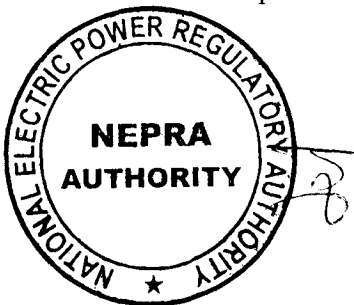


- d) Establish equipment and facilities maintenance system at the jetty, make maintenance and overhaul plan, and implement maintenance and management work for equipment and facilities at the whole jetty.
- e) Expect production and household electricity procurement, purchase tools, materials, and spare parts required for operation, maintenance, overhaul work and the relevant management work.
- f) Complete cooperation with Port Qasim Authority (PQA) and power station operator.
- g) Other relevant works.

BIDDING PROCESS

5. The bidding process carried out by the Company for the selection of the O&M Contractor is summarized hereunder:

- (a) The Company issued the Invitation for Bids in the Dawn, major newspaper published in Pakistan and the China Daily, newspaper published globally, as well as the website of Power China Group, from August 26, 2016 to August 30, 2016.
- (b) The qualification requirements for bidders as prescribed under Bidding Document are as under:
 - i) Contents relevant to cargo handling and storage or development and management or operation of jetty or port are included in the scope of the bidder's business license.
 - ii) The bidder's average annual turnover of the last consecutive three financial years is atleast equal to or exceeds USD 50 million.
- (c) The following four companies purchased the bidding documents and submitted the bids within the prescribed deadline;
 - Taicang Wugang Terminal Co., Ltd.,
 - Zhoushan Port Co., Ltd.,
 - Sinohydro Harbour Co., Ltd.
 - Premier Mercantile Services (Pvt) Ltd.
- (d) According to PQEPCL, the tender was opened at Room 1409, Building B, No 22, Chegongzhuang West Road, Haidian District, Beijing, the headquarter of Powerchina Resources Ltd. at 9:30 am on October 18, 2016, Beijing Time. The bids were opened in the presence of the Authorized representatives of all bidders, the tenderee representatives and the officers of the Auditing & Supervising Department of



PowerChina Resources Limited.

TENDER EVALUATION

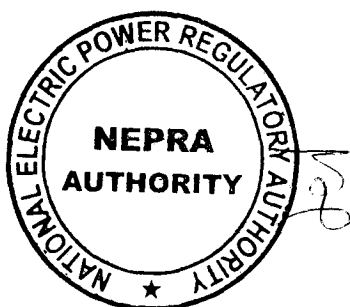
6. According to the Bid Evaluation Report, evaluation of bids was conducted at Beijing Ziyu Hotel from October 19, to October 21. The bid evaluation workgroups including technology, commercial, qualification examination and meeting affairs signed the Integrity Commitment under the supervision of the supervisory official, and started the bid evaluation in accordance with the requirements of bidding management.
7. Regarding qualification examinations, the average annual turnover of all the bidders except Premier Mercantile were in compliance with the requirements of the bidding document.
8. Regarding Technical Evaluation, the technology workgroup compared comprehensively in the aspects of the organization, experience, qualification, operation & maintenance plan, HSE management plan, mobilization plan, handover plan, in the Bidding Documents and the Technical Clarifications submitted by the bidders, and awarded the following technical scores to all bidders in accordance with the provisions of the tendering documents:

Technical Evaluation Result				
Company Item	Zhoushan Port Co., Ltd.	Taicang Wugang Terminal Co., Ltd.	Sinohydro Harbour Co., Ltd.	Premier Mercantile Services (Pvt) Ltd.
Technical score	84.55	77.8	90.25	80.45

9. According to PQEPCL, the following bid prices were quoted by the bidders for mobilization fee and operation & maintenance cost for 5 years:

Mobilization expenses (USD)				
Company Item	Zhoushan Port Co., Ltd.	Taicang Wugang Terminal Co., Ltd.	Sinohydro Harbour Co., Ltd.	Premier Mercantile Services (Pvt) Ltd.
Price (sales tax inclusive)	4,777,225	5,274,246	4,028,731	15,884,402
Operation & maintenance expenses for five years (USD)				
Price (sales tax inclusive)	38,811,932	45,049,141	29,694,005	110,426,412
Annual average O&M expenses	7,762,386	9,009,828	5,938,801	22,085,282

10. The commercial workgroup of the bid evaluation board awarded the following scores to the bidders in accordance with the commercial bid evaluation method specified in the bidding documents.




Commercial Evaluation Result				
Company Item	Zhoushan Port Co., Ltd.	Taicang Wugang Terminal Co., Ltd.	Sinohydro Harbour Co., Ltd.	Premier Mercantile Services (Pvt) Ltd.
Commercial score	79.86	70.73	97.58	62.82

11. Comprehensive scores of all bidders after grading by the experts of both technology group and commercial group are as under:

Tender Evaluation Result				
Company Item	Zhoushan Port Co., Ltd.	Taicang Wugang Terminal Co., Ltd.	Sinohydro Harbour Co., Ltd.	Premier Mercantile Services (Pvt) Ltd.
Technical score	84.55	77.8	90.25	80.45
Commercial score	79.86	70.73	97.58	62.82
Final score (40% for technology; 60% for commercial)	81.74	73.56	94.65	69.87
Rank	2	3	1	4

12. According to Bid Evaluation Report, based on the tender evaluation result, Sinohydro Harbour Co., Ltd. (hereinafter referred to as the "Contractor") was recommended to be the successful bidder for O&M of coal unloading jetty of Port Qasim Coal-Fired Power Project.

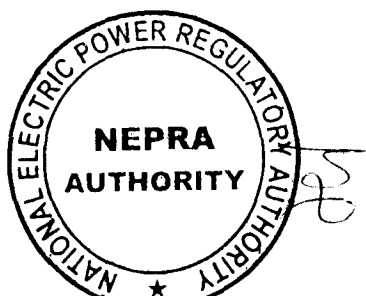
NO OBJECTION CERTIFICATE

13. Government of Pakistan (GOP)/ Private Power Infrastructure Board (PPIB) vide letter dated December 19, 2016, granted No Objection to the Company pursuant to Section 6.2(d) of the Implementation Agreement dated April 18, 2014 (IA) in relation to appointment of Sinohydro Harbour Co. Ltd. incorporated in China as the O&M Contractor for the coal unloading jetty with the condition that no objection shall not:

- increase or affect GOP obligations or liabilities under the IA and the Power Purchase Agreement (PPA)
- relieve the Company of its obligations under the IA or PPA
- waive or vary any requirements under the applicable Laws of Pakistan
- be construed as an approval of the O&M Contract/ Agreement.

O&M CONTRACT EXECUTION

14. According to PQEPCPL, after obtaining the No Objection Certificate from the GOP/PPIB,



the Coal Unloading Jetty Operation and Maintenance Service Agreement was executed between the Company and Sinohydro Harbour Co., Ltd., on April 28, 2017, for a term of five years. The Company and the Contractor agreed that one year prior to the expiration of the 5-year term, the parties will negotiate in good faith with respect to 5-year extension to this Agreement on terms to be mutually agreed by the parties. According to the Company, the finalized contract price is as under:

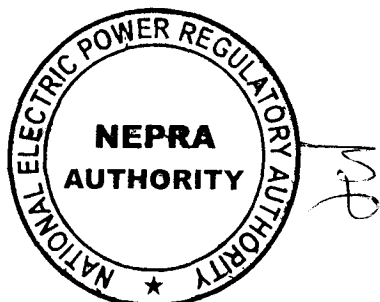
Description	Without Sindh Sales Tax	Sindh Sales Tax @13%	With Sindh Sales Tax
	US\$ Million	US\$ Million	US\$ Million
Mobilization Fee	3,700,918	481,119	4,182,037
O&M Cost for 5 years	27,277,880	3,546,124	30,824,004
O&M Cost Annual	5,455,576	709,225	6,164,801

15. According to the O&M Agreement, the breakup of the 5-year O&M price is as under:

No.	Description	Unit	1 st year	2 nd year	3 rd year	4 th year	5 th year	Annual Average	Total
A	Fixed costs								
A1	Labour Cost: – 70	USD	3,694,590	3,170,610	3,224,796	2,804,683	2,804,683	3,139,872	15,699,362
A1.1	Chinese Staff – 40	USD	3,439,980	2,870,039	2,870,039	2,417,675	2,417,675	2,803,082	14,015,408
A1.2	Pakistani Staff – 30	USD	254,610	300,571	354,757	387,008	387,008	336,791	1,683,954
A2	HSE expenses	USD	71,284	71,284	71,284	71,284	71,284	71,284	356,419
A3	Repair & Maintenance Cost	USD	3,419	3,419	550,391	102,557	473,473	226,652	1,133,259
A4	Maint. Cost of facilities	USD	394,090	396,681	495,284	439,439	1,312,740	607,647	3,038,234
A5	Administrative Charges	USD	465,975	440,673	440,673	411,257	411,257	433,967	2,169,836
A6	Guarantee Fee	USD	20,791	16,158	16,158	16,158	16,158	17,084	85,422
A7	Other Expense	USD	830,013	835,869	554,011	655,945	551,807	685,529	3,427,646
A8	Technical Supervision Fee	USD	44,513	44,513	44,513	44,513	44,513	44,513	222,564
	Total Fixed Cost	USD	5,524,675	4,979,207	5,397,110	4,545,835	5,685,915	5,226,549	26,132,742
B	Variable Cost								
B1	Consumables cost	USD/T	0.029	0.029	0.029	0.029	0.029	0.029	0.144
		USD (5 million tons)	144,247	144,247	144,247	144,247	144,247	144,247	721,234
B2	Maintenance Material Cost	USD/T	0.017	0.017	0.017	0.017	0.017	0.017	0.085
		USD (5 million tons)	84,781	84,781	84,781	84,781	84,781	84,781	423,904
	Total Variable Cost	USD (5 million tons)	229,028	229,028	229,028	229,028	229,028	229,028	1,145,138
	Total O&M Fee	USD	5,753,703	5,208,235	5,626,138	4,774,863	5,914,943	5,455,577	27,277,880

BREAKUP AND JUSTIFICATION OF COST

16. During the scrutiny of the O&M Contract, a difference of USD 1 million between the bid



and the O&M Contract price was noticed. The Authority vide letter dated September 15, 2017, directed PQEPCL to justify the difference between the quoted price and the price executed in the Contract. PQEPCL vide letter dated September 25, 2017, clarified that:

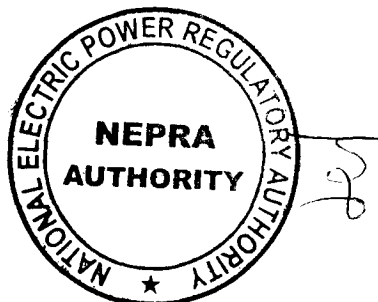
- (1) After a tender is opened and evaluated, there is a process of agreement negotiation with the recommended successful bidder and the final price of agreement might not be the exact amount of the bid price due to some reconfirmation and/or variation of some conditions including work scope ambiguity etc.
- (2) During the agreement negotiation process, an ambiguity of withholding tax on income (the "WHT") in terms of the responsible party for the WHT was observed. In the bidding phase, the Operation & Maintenance Price for five years at the amount of USD 26,277,880 (sales tax exclusive) does not include WHT. And in the quotation table of Sinohydro Harbour Co., Ltd., it clearly states that "withholding tax shall be paid by the Owner".
- (3) In the agreement negotiation phase, the Company and Sinohydro Harbour Co., Limited reached consensus to make it clear in the jetty O&M Service Agreement that "the Operator shall bear all taxes and fees in Pakistan. The Owner shall have the right to withhold any taxes due and payable in accordance with the law", Accordingly, USD 135,669 in mobilization price and USD 1,000,000 in O&M agreement price for 5 years were included on account of withholding tax.

17. However, according to Section 13.3 of the RFP, *"All taxes duty and other levies payable by the Contractor under the Contract, or for any other cause, as of the date 28 days prior to the deadline for submission of bids, shall be included in the rates, prices, and total Bid price submitted by the Bidder."* Later, vide email dated January 8, 2017, PQEPCL submitted Addendum – I dated September 12, 2016. According to the Addendum – I to the RFP, *"the withholding tax is paid by the Tenderer."* The perusal of the tender document submitted by the bidders indicated that none of the bidders included withholding tax in the bid price.

18. PQEPCL was directed to submit the justification and breakup of the requested O&M cost. PQEPCL vide letter dated November 23, 2017, provided the following breakup and justifications of the Fixed O&M fee:

Labour Cost

19. PQEPCL clarified that in order to meet professional standards of electricity industry and to meet the requirements of stable, reliable and continuous operation of the coal unloading jetty, the O&M Contractor has planned and arranged 124 personnel for the first year of operations, instead of the 70 personnel mentioned in the tender documents. The 124 personnel actually hired comprise of 78 Chinese personnel and 46 Pakistani personnel. According to PQEPCL, the O&M Contract has built-in 10% escalation and 15% escalation per year in the Chinese and Pakistani staff costs, respectively.



20. Breakup and responsibility of the Chinese staff, as provided by PQEPCL, is as under:

Chinese Staff	Fixed number of staff	Position Responsibility
Project Manager	1	Responsible for safety production management of jetty and team development, as well as complete each task on production instructed by Employer.
Chief Engineer & Deputy Project Manager	1	Responsible for equipment's management, usage, maintenance, technical transformation and overhaul at the coal jetty.
Chief Security Officer & Deputy Project Manager	1	Responsible for safety production management of jetty.
Administrative Staff	13	Responsible for all department management; contract management, facilities and equipment procurement, accounting, safety inspection, human resource, and daily work
Operational Staff	51	Responsible for operation work
Maintenance Staff	11	To conduct jetty's facilities maintenance work
Total	78	

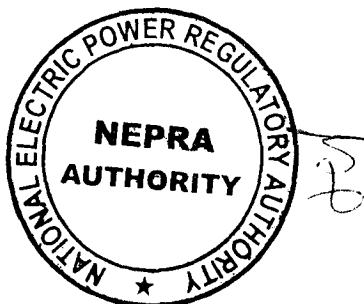
21. Breakup and justification of the Pakistani staff, as provided by PQEPCL, is as under:

Pakistani Staff	Fixed number of staff	Position Responsibility
Administrative Staff	4	To be responsible for the management of Pakistani staff and other affairs
Operational Staff	22	To assist Chinese staff in operation work
Maintenance Staff	4	To assist Chinese maintenance staff in jetty's mechanical and electronic maintenance work
Driver	3	To drive project's vehicles
Labour	13	To perform physical and odd works
Total	46	

22. PQEPCL further clarified that in order to meet professional degree requirement of Jetty management, most Chinese staff included are well-trained and skillful senior executives, senior technicians, operators of special equipment and staff for special operations. According to PQEPCL, they are all expatriated from China to Pakistan, therefore, in order to avoid high turnover of employees, there should be extra appropriate welfare. PQEPCL further clarified that the labor cost also includes insurance, accommodation, travelling expense and other related costs besides salaries.

HSE Expense

23. According to PQEPCL, HSE expense is a mandatory cost as per Chinese laws. It is 1%~1.5% of the Operation fees for the project in occupation health, safety, environmental protection



to ensure safe and civilized operation. This cost is allocated for safety operation's education, training, equipment, warning system, rescue materials and medicines etc.

Maintenance cost of facilities

24. According to PQEPCL, in order to ensure stable operation and extend lifetime of the facilities, maintenance cost is incurred and it includes cleaning, repairing, mending, etc. of jetty's facilities.

Administrative Cost

25. According to PQEPCL, administrative cost is the necessary expense for daily management for smooth running of the Project and it includes cost for visa and documents, office goods, communication cost, vehicle maintenance cost & fuel and other charges.

Guarantee Fee

26. According to the Petitioner this cost pertains to the issuance of necessary project guarantees including advance payment guarantee and performance guarantee.

Other Expense

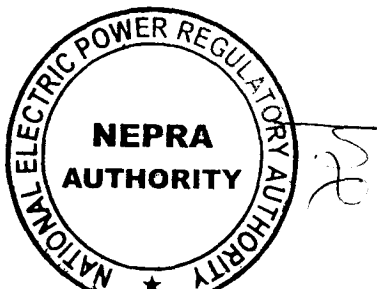
27. According to PQEPCL, these relate to indispensable maintenance work to ensure all the equipment under well conditions and be ready for jetty operation, as well as necessary guarantee for the production. It includes scheduled and non-scheduled maintenance and mandatory insurances for employees and vehicles.

Technical Supervision Fee

28. According to the Petitioner, these relate to tests and supervision activities involving qualified technicians and third-party testing institute, required by the national standard for Jetty operation. The cost includes regular tests, supervision of insulation controls, including test of tools such as insulating gloves and supervision metal structures.

Variable Cost

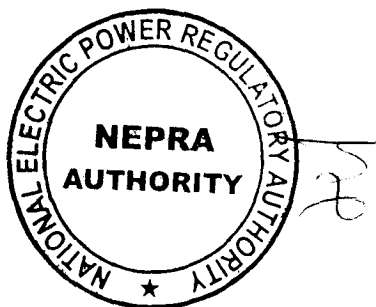
29. Variable cost is divided into consumables cost and maintenance material cost. According to PQEPCL, cost of consumable mainly pertains to fuel oil of vessel cleaning machines while maintenance material cost pertains to ship unloader wire rope's maintenance and replacement.
30. According to Schedule 3, Sections 1.6 and 2.4.2(4) of the executed O&M Contract, "payment shall be executed 90% in USD and 10% in local currency. The exchange rate shall be that of the last day of each quarter as published by the National Bank of Pakistan."
31. PQEPCL clarified that most of the labor cost, cost of spare parts, consumables, machinery and other relevant materials shall be purchase from China or other countries and the total



portion of expenses incurred outside of Pakistan account for 90% of the contract amount exclusive of taxes.

DECISION OF THE AUTHORITY

32. Pursuant to the para 49 of decision of the Authority dated June 26, 2014, and in pursuance of para 106 of the decision on the Review Motion dated November 21, 2014, any project opting to build a dedicated jetty was required to ensure transparency and competitiveness of its O&M bidding process. In view of that, PQEPCL submitted its request for confirmation of the Port Qasim Coal-fired Power Project Coal Unloading Jetty Operations & Maintenance Service Agreement.
33. In this regard, the Authority noted that the Invitation for Bids was published in a widely circulated Pakistani daily DAWN and internationally circulated China Daily as well. In order to further increase participation of potential international bidders, the Company also made the Invitation for Bids available on the website of Powerchina Resources Limited. Out of the four bids received, Premier Mercantile is registered and incorporated under the laws of Pakistan while the rest of the companies are Chinese.
34. The scope of the O&M work for the coal unloading jetty and a detailed evaluation criteria were also made part of the RFP. The detailed evaluation criteria was divided into two stages: technical evaluation and commercial evaluation. On the basis of 40% technical score and 60% commercial score, overall evaluation was conducted and Sinohydro was ranked the 1st bidder. Further, none of the bidders filed any adverse comments regarding the bidding process carried out for the selection of the O&M Contractor for the coal unloading jetty.
35. The Authority considered that as per the requirements of the Implementation Agreement (IA), PQEPCL has fulfilled the requirement of obtaining an NOC from the GOP/ PPIB for the appointment of the coal unloading jetty.
36. The Authority also considered that the requested O&M cost is comparable with the benchmark jetty O&M approved as a minimum ceiling in the case of a similar project. Accordingly, the Authority has decided to approve the jetty O&M Contract cost of USD 26,277,880 for five years. The average annual O&M cost is USD 5,255,576, comprising of USD 5,026,548 for fixed O&M cost and USD 229,028 for variable O&M cost.
37. Regarding withholding tax, the Authority has decided that the actual withholding tax, non-refundable in nature, shall be pass-through item with maximum of USD 200,000 for each year. PQEPCL shall submit verifiable documentary evidence for the reimbursement of withholding tax.
38. Regarding Mobilization fee, the Authority considers that this cost item is part of Non EPC cost and sufficient amount has been provided under the CAPEX cost in the upfront tariff to cater for such type of costs. It would be pertinent to mention that Mobilization fee requested by a similar project for O&M of jetty was disallowed by the Authority.



Accordingly, the Authority has decided not to consider mobilization fee while approving the O&M cost in the instant case.

39. Regarding 90% foreign portion of the requested cost, it is evident from the cost breakup that the O&M cost in the 1st year is higher than the O&M Cost in the subsequent years. Majority of the cost pertains to Chinese staff which is declining over the years. It is expected that with the passage of time, local cost component shall increase. Therefore, the Authority has decided that in line with the upfront coal tariff, 60% of the variable O&M and 50% of the fixed O&M shall be foreign. Accordingly, the PKR/ USD exchange rate variations shall be applicable for 60% of the variable O&M and 50% of the fixed O&M. Further, as agreed in the O&M Contract, no adjustment due to variation in CPI shall be applicable on local/ foreign O&M components.

40. On the basis of the above decision of the Authority, the tariff components for jetty O&M shall be as under:

Component	Tariff	Indexation
Fixed O&M Jetty (Rs./kW/h)	0.0459	50% for variation in Rs./US\$
Variable O&M Jetty (Rs./kWh)	0.0021	60% for variation in Rs./US\$

**for calculation of variable O&M upper limit of designed coal of LHV 4,700 kCal/Kg. has been used.*

***Reference exchange rate is Rs. 97.1/US\$*

ORDER

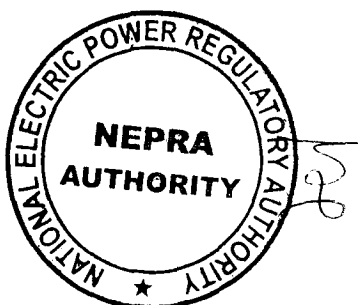
41. The Authority hereby approves the following tariff for operation & maintenance of coal unloading jetty for Port Qasim Electric Power Company Limited (PQEPCL) along-with the below mentioned terms and conditions. This Order of the Authority may be read with the decision of the Authority in the matter of approval of upfront tariff to PQEPCL dated February 13, 2015 and decision of the Authority dated December 12, 2016, in the matter of request for confirmation of EPC Contract & Management Consultancy (Supervision) Services Contract for PQEPCL.

Component	Tariff	Indexation
Fixed O&M Jetty (Rs./kW/h)	0.0459	50% for variation in Rs./US\$
Variable O&M Jetty (Rs./kWh)	0.0021	60% for variation in Rs./US\$

**for calculation of variable O&M upper limit of designed coal of LHV 4,700 kCal/Kg. has been used.*

42. TERMS AND CONDITIONS:


- Provincial sales tax fall within the definition of input tax and shall be adjusted against the output tax in accordance with the Sales Tax Act.
- In-line with the O&M indexation allowed for the power plant, 60% of the variable O&M and 50% of fixed O&M shall be considered foreign.

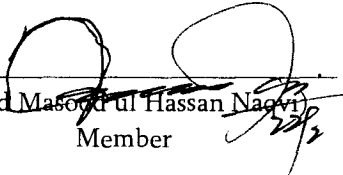


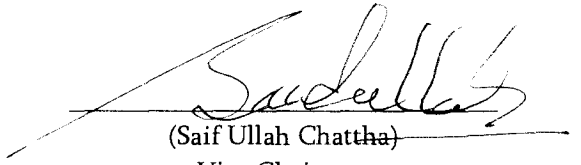
- iii) Foreign component shall be adjusted on account of variation in PKR/ USD exchange rate quarterly on the basis of reference exchange rate of PKR 97.1/USD.
- iv) As agreed in the O&M Contract, no CPI indexation shall be applicable on the local/ foreign O&M components.
- v) The contract shall be applicable for five years. For further extension of the contract, the Authority's approval shall be mandatory.

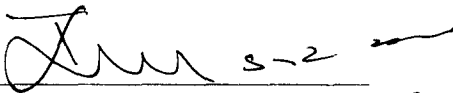
43. The above Order of the Authority shall be notified in the official Gazette in accordance with Section 31(4) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

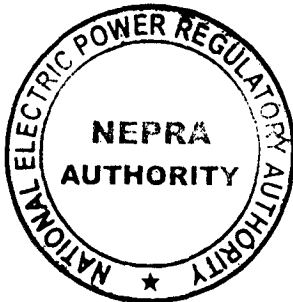
AUTHORITY

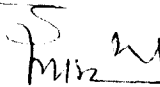

(Himayat Ullah Khan)
Member


(Syed Masood ul Hassan Naqvi)
Member


(Saif Ullah Chattha)
Vice Chairman
22.2.2018


(Brig. (R) Tariq Saddozai)
Chairman




23.2.18