

BEFORE

THE NATIONAL ELECTRIC POWER REGULATORY AUTHORITY

IN THE MATTER OF:

CASE No. NEPRA/TRF-466/NITP-2019

MOTION FOR LEAVE FOR REVIEW UNDER SECTION 7(2)(G) AND SECTION 31 OF THE REGULATION OF GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC POWER ACT, 1997, READ WITH RULE 16(6) OF THE NEPRA (TARIFF STANDARDS AND PROCEDURE) RULES, 1998 AND REGULATION 3(2) OF THE NEPRA (REVIEW PROCEDURE) REGULATIONS, 2009, EACH AS AMENDED, RESTATED OR MODIFIED FROM TIME TO TIME

ON BEHALF OF

NORINCO INTERNATIONAL THATTA POWER (PRIVATE) LIMITED

DATED: 27TH AUGUST, 2020

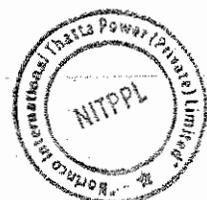
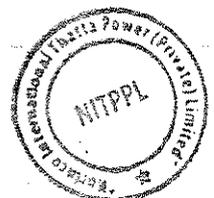


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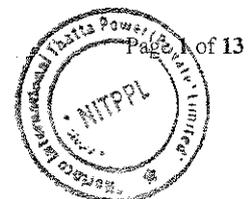


MOTION FOR LEAVE FOR REVIEW UNDER SECTION 7(2)(G) AND SECTION 31 OF THE REGULATION OF GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC POWER ACT, 1997, READ WITH RULE 16(6) OF THE NEPRA (TARIFF STANDARDS AND PROCEDURE) RULES, 1998 AND REGULATION 3(2) OF NEPRA (REVIEW PROCEDURE) REGULATIONS, 2009, EACH AS AMENDED, RESTATED OR MODIFIED FROM TIME TO TIME

1. INTRODUCTION

1.1. BACKGROUND

- 1.1.1. Norinco International Thatta Power (Private) Limited (the “**Company**” or “**Petitioner**”) is a company duly established and existing under the laws of Pakistan with its registered office located at 101, 1st Floor, Horizon Vista, Block4, Clifton, Karachi, Pakistan.
- 1.1.2. The Company was duly incorporated under the laws of Pakistan on 4th February 2016 for the purposes of undertaking the development, implementation, construction and operation of a 100 MW wind power generation facility located at Jhampir, District Thatta, Sindh (the “**Project**”).
- 1.1.3. In pursuance of development of the Project, the Petitioner was issued a generation license on 25th October 2019 by the National Electric Power Regulatory Authority (the “**Authority**” or “**NEPRA**”).
- 1.1.4. The Project submitted a tariff petition on cost plus basis before the Authority on 12th March 2019 (the “**Tariff Petition**”) which was admitted for further processing. In accordance with due process under the applicable laws, a Notice of Admission/Hearing (the “**Notice of Hearing**”) was published by NEPRA in newspapers, on the Authority’s website and individual notices were issued to the parties, in each case containing salient features of the Tariff Petition, the hearing schedule and the issues framed for the hearing. Through the said notice, NEPRA invited comments and intervention requests from interested parties. The hearing on the subject matter was held on 16th October 2019 (the “**Reference Tariff Hearing**”) which was attended by a large number of participants and key stakeholders. Subsequently, The Authority announced Tariff Determination (the “**Impugned Order**”) for the Project on 18th August 2020 which was published on NEPRA website and received by the Company.
- 1.1.5. Through this Motion for Leave for Review (“**MFLR**”), the Petitioner requests that the aforementioned Impugned Order be reviewed, *inter alia*, on the grounds provided hereunder in Section 2.

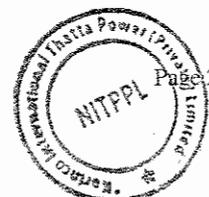


2. GROUNDS FOR MOTION FOR LEAVE FOR REVIEW

The Petitioner requests that the aforementioned Impugned Order be reviewed, *inter alia*, on the following grounds:

2.1. EPC COST

- 2.1.1. In Impugned Order, the Authority allowed the EPC cost of US\$ 86.00 Million. The Impugned Order acknowledges that Petitioner followed NEPRA's Guidelines for Selection of EPC Contractor
- 2.1.2. The Company admits that international prices of wind turbines have significantly reduced since the signing of the EPC contract on 29th November 2016 (around 4 years), based on which the Reference Petition was filed by the Company. However, based on the prevailing prices, the Petitioner managed to renegotiate EPC price by signing amendment to EPC Contract and the same was submitted to NEPRA during Public hearing on 16th October 2019. The prices determined by the Authority are below the current prevailing market.
- 2.1.3. The Impugned Order states that it is not making a direct comparison between the EPC costs for other countries and Pakistan as the countries where prices are lower due to local manufacturing, low labour cost, different tariff regime and other economic factors. **However, the Impugned Order does not provide any basis for arriving at the EPC cost determined by the Authority.**
- 2.1.4. The Authority is taking assumptions of reduced EPC costs based on generalized regional and international costs analysis / installed costs per kW published by Bloomberg and International Renewable Energy Agency (IRENA) and **not considering what the Original Equipment Manufacturers (OEM) are offering in Pakistan, the country risk premium being added by OEM on prices offered in Pakistan and Country Default Swap insurance being added by OEM on prices offered in Pakistan.** While considering the analysis reports from IRENA and other sources, the Authority should consider the wind turbine costs analysis published by these sources and costs analysis should include other variables that may not be applicable for other regions.
- 2.1.5. Since no basis for the determined EPC price have been provided by the Authority, it appears that Authority in the Impugned Order has taken into account a significant reduction in civil works, other construction costs, commissioning, transportation, seller's interconnection works and other EPC cost components. We respectfully submit that the Authority should also review its determination on the EPC costs other than the WTGs i.e. civil works cost, testing requirements from power purchaser, cost of interconnection works, other commissioning costs etc. The Authority would appreciate the fact that **all costs other than WTGs have substantially increased in past three years.** Applying a straight reduction on the basis of WTGs prices (of other countries) on the entire EPC Price is unjustified. Though the direct price of WTGs have shown a decline over the past 2-3 years, however, the prices associated to EPC contract execution, i.e. steel, labour, copper, transportation, civil works etc. have increased.
- 2.1.6. Based on recent discussions with EPC Contractor, the Petitioner is of the view that it will be able to achieve an EPC Price of USD 109 million.



In light of the foregoing, the Authority is requested to review its Impugned Order and redetermine the allowed EPC Price with the selected WTG Gold Wind GW 121 – 2.5.

2.2. PROJECT DEVELOPMENT COST

2.2.1. The Authority in the Impugned Order allowed Project Development Costs (PDC) cost of US\$ 2.143 Million.

2.2.2. While determining the approved amount of US\$ 2.143 Million, the Authority referred to the approved PDC in 2018 where it allowed USD 2.5 million for 50MW project and USD 2.55 million for 60MW project. The Authority further stated that its decision of allowing US\$ 2.143 million is based on rationalizing the costs and also accounting for impact of the PKR devaluation since 2018. However, the Authority has significantly reduced its earlier allowed amount in 2018, which was extremely challenging and the projects under 2018 tariff are facing cost overruns in PDC. For ready reference of the Authority, comparison of PDC allowed in 2018 tariff and in the Impugned Order, both in USD and equivalent PKR, is as follows;

| | 2018 Tariff Decisions | 2020 (Impugned Order) |
|-------------------------------|-----------------------|-----------------------|
| PDC Allowed in USD | \$ 2.5M (for 50MW) | \$2.143 (for 100MW) |
| PDC Allowed in Equivalent PKR | PKR 300M (for 50MW) | PKR 361M (for 100MW) |

2.2.3. The Authority in Impugned Order outrightly ignored the fact that PDC include various expenditure heads which are denominated in foreign currency, e.g. cost of Company’s international legal counsel, independent engineer (appointed under EPA), technical advisor (appointed as per lender’s approval) etc.

2.2.4. Moreover, the Authority in Impugned Order disregarded the inflation over the past two years;

| | June 2018 | June 2020 | % Incr. (annual) |
|------------------------------|-----------|-----------|------------------|
| Pakistan CPI (General) | 226.68 | 269.27 | 9% |
| US CPI (All Urban Consumers) | 251.989 | 257.797 | 1.2% |

If the Authority intends to benchmark PDC with the allowed amount under 2018 tariff, the Petitioner humbly submits that the Authority should consider foreign currency denominated costs under PDC and also allow a justified increase in local costs, which as a minimum should be reflective of the inflation over the past 2 years.

2.2.5. As the Authority also noted that the proposed area of land of 2,500 acres for the Project is significantly higher as majority of the 50 MW projects are being developed on 300 to 462 acres of land. The Petitioner submits that the land allocation was decided by Government of Sindh. The



lease payments are/will be made to GoS, and are not in control of the Petitioner. We request the Authority to allow the impact of lease payment on PDC and O&M on actual basis.

2.2.6. For Authority's consideration, the Petitioner's expenditure (including incurred till to-date and estimated expenditure) under PDC till achievement of COD is presented below; (all forecasted USD based expenses are converted to PKR at the Reference Exchange Rate determined by Authority).

| Cost Heads under PDC | Total PDC in PKR |
|---|--------------------|
| Land Lease & Registration | 80,000,000 |
| Office Rent | 28,800,000 |
| Vehicles & Office Equipment | 35,000,000 |
| Legal counsel (foreign & local) | 18,000,000 |
| Advisors Fee (technical & financial) (pre & post FC) | 80,000,000 |
| Met Mast | 13,000,000 |
| Grid Interconnection Study | 7,000,000 |
| Other Technical Studies (environment, transport, topo etc.) | 15,000,000 |
| Independent Engineer under EPA | 20,000,000 |
| Head Office & Site Administrative cost | 125,000,000 |
| Salaries and Benefits | 157,000,000 |
| Travelling | 60,000,000 |
| Regulatory Fee NEPRA (tariff and license) | 12,500,000 |
| Insurance Advisor | 5,000,000 |
| Factory Acceptance Tests | 55,000,000 |
| Enhancement of Authorized Capital (SECP) | 25,000,000 |
| PACRA Fee | 1,000,000 |
| Auditor Fee | 12,000,000 |
| Environment, Electrical, Building approvals etc. (Provincial) | 10,000,000 |
| Total (PKR) | 759,300,000 |
| Total (equivalent USD) | 4,500,000 |

2.2.7. The Project is in development since 2015, wind projects which achieved financial close in 2019 were allowed PDC cost of USD 2.5 million for 50MW project. Sponsors of NITPPL have injected USD 3.5 Million for development activities. Financial Statements audited by EY Ford Rhodes (EY) along with certificates of deposit of ICBC are attached as **Annexure – A** for consideration of the Authority. The latest equity injection has even increased to USD 3.8 Million, the audited statements, being delayed due to COVID-19, will be provided to the Authority as soon as available.

The Authority is requested to reconsider its determination in view of the foregoing and allow a minimum PDC cost of USD 4.5 million.



2.3. FINANCING FEE AND CHARGES

2.3.1. The Authority allowed US\$ 1.417 Million (2% of debt of the total project cost excluding financial charges and interest during construction).

2.3.2. The debt permitted to the Project is based on the total Project cost allowed to the Project, which include financial charges and interest during construction; **it is therefore unjustified to determine financial charges on the CAPEX (approved Project cost less financial charges and interest during construction).** The approved amount by NEPRA in Impugned Order is not even 2% of debt, if calculated on allowed debt the financing fee and charges amount approved is 1.9% of the approved debt.

2.3.3. The Petitioner would like to take this opportunity to identify the costs that need to be covered under the financial charges approved by the Authority:

| Financial Fee and Charges | | Amount in USD |
|--|--------------------------------------|------------------|
| 1. Arrangement Fee | Ranges 1.3% to 1.5% for Foreign Debt | 1,100,000 |
| 2. Commitment Fee | 0.75% for Foreign Debt | 300,000 |
| 3. Advisors | | |
| • Technical | Pre- and Post FC | 250,000 |
| • Legal Counsel | Pre- and Post FC | |
| - Local | Pre- and Post FC | 40,000 |
| - Foreign | Pre- and Post FC | 150,000 |
| • Insurance | Pre- and Post FC | 20,000 |
| • Traveling | Pre- and Post FC | 50,000 |
| 4. Security Trustee Fee | (only for construction period) | 50,000 |
| 5. Agency Fee | (only for construction period) | 30,000 |
| 6. Monitoring Fee | (only for construction period) | 50,000 |
| 7. Stamp paper, document registration etc. | | 200,000 |
| Total | | 2,240,000 |

2.3.4. It is pertinent to highlight that the Authority’s should consider the fact that applying a “*percentage of capex*” basis for determining “Financing Fee and Charges” may work for large projects where project cost is high. As it is evident from above, lenders’ direct fees are computed as percentage of debt but nature of other financing costs is of fixed amounts. For instance, the “Financing Fee and Charges” determined by Authority under its Benchmark Tariff Determination of January 2017 was USD 2.02 Million for 50MW, whereas the Impugned Order allows USD 1.417 Million for 100MW. **The Authority would appreciate that Financing Costs of fixed nature (i.e. not determined as percentage of debt) cannot be met out of the allowed amount of USD 1.417 Million.**

2.3.5. We understand that the Authority has determined a 2.0% cap on financial charges for all projects, however, it is imperative that the Authority consider the size of the Project when allowing financing charges. While larger projects (in terms of total project cost) can manage their fixed costs within a



cap of 2.0%, however, it is not possible for smaller projects (in terms of total project cost) to manage financial charges within this benchmark.

The Authority is requested to review its decision and allow Financing Fee and Charges as 2.5% of the total debt allowed.

2.4. RETURN ON EQUITY (ROE)

2.4.1. The Authority has reduced the allowed ROE to 13% without giving any justifiable argument. The Petitioner requests the Authority to share basis of arriving at ROE at 13%.

2.4.2. Petitioner would like to draw attention of the Authority that income tax rate for dividends has recently been increased to 25% (withholding rate increase from earlier rate of 7.5% to 15%), hence if for argument sake we accept 13% ROE, the actual return for Sponsor is 9.75%. We request the Authority to consider the risk free returns of 9.5% offered by Pakistan Investment Bond for 10 year tenure.

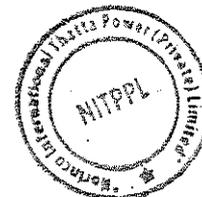
2.4.3. Petitioner would also like to highlight that the Authority's determined rate of return is further reduced by 2-3% because of the sponsor support requirements under financing documents and restriction on distribution to meet financing covenants. The borrower is required to provide "contingency support", "DSRA support" and other supports to lenders in form of letter of credits. The amount of such supports is around USD 20 million for 100MW project, cost for such supports when taken into account results in significant drop in sponsors returns. The supports which are generally provided by the Sponsors are as follows;

| Sponsors Support | Amount in USD |
|-------------------------------------|--|
| Debt Service Reserve Account (DSRA) | (6-9 months debt payment) USD 6-8 million |
| Contingency / Cost Overrun Support | USD 8-10 million |
| Others (e.g. SST LC) | USD 2.5 million |

2.4.4. Moreover, the ongoing circular debt issue further deteriorate the return to the sponsors. We request the Authority that all factors affecting the returns maybe considered while deciding upon the allowed ROE to the Project.

2.4.5. Furthermore, Petitioner note that the Authority has introduced a new mechanism for payment of ROE / ROEDC component of debt. The Impugned Order states that;

"The approved component of ROE/ROEDC shall be adjusted on yearly basis as per the mechanism given in the Order part of this determination. The payment of this component of tariff, applicable to any year, shall be due to be made at the end of that year. It is to be noted that the approved amount of return on equity shall be the maximum limit of the annual return to be earned by the project company. The amount of return of any year, if exceeds by the given limit, shall be shared between the power producer and consumers through claw back formula to be decided by the Authority."



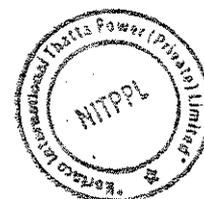
- 2.4.6. The directions of the Authority in the foregoing para does not allow lenders to approve the project for debt commitment. Please note that lenders compute “Debt Service Coverage Ratio” (DSCR) at every debt repayment date. Lenders require a minimum DSCR of 1.3 to determine the size of debt. In simple words, DSCR of 1.3 means that at every debt repayment date the cash flows available to the borrower from its operations should be 1.3 times of its debt repayment obligation. As the Authority is aware that under cost plus tariff regime ROE/ROEDC component is the only component which is for sponsors, other tariff components i.e. debt, insurance and O&M are meant to cover company’s obligation towards debt, insurance and O&M. **Hence, if ROE/ROEDC is not paid to the Company on regular basis, it is impossible to achieve DSCR higher than 1.0.**
- 2.4.7. Furthermore, no details of the proposed “**claw back formula**” for returns in excess of the allowed returns have been provided, the Petitioner humbly requests the Authority to share the detailed mechanism upfront, otherwise no developer or lender can take development risk without knowing the complete picture.
- 2.4.8. On the “**claw back formula**”, the Authority should also consider the fact that new regime transfers the wind resource risk from power purchaser to power producer. The proposed claw back formula should allow shortfall in returns in any year due to wind risk to be carried forward and allowed to be recovered in succeeding years. A justified and balanced approach should be adopted to allow developers to earn at least allowed returns.

In view of the foregoing, The Authority is requested to review its decision to;

- allow ROE at 14% as allowed to recently closed wind projects;
- allow ROE/ROEDC component payment as part of monthly tariff invoice;
- provide details of “claw back formula” at the outset; and
- allow adjustment / recovery of shortfall in returns in any year.

2.5. CAPACITY FACTOR

- 2.5.1. In Impugned Order, the Authority allowed capacity factor of 39%, however, no basis for arriving at such Capacity Factor were provided. Energy yields of currently operational wind power plants was generally provided as basis of its determination.
- 2.5.2. With regards to a statement “while comprehensively analysing the information submitted by the Petitioner with respect to wind resource, location, technology etc.” (*emphasis added*) (as provided in Para 50 of reference tariff determination), the Petitioner is not able to ascertain how the technical team of the Authority has made such an analysis; whether a ground measurement was obtained, what duration of wind data was used, what quality treatments were given on the wind data, how the actual terrain was digitized, which simulation license was used, what uncertainty model was used etc.
- 2.5.3. Online tutorials like calculators or engineering formulae for determining energy from wind speeds are not (i) bankable, and (ii) dependable for the purposes of putting up large-scale long-life projects. Such tools provide a direct and straight calculation under laboratory conditions and based on certain assumptions. Such assessments are not bankable and cannot be relied on by either the financiers or



the investors. It is also worth highlighting that sales claims by various equipment manufacturers cannot be relied upon (both in Pakistan and internationally). Such numbers are based on unreasonably lenient assumptions, are backed by caveats and are not practically achievable when considering on ground realities.

- 2.5.4. It is pertinent to highlight that “wind resource” varies drastically from one location to another and the term ‘wind resource’ is intended to cover all characteristics of wind required for carrying out a bankable wind energy assessment including but not limited to wind speed, wind direction, wind frequency, temperature, humidity etc. A simple statement such as “analysed the data of **energy yields** of currently operational wind power plants...” (*emphasis added*) (as provided in Para 50 of reference tariff determination) ignores the implication of variation in wind resource from one site to the next.
- 2.5.5. A comparison between wind farms in Pakistan and those elsewhere in the world is irrelevant. As clarified in point above, “wind resource” assessments are based on wind conditions and site characteristics, which change at every 10km mark, and not on energy outputs of other farms.
- 2.5.6. For comparison within Pakistan, the relevant factor worth considering is improvement in efficiency of wind turbines. It is exactly because of this very factor that the Project was able to offer a much higher capacity factor from what the Authority had approved in case of the operational projects. However, such improvements were factored in the Authority’s various tariff determinations during 2018 for the projects that later went on to achieve financial close in the end of 2019. It is submitted that this Project is using exactly the same wind turbine as that of the wind power projects who achieved financial close in 2019 and the Authority may refer to the capacity factors approved in those cases. Hence a parity is expected out of the Authority when approving the capacity factor.
- 2.5.7. The fundamental element to which the Petitioner hereby draws attention of the Authority is that once a capacity factor is determined on as a basis of the Tariff, the entire risk of generating that capacity factor every year falls on the Project. Therefore, it is deemed to be what has been determined by the professional teams and consultants of the Petitioner after taking all the more variables into account such as wind speed, wind direction, wind frequency, temperature, humidity etc. This is not a straightforward calculation of using certain fixed inputs and calculate the energy as an output. Moreover, if the actual capacity factor will be higher (as presumed in the Impugned Order) the net tariff shall automatically go down in the form of upside sharing. However, if the presumption of the Authority proves wrong and the Project is not able to achieve that capacity factor due to factors beyond control, then there is no mechanism available to the Project for recovery of its losses.
- 2.5.8. The Petitioner was allocated site near to PAF Bholari Base due to which hub height is restricted by Pakistan Civil Aviation Authority. Furthermore, WTG towers/blades should be painted white and red strip as per requirement of Pakistan Civil Aviation, which results increase temperature of WTG towers. The Electrical system (including Converter, main Controller, etc) should be seriously impacted by the high temperature which also impacts the capacity factor.
- 2.5.9. The requested capacity factor of 37.75% was based on a detailed WRA study submitted to the Authority by the Petitioner where the capacity factor was determined on the basis of site specific



conditions (wind speed, wind direction, wind frequency, temperature, humidity etc.) and the micro siting of WTGs. It is unjustified to determine a capacity factor (i) that has not been determined by using generalize techniques which are not acceptable to developers and lenders, (ii) that the Petitioner is not confident of achieving, and (iii) whose risk and responsibility of achieving shall still remain on the Petitioner. Hence, the Petitioner is not in a position to rely or accept any other computation of capacity factor, except the one determined by the Petitioner's own qualified team and consultants.

2.6. O&M COST

2.6.1. The Authority in Reference Tariff Determination allowed O&M cost of US\$ 19,400/MW/annum i.e. US\$ 1.94 Million/annum.

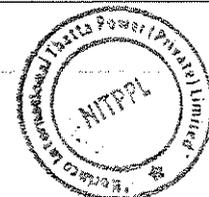
2.6.2. The Authority has taken the O&M Cost of USD 23,000/MW/annum allowed to wind projects in 2018 as the basis of its decision and surprisingly adjusted the PKR component to revised exchange rate, para 35 of the Impugned Order states;

“It is noted that the Authority had approved O&M cost of USD 23,000 per MW per year (50% foreign and 50% local) for 14 Nos. 50 MW wind power projects while considering the latest available O&M cost data in different parts of the world. Based on research of new data while also taking into account the earlier approvals (adjusted with impact of PKR devaluation and inflation) and project size, the Authority has decided to approve the O&M cost of USD 19,400 per MW per annum for NITPPL.”

2.6.3. It appears that Authority is considering that all or most of O&M Costs are denominated in PKR, whereas the fact is that major part of the O&M cost is O&M Operator fee of which 60-70% is denominated in USD.

2.6.4. Furthermore, the Authority has completely disregarded impact of inflation from 2018 to 2020 to arrive at a justified amount of allowed O&M Cost under tariff.

| Cost Head | | Amount per annum USD/PKR |
|----------------------------------|--|-----------------------------|
| O&M Contractor Cost | | |
| 1. WTG LT O&M | | USD 1,500,000 |
| 2. BoP related contract | | PKR 55,000,000 |
| Company's Cost | | |
| 3. HR Costs | | PKR 43,000,000 |
| 4. Vehicles operating | | PKR 1,000,000 |
| 5. Administrative Costs | | PKR 4,000,000 |
| 6. Rent & Utilities | | PKR 6,000,000 |
| 7. Travel & Accommodation | | PKR 5,000,000 |
| 8. Environmental Management Plan | | PKR 2,000,000 |
| 9. NEPRA Generation License Fee | | PKR 1,600,000 |
| 10. Site Security | | PKR 12,000,000 |



| | | |
|--|------------|---------------------|
| 11. Lenders Annual Fees (agency, trustee, account bank etc.) | | USD 110,000 |
| 12. Annual Audit Fee | | USD 6,000 |
| 13. Land lease fee (for period after first 10 years) | | PKR 16,000,000 |
| 14. Misc. / unforeseen | | PKR 5,000,000 |
| Total (equivalent USD)* | USD | 2.50 Million |

*Rupee denominated costs converted to USD @ 168.75/USD

2.6.5. The Authority has referred to “*O&M cost data in different parts of world*”, the Petitioner would like to present below the O&M cost data based on most recent prices for wind power project in Pakistan for the consideration of the Authority;

2.6.6. We understand that the Authority has access to the regulatory accounts of all wind IPPs operating in Pakistan at this time; we would request the Authority to review the same and advise if the O&M costs of any of those IPPs (financed by non-Chinese financiers) is even close to the price levels determined by the Authority in Reference Tariff Determination.

2.6.7. Furthermore, the Authority in the Impugned Order introduced a new mechanism in respect of the O&M cost, para 36 states:

“The Authority has decided to allow O&M cost into local and foreign components in the ratio of 50:50. Additionally, the Authority has decided that the approved O&M shall be applicable for first two years of operations. Afterward, the Authority may consider making revisions in the O&M cost, while capping the allowed prevailing level, anytime during the tariff control period. Those revisions may also entail changing the mix of the approved O&M cost (local and foreign) as well as the indexation mechanism (indices, frequency etc.). For that purpose, the Authority may also direct the petitioner to carry out the competitive bidding to select the contractor for the provision of the O&M cost.”

2.6.8. It is respectfully submitted that the introduction of above para has been made without considering the market practices and realities. Being project finance nature, wind projects in Pakistan are required to engage OEM of the WTG as LT O&M operator. Hence, competitive bidding for LT O&M operator during the debt tenure may not be possible for the Project.

2.6.9. Under a project finance model all factors affecting the stability and predictability of a project’s revenue stream must be evaluated to assess their impact on the level and volatility of cash flow – both in terms of availability for debt service and ensuring the expected sponsor returns. The technical feasibility and soundness of the projects’ technology, along with certainty of costs and revenues are fundamental parameters for this risk evaluation.

2.6.10. Accordingly, a key component of the technical and financial viability of the project is assessing the operational risks of the project. This includes evaluating the O&M structure of the project which includes having a sound O&M plan which ensures the generation facility’s availability and optimal maintenance, the ability to handle unplanned maintenance and manage downtime, and the management of O&M costs in line with the financial model of the project. Therefore, the O&M structure and the long term operations and maintenance (“LT O&M”) agreement for a project is critical and impacts the viability and bankability of a project. The LT O&M agreement serves to,



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inter alia, allocate operating risk inter se the operator and the project company, with the objective of placing risk on the party best placed to bear it; ensures that there are clear performance parameters for the project, in order to ensure that such targets are met and adequate revenues for the project are generated; and to ensure transparent and efficient management of the O&M costs.

2.6.11. In particular for the Pakistani wind sector, given its nature, financiers require a certainty with respect to the LT O&M at the outset, for the entire debt servicing period (i.e. a minimum of eleven (11) years after the initial two (2) year warranty period). Accordingly, the Petitioner shall have entered into a firm LT O&M agreement much ahead of completing the construction.

2.6.12. Furthermore, as explained above the allowed amount is far below annual estimated O&M cost of the Company, risk of review of split and indexation mechanism after 2 years makes it difficult for developers and lenders to accept this condition.

The Authority is requested to review its decision and allow Annual O&M cost of USD 23,000/MW/annum as approved for 2018 wind power projects.

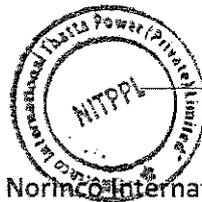
Furthermore, it is requested that the condition of competitive bidding; and revision in local/foreign mix and indexation mechanism may kindly be removed.

3. PRAYER / REQUEST

In light of the above, it is requested that the Decision may kindly be reviewed and revised for successful development of the Project.

It is further requested that a hearing be provided for the purposes of detailed submissions made under the subject MFLR.

Signature and stamp to be affixed here



Zhang Yong Zhang Yong

FOR & ON BEHALF OF
Norinco International Thatta Power (Pvt.) Limited