

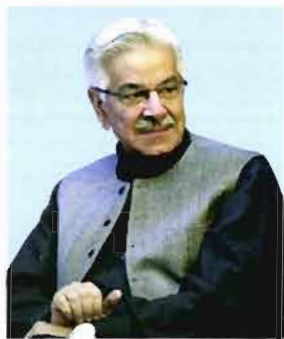
Power Generation Policy 2015

April 2015



GOVERNMENT OF PAKISTAN

FOREWORD



Khawaja Muhammad Asif
Federal Minister for Water & Power

Electricity plays a fundamental role in developing economies. Many countries including Pakistan have been facing challenges of electricity shortfalls primarily due to inadequate additions in the systems vis-à-vis increasing population, industrialization and urbanization growth rates. Years of neglecting the power sector of our country resulted into the crisis of prolonged power outages. The situation was demanding a robust policy paradigm best aligned with the international principles capable of forecasting country's electricity needs and effectively implement Government of Pakistan's (GoP) strategies to bail out country from energy crisis. The need of the day was to transform the power sector of the country into a modern, efficient and resilient system in line with the aim to enhance energy security.

The prime focus of the GoP is to ensure affordability, sustainability, environmental protection and energy security in arranging additional megawatts as the current energy mix in the country is largely dependent on thermal/oil which is a huge burden on national exchequer. Pakistan having endowed with plenty of natural resources, including coal, water, solar and wind does not deserve power shortages. The optimum utilization of these indigenous natural resources is very crucial for creating an optimum fuel mix consisting thousands of affordable and reliable megawatts for decades to come.

In 2013, soon after getting the opportunity to serve the nation, our government set up a Cabinet Committee on Energy and prepared a roadmap under the multipronged strategy to overcome the energy crisis by 2018. As a result, Power Generation Policy 2015 ("the Policy") has been announced under the major objectives of (i) providing sufficient power generation capacity at the least cost, (ii) encouraging and ensuring exploitation of indigenous resources, (iii) ensuring that all stakeholders are looked after in the process; a win-win situation and (iv) attune to safeguard the environment.

With a view to meet these objectives, present Government has developed this policy which offers excellent incentives, balanced structure of agreements and facilitating institutional structure.

Our Government recognizes private sector to be the key to economic growth and strongly encourages potential investors to invest in power sector of Pakistan. I assure that the GoP will support them in every way in development of these projects. Private Power and Infrastructure Board (PPIB) being one window facilitator on behalf of Government of Pakistan and its entities including Ministry of Water & Power is available to coordinate with all Federal and Provincial organizations for speedy and smooth implementation of projects under the Policy while relevant entities in the Provinces, Azad Jammu & Kashmir and Gilgit Baltistan have also been established to provide support and facilitation to the investors.

TABLE OF CONTENTS

1	INTRODUCTION	3
2	MAIN OBJECTIVES OF THE POWER POLICY	4
3	SCOPE OF THE POWER POLICY	4
4	IMPLEMENTATION OF THE POLICY	4
5	HYDROPOWER PROJECTS	4
5.1	Types of Hydropower Projects	4
5.2	Hydropower Projects Processing	5
5.3	Water Use Charge (WUC)	7
5.4	Hydrological Risk	7
6	THERMAL POWER PROJECTS	7
6.1	Solicited Projects	7
6.2	Projects Awarded/Recommended by Provincial/AJK/GB Governments	7
6.3	Alternate Modes	8
7	PUBLIC PRIVATE PARTNERSHIP (PPP)	8
7(A)	PUBLIC SECTOR POWER PROJECTS	8
8	BANK GUARANTEE / BID BOND, LETTER OF INTENT, LETTER OF SUPPORT	9
8.1	Bank Guarantee	9
8.2	Bid Bond	9
8.3	Letter of Intent (LOI)	9
8.4	Letter of Support (LOS)	9
9	INTERCONNECTION ARRANGEMENT	10
10	TARIFFS	11
10.1	Tariff Structure	11
10.2	Tariff Design and Indexing Parameters	11
11	CAPITAL STRUCTURE	12
12	GENERAL PROVISIONS	12
13	PROJECTS INITIATED BY PROVINCES/AJK/GB:	13
14	SECURITY PACKAGE	14
15	FISCAL INCENTIVES	14
16	FINANCIAL REGIME	15
17	GUIDELINES	16
18	APPLICABILITY OF THE POLICY	16
19	SAVINGS	16

ABBREVIATIONS

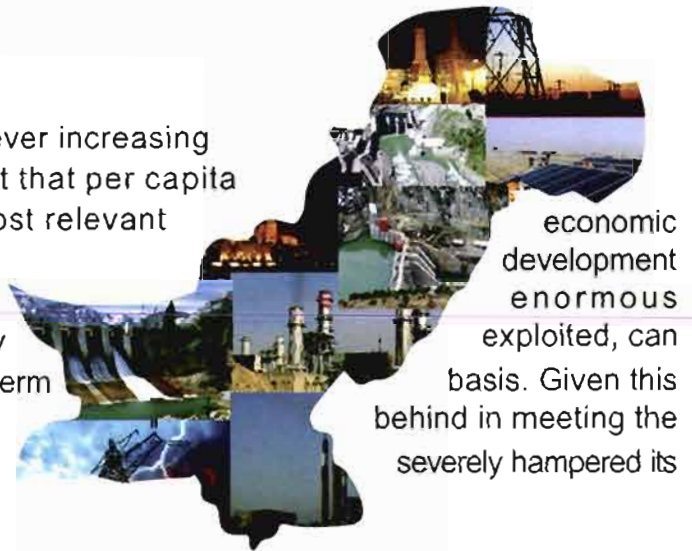
AJK	Azad Jammu and Kashmir
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
CPP	Capacity Purchase Price
CSA	Coal Supply Agreement
ECC	Economic Coordination Committee
EDB	Engineering Development Board
EPP	Energy Purchase Price
FBR	Federal Board of Revenue
FSA	Fuel Supply Agreement
GB	Gilgit-Baltistan
GOP	Government of Pakistan
GSA	Gas Supply Agreement
IA	Implementation Agreement
ICB	International Competitive Bidding
IPP	Independent Power Producer
LOI	Letter of Intent
LOS	Letter of Support
MW	Mega Watt
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
RFP	Request For Proposals
Rs	Pakistan Rupee
SCA	Sindh Coal Authority
SRO	Statutory Rules and Orders
US\$	United States Dollar
WAPDA	Water and Power Development Authority
WPI	Wholesale Price Index
WUA	Water Use Agreement

DISCLAIMER:

The text in the boxes and margins is only for facilitation, and is not part of the Policy for Power Generation Projects 2015.

1. INTRODUCTION

Pakistan is a developing economy with ever increasing energy requirements. It is a proven fact that per capita electricity consumption is one of the most relevant welfare indicators regarding economic of any country. Pakistan is bestowed with hydro and coal potential which, if carefully ensure our future energy security on long term resource potential the country has lagged increasing electricity demand which has economic growth.



In order to overcome the electricity crises, the Government of Pakistan is working on multi-pronged strategy including development of Power Projects based on indigenous & imported resources both in the public and private sector. The planned expansion in the generation capacity requires supporting expansion in the transmission infrastructure for evacuation of the power. Hence the GOP has also embarked upon initiative to develop transmission lines in private sector.

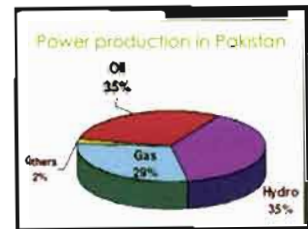
GOP is fully aware of the private investors' needs of having a simple and transparent framework for their investment by providing all facilities and ambiance for the safe investment with competitive concessions and attractive return on investment. Encouraging local and foreign investment is a key feature of the government policies in order to develop the infrastructure and power projects in Pakistan. Imported coal and other new fuels for power generation in Pakistan having different supply chain mechanism while the liquidity problems in the power sector and delays in payment to power generation companies also needs to be addressed.

In view of the above, the GOP has decided to announce a new power policy offering enhanced incentives and simplified processing to bridge the demand supply gap in the minimum time through generation of affordable electricity for socio-economic uplift of the country.

The Policy offers profitable business opportunity and the GOP urges the local and international investors to participate in the development of power projects.

2. MAIN OBJECTIVES OF THE POWER POLICY

- To provide sufficient power generation capacity at the least cost.
- To encourage and ensure exploitation of indigenous resources.
- To ensure that all stakeholders are looked after in the process; a win-win situation.
- To be attuned to safeguarding the environment.



3. SCOPE OF THE POWER POLICY

- Private sector power projects.
- Public sector power projects, where required by the Project Sponsor.
- Public-Private Partnership (PPP) power projects.
- Power projects developed by the Public sector and subsequently divested.

4. IMPLEMENTATION OF THE POLICY

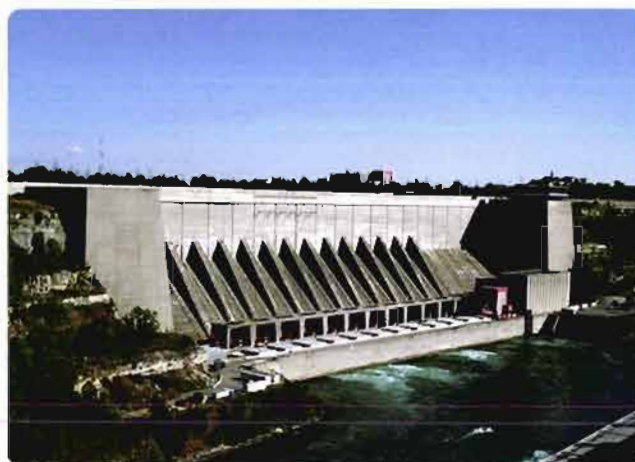
- Private Power and Infrastructure Board (PPIB) /relevant entities in the Provinces / AJK / GB will provide a one-window facility for implementation of projects under the Policy and will issue LOI and LOS, prepare pre-qualification and bid documents, pre-qualify the Sponsors, evaluate the bids/proposals and award the projects.
- PPIB / relevant entities in the Provinces / AJK / GB shall carry out negotiations on the IA, assist the Sponsors/project companies in seeking necessary consents from various Government agencies, assist the Power Purchaser, Provincial /AJK/GB authorities in negotiations, execution and administration of various project agreements and PPIB shall issue the GOP Guarantee backing up the payment obligations of the Power Purchaser and/or Provincial/AJK/GB government where tariff is determined by NEPRA and Power Purchaser is a federal entity and follow up on implementation and monitoring of the projects in accordance with this Policy.
- In case where the Power Purchaser is a provincial entity and the Tariff is determined by the NEPRA / Provincial Regulator, the GOP Guarantee should be issued where it is fully backed by the respective Provincial Government as a charge against its share in the divisible pool as per NFC Award subject to a cumulative limit of 20% of the share of the respective Province in a given year or as may be decided between the Federal and the respective Provincial Government.

5. HYDROPOWER PROJECTS

5.1 Types of Hydropower Projects

- The following types of hydropower projects are covered under this Policy:

- a. Raw Site hydropower projects (i.e. for which no feasibility study and the detailed engineering design yet has been carried out) to be developed in private sector;
- b. Hydropower projects having already completed feasibility study in either private or public sector, to be further developed in private sector;
- c. Hydropower projects having already completed feasibility study and detailed engineering design, in either private or public sector, to be further developed in private sector;
- d. Hydropower projects under Public Private Partnership arrangement;



- e. Private, Public or Public Private Partnership Hydropower Projects initiated/awarded by Governments of the Provinces, AJK or Gilgit-Baltistan where Power Purchaser is a Federal Entity, Transmission and Distribution Network of a Federal Entity is used, tariff is determined or approved by NEPRA and GOP Guarantee is required. On request of the relevant government, such projects shall be further handled by PPIB in consultation with relevant provincial entity / AJK / GB under Tripartite Letter of Support (LOS) regime; and
- f. Projects undertaken by Provinces / AJK / GB, where they are dealt by Provincial Regulator or Power Purchaser is a provincial entity and GOP Guarantee is required, on request of the relevant Government, such Projects may further be handled by PPIB and respective Provincial Entity under Tri-partite LOS regime.
- ii. Only the run-of-river hydropower projects i.e. where irrigation, flood control & seasonal storage are not involved will be offered under this policy unless otherwise specifically permitted by the GOP in consultation with the concerned Province. The run-of-river projects may have some ponding facility for absorption of daily flow fluctuation and for daily peaking operation of the power plant. The project should be designed and implemented with a view of optimum utilization of potential of the site.

5.2 Hydropower Projects Processing

Being indigenous, cheap and clean resource, the development of hydropower projects is amongst the top priority of the GOP.

- i. Hydropower projects may be processed under the following modes:
 - a. International Competitive Bidding (ICB) for projects will be conducted where a bankable feasibility study has been conducted and a detailed engineering design is available. The project will be awarded based on the lowest evaluated Levelized Tariff

along with any other parameter that may be specified in the RFP for the project;

- b. Proposals will be sought where feasibility study is available but detailed engineering design has not been carried out. The project will be awarded to the highest ranked applicant and the LOI of short duration will be issued for up-gradation of the feasibility study;
 - c. For Raw-Site projects, proposals will be solicited and the projects will be awarded to the highest ranked applicant. The LOI will be issued for carrying out the feasibility study; or
 - d. Small hydropower projects may be processed under Upfront tariff regime where such tariff is announced by NEPRA if opted by the Project Sponsor.
- ii. For raw site projects the sponsors will conduct a bankable feasibility study through reputable consultants as per terms and conditions given in the LOI. The TORs for the Feasibility Study shall be issued with the LOI, along with the milestones for carrying out the Feasibility Study, and compliance thereof shall be monitored strictly. The Feasibility Study must also contain a detailed bill of quantities and rate analysis of major items.
 - iii. The conduct of feasibility study will be monitored by a Panel of Experts (POE) appointed by PPIB with due representation from the concerned Province / AJK / GB.
 - iv. The feasibility studies and/or detailed engineering design already carried out in the public sector or private sector or other organizations may be made available to the private entrepreneurs (after seeking consent from the relevant Provincial Government / concerned Entity where such feasibility was undertaken by such Provincial Government / Entity) as public document against a fee which will cover at least the audited cost of the studies. These will be paid by the sponsors to such organization prior to issuance of Letter of Intent (LOI).
 - v. For the feasibility studies and/or detailed engineering design already carried out, the GOP / Province / AJK / GB 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.
 - vi. Tariff will be determined as per NEPRA's or Provincial Regulator's Mechanism for Tariff Determination or any such procedure notified by NEPRA or Provincial Regulator from time to time.
 - vii. The hydropower projects shall be implemented on BOOT basis or any other mode and the term of concession period for the private sector will be 30 years after which the project will be transferred to the Provincial Government/AJK and Gilgit-Baltistan (as the case may be) for Pak Rupee 1.

5.3 Water Use Charge (WUC)

- i. WUC will be paid @ Rs. 0.425/kWh by the private sector hydropower projects to the province /AJK /GB where the project is located.
- ii. The rate of WUC will be reviewed every five years by the GOP in order to determine if an increase in WUC is necessary.
- iii. For projects located in more than one provincial jurisdiction, the sharing of WUC will be decided among the stakeholders on case to case basis.
- iv. For Public Sector hydropower projects, concerned province in which the hydro electric station is situated shall be paid Net Hydel Profits as per the relevant provision of Constitution of Pakistan.

5.4 Hydrological Risk

The power purchaser will bear the risk of availability of water for hydro power projects, by making payment of fixed monthly CPP component of the tariff to the project company in accordance with the monthly average hydrology. The Security Package Documents will specify arrangements to monitor and record water flows.

6. THERMAL POWER PROJECTS

In order to diversity fuel mix and induct both base load and peaking power plants, high efficiency, environmentally compliant, indigenous and imported fuels based projects will be encouraged. Thermal power projects may be processed and awarded under any one of the following modes.

6.1 Solicited Projects

Generally the projects may be processed and awarded through International Competitive Bidding

(ICB) and solicitation for proposals based on upfront tariff. For this purpose, following modes may be adopted:

- i. ICB based on lowest evaluated levelized tariff or solicitation of discount on the upfront or benchmark tariff determined by NEPRA; or
- ii. Proposals submitted by the Sponsors in response to invitation of Expression of Interest where NEPRA has announced Upfront Tariff.

6.2 Projects Awarded/Recommended by Provincial/AJK/GB Governments

Where a designated Provincial/AJK/GB entity awards the projects in accordance with their applicable laws and recommend to PPIB for their further processing, PPIB may process the project further under this Policy.



6.3 Alternate Modes

In alternative, projects may be processed and awarded where GOP's international commitments or fast track implementation of projects or nature of the projects requiring specific fuel, site or financing is involved:

- i. Projects approved/recommended to PPIB by concerned provincial/AJK/GB governments for award;
- ii. Dedicated Gas Field Projects: All E&P Companies who have made gas discoveries of lower heating value shall have the right of first refusal to set up their own IPPs as per GOP approval;
- iii. Proposals submitted by Sponsors pursuant to Upfront Tariff announced by NEPRA;
- iv. Power Projects through Public-Private Partnership (PPP) Mode where the private sector partner has already been selected/finalized by a public sector entity;
- v. Designated projects that are covered under bilateral agreements between GOP and foreign governments;
- vi. Projects to be set up through, tied financing or, use of any indigenous fuel resource and where tariff is determined by NEPRA or Provincial Regulator and Federal / Provincial Power Purchasing Entity as the case may be;
- vii. Expansion of existing IPPs subject to consent of Power Purchaser and tariff approval by NEPRA; or
- viii. Mega Power Parks under the specific schemes sanctioned by the Federal Government / Provincial Government / AJK / GB or their entities.

7. PUBLIC PRIVATE PARTNERSHIP (PPP)

The GOP encourages establishment of power projects in public - private partnership. In line with the scope of this Policy, the incentives/concessions available to private power projects will also be available to projects implemented under PPP mode in accordance with the applicable laws.



7.(A) PUBLIC SECTOR POWER PROJECTS

Federal Government may specifically sanction certain power projects which are owned and controlled by, or any entity or enterprise of, Federal government, Provincial Government, or Local Authority to be processed by PPIB under this Policy. In line with the scope of this Policy, the incentives/concessions available to private power projects will also be available to such projects. Federal Government or Provincial Government or Local Authority, as the case may be, may subsequently, divest such public sector power projects as per applicable laws.

8. BANK GUARANTEE / BID BOND, LETTER OF INTENT, LETTER OF SUPPORT

8.1 Bank Guarantee

PPIB/GOP will accept Bank Guarantee in US Dollars. However, the Bank Guarantee may be payable in equivalent Pak Rupees at the prevailing exchange rates at the date of encashment.

8.2 Bid Bond

For ICB projects and solicited proposals, the bidders will be required to submit bid bond in the form of Bank Guarantee @ US\$ 1000/MW in favor of PPIB along with the bids.



8.3 Letter of Intent (LOI)

- i. Upon fulfilment of requirements of the Policy and approval of PPIB Board, PPIB will issue LOI to sponsors against submission of Bank Guarantee by the Sponsors @ US\$ 1000/MW in favor of PPIB.
- ii. The Validity of LOI will depend on the size and type of the project.
- iii. The LOI will require the Sponsors to (a) carry out a complete feasibility study to be monitored by the POE appointed by PPIB, or (b) approach NEPRA for acceptance/approval of upfront tariff or determination of tariff within the time period specified in the LOI, and/or (c) fulfil any other condition/milestone stipulated in the LOI.
- iv. If the Sponsors fail to meet the relevant milestones/standards, PPIB will be entitled to encash the Bank Guarantee and terminate the LOI.

8.4 Letter of Support (LOS)

- i. Once the tariff is approved/determined by NEPRA, PPIB will issue LOS to sponsors against submission of Bank Guarantee by the Sponsors @ US\$ 5000/MW in favor of PPIB.
- ii. In order to ensure that sponsors of projects move expeditiously with subsequent steps for implementation of the project:-
 - a. The period of validity of the Bank Guarantee for LOI shall be 3 months beyond the expected date for issuance of LOS by PPIB. In this regard, the schedule will be decided and made part of the LOI. However, if such required period of validity of the Bank Guarantee is more than two (02) years, the sponsors may be allowed to post the Bank Guarantee initially for a period of eighteen (18) months, with the provision to extend it further for the period remaining till three (03) months beyond the expected date for issuance of LOS by PPIB.

- b. If any extension in the validity of LOI or LOS, as the case may be, is necessitated, sponsors will be required to submit a Bank Guarantee in double the original amount and valid beyond three months of the extended LOI period or beyond three months of the extended LOS period to qualify for extension in validity of the LOI or LOS. The extensions should be subject to the concurrence of the province where projects are recommended or initiated by Provinces and processed under the Tri-partite LOS regime; and
- c. If any extension in the validity of LOI or LOS as the case may be is necessitated due to delays on part of GOP entities or for the reasons which are beyond reasonable control of the sponsors, the Board of PPIB may consider such extension without doubling of the Bank Guarantee with appropriate terms and conditions.

8.5 Public Sector Entities shall be exempt from payment under this para to the extent of their shareholding in the Power Projects.

9. INTERCONNECTION ARRANGEMENT

The power tariff will be based on the point of delivery indicated by the Power Purchaser. The delivery point will either be the outgoing bus bar of the power plant or a specific location on the grid of the power purchaser, depending upon one of the following options:

- i. The transmission line & interconnection with the grid upto the power complex will be built, owned, maintained and operated by the power purchaser;
- ii. The transmission line & interconnection with the grid 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;
- iii. The transmission line & interconnection with the grid 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; or
- iv. Any other arrangement envisaged under the GOP's transmission line policy for private sector or Wheeling Policy as announced from time to time.



10. TARIFFS

10.1 Tariff Structure

- i. The Tariff will be offered in two parts: (1) Energy Purchase Price (EPP) and (2) Capacity Purchase Price (CPP).
- ii. The EPP will comprise fuel cost/water use charge, variable O&M and any variable component determined by NEPRA. The EPP will be paid based on the amount of kWh (Rs./kWh) delivered at the point of delivery.
- iii. The CPP will comprise Fixed O&M, Return on Equity, Debt Servicing, Insurance, Cost of Working Capital, and any fixed component determined by NEPRA.
- iv. The CPP will be expressed in Rs./kW/hour or Rs./kW/month which is payable provided the plant is made available for despatch by the company as per the standards defined in the PPA.
- v. The tariff will be denominated in Pakistan Rupee.
- vi. In order to mitigate the exchange rate variation risk, specified adjustments for exchange rate variations of US Dollar, Pound Sterling, Euro and Japanese Yen shall be allowed. The adjustment related to debt servicing shall be allowed for the aforesaid currencies.
- vii. 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) will remain constant or increase over time. The debt-related CPP stream may match the loan repayment stream, except in case of upfront tariff.

10.2. Tariff Design and Indexing Parameters

During life of the project operations, quarterly adjustments/indexations for local inflation, foreign inflation, exchange rate variations and interest rate variations will be made on 1st July, 1st October, 1st January and 1st April each year based on latest available date with respect to CPI notified by the Federal Bureau of Statistics (FBS), US CPI issued by US Bureau of Labor Statistics and revised TT&OD selling rate of foreign currencies (US Dollar, British Pound Sterling, Euro and Japanese Yen) issued by the National Bank of Pakistan. The method of indexation will be as follows:

Tariff Components	Tariff Indexation & Adjustment
Fuel Cost Component	Delivered Fuel Price at the Power Plant
Variable O&M (Foreign)	US\$ to Pak Rupees & US CPI
Variable O&M (Local)	Pakistan CPI
Fixed O&M (Foreign)	US\$ to Pak Rupees & US CPI
Fixed O&M (Local)	Pakistan CPI
Cost of Working Capital	Adjustments for relevant KIBOR Variations
Return on Equity	US\$ to Pak Rupees
Principal Repayment (Foreign Currency Loan)	US\$/Euro/Yen/Pound to Pak Rupees (based on borrowing by the Company)
Interest/Mark Up payment (Foreign Currency Loan)	Adjustments for relevant LIBOR or other applicable interest rate benchmark and variations in exchange rate for Foreign Currency (US\$/Euro/Yen/Pound)
Interest/Mark-Up payment (Local Currency Loan)	Adjustments for relevant KIBOR Variations

11. CAPITAL STRUCTURE

Financing of the projects will be in the form of equity and debt, to be arranged by the sponsors. The minimum equity shall be 20% and the maximum equity shall be 30%. However, if equity is more than 30% of the capital cost, equity in excess of 30% shall be treated as debt.

12. GENERAL PROVISIONS

- i. Fees for various stages of the project development shall be prescribed by the Board of PPIB from time to time.
- ii. Hydropower 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.
- iii. Private sector hydropower projects based on the BOOT model shall be transferred to their respective provincial/AJK/GB governments after completion of concession period.
- iv. Subject to NEPRA's Law, Rules and Regulations, for projects located in AJK or GB, Sponsors will first negotiate tariff with the Power Purchaser and the Power Purchaser will subsequently file the petition for determination of tariff with NEPRA for purchase of power from IPP at agreed price. The aforesaid arrangement will remain in place until such time that the Regulator's jurisdiction is extended to include AJK and GB.
- v. In case a project is processed pursuant to a Government to Government Agreement, the terms and conditions of such Agreement shall be applicable accordingly.
- vi. All requirements of the Pakistan / Provincial / AJK / GB Environmental Protection Agency (PEPA) Acts inter-alia, relating to environmental protection, environmental impact and social soundness assessment, shall have to be met.
- vii. GOP will not guarantee fuel supplies or obligations of the fuel supplier, except where a specific mechanism is approved by the GOP.
- viii. Despatch of power plant shall be on economic merit order.
- ix. Subject to concurrence of concerned distribution company(ies) and /or transmission company(ies) and approval of NEPRA, the power generation companies shall be allowed to provide electric power to its bulk power consumers through the concerned transmission company(ies).
- x. The Sponsor identified as the Main Sponsor in the proposal, 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 LOI



issuance date until the sixth anniversary of the successful commissioning of the plant. The project sponsors must together hold 51% of the equity for the same period.

- xi. There shall be deliberate effort by the Sponsors to develop social, health, and educational projects in the project area as part of their Corporate Social Responsibility and Community Welfare Development Programme. Provinces shall also spend such amount of Water User Charge (WUC) as per their respective Policy in the local area.
- xii. In case any power project earns income through carbon credits of Clean Development Mechanism (CDM), sharing of this income between the IPP and the Power Purchaser shall be in line with the mechanism prescribed in the National CDM Policy.
- xiii. To promote indigenization, the local engineering industry will be encouraged to form joint ventures with foreign companies in order to develop power projects.
- xiv. Skilled and semi-skilled local manpower shall be given preference with regard to employment on merit basis. Internships shall be provided on merit basis in order to train and hire local personnel of that particular area.

13. PROJECTS INITIATED BY PROVINCES/AJK/GB:

- i. Subject to provisions of Para 4 (iii), the Provinces/AJK/GB may prepare their own policies however where GOP Guarantee and IA are to be executed by PPIB a clear coordination plan shall be developed with the consultation of PPIB. GOP IA and Sovereign Guarantee shall only be provided for projects where Power Purchaser is a Federal Entity and the tariff approved by NEPRA.
- ii. For the projects that have already been issued LOI by the provinces/AJK/GB and intend to sell power to a federal entity, upon request of the respective province/AJK/GB, PPIB will issue Tripartite LOS to the sponsors with respective provinces/AJK/GB.
- iii. For such projects, the GOP approved standard security package documents shall be used i.e. LOS, Bank Guarantee, IA, GOP Guarantee, PPA etc.
- iv. Consent from Power Purchaser (NTDC/CPPA or DISCO) shall



14. SECURITY PACKAGE

- i. Standardized IA, PPA, WUA (as applicable), shall be prepared for private/public-private partnership/public sector power projects to eliminate the need for protracted negotiations.
- ii. The GOP will inter alia:
 - a. Guarantee the payment obligations of the Power Purchaser if it is a Federal entity.
 - b. Consider on case to case basis request of the Provincial Government / AJK / GB to provide GOP Guarantee to any power project. Such request shall be disposed-off within a period of 120 days by the Federal Government.
 - c. Guarantee the payment obligations of provincial/AJK/GB governments under the GOP IA.
 - d. Provide protection against specified force majeure events as contained in the standard IA.
 - e. Provide protection to the power projects against changes in the taxes and duties regime.
 - f. Ensure convertibility of Pakistan Rupees into US Dollars and the remittability of foreign exchange to cover necessary payments related to the projects.
- iii. The Company is entitled for delayed payment interest at the rate of 3-months KIBOR plus 200 basis points to be specified in the PPA.
- iv. In case the plant is not available for despatch due to non-availability of fuel at site solely caused by delayed payments by the Power Purchaser for specified number of days as agreed in the PPA, the Company shall be entitled for CPP and the fixed portion of Energy Payments, if applicable, with ROE component reduced by agreed percentage as provided in the PPA.
- v. Minimum Take or Pay provision may be included in the PPA as agreed by the Power Purchaser.
- vi. For Projects importing Fuel directly, the project company may be required to establish Standby Letter of Credit (SBLC) and/or Revolving L/C in favor of Fuel Supplier as per requirements approved by the GOP.
- vii. Laws of England will be allowed for the foreign lenders participating in the projects as the governing law for the Direct Agreements (IA& PPA), which will contain an indemnity to the effect that if the IA, PPA or the GOP Guarantee becomes unenforceable, illegal or invalid due to change in law, the GOP shall indemnify the project company or the Lenders for any cost, loss or liability resulting from such unenforceability, illegality or invalidity.

15. FISCAL INCENTIVES

- i. An attractive Return on Equity / IRR shall be allowed in the tariff by NEPRA. Preference will be given to projects based on cheaper, renewable, cleaner and indigenous sources of energy.

- ii. The exemption from Income Tax under Clause 132 of Part-1 of the Second Schedule to the Income Tax Ordinance, 2001 shall be available to the new IPPs and PPP projects, and for any expansion of projects by IPPs that are already in operation.
- iii. Sponsors of the power project will be allowed to import plant and equipment not manufactured locally at a concessionary rate of 5% custom duty. The EDB will notify in advance list of locally manufactured goods in relation to power generation projects.



- iv. Companies will also be completely exempted from the payment of income tax, including turnover rate tax, and withholding tax on imports.
- v. Repatriation of equity along with dividends is freely allowed, subject to the prescribed rules and regulations.
- vi. 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.
- vii. Non- Muslims and Non-residents shall be exempted from payment of Zakat on dividends paid by the company.

16. FINANCIAL REGIME

- i. Permission for power generation companies to issue corporate registered bonds.
- ii. Permission to issue shares at discounted prices to enable venture capitalists to be provided higher rates of return proportionate to the risk.
- iii. 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.
- iv. 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.
- v. Abolition of 5% limit on investment of equity in associated undertakings.
- vi. 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.
- vii. 100% foreign ownership of companies is permissible.



17. GUIDELINES

The projects under this Policy shall be processed and awarded in accordance with the Guidelines prepared in consultation with the Provinces / AJK /GB and approved by the ECC of the Federal Cabinet.

18. APPLICABILITY OF THE POLICY

This Policy will be applicable to new power projects. The projects with valid LOS under Policy for Power Generation Projects 2002 (the "Policy 2002") and/or GOP Guidelines for Setting up of Private Power Projects under Short Term Capacity Addition Initiative of August 2010 (the "Guidelines 2010") will continue to be governed by the terms and conditions stipulated therein. Notwithstanding, the projects having valid LOI as of 15th February 2015 under Policy 2002 and or Guidelines 2010 will have the option to opt for this Policy within one month of its coming into effect subject to the following:

- a. Letter of acceptance / adherence to the terms of this Policy;
- b. Entering into a release deed with the PPIB on terms acceptable to the PPIB which may stipulate amendment of existing or substitution with new bank guarantee as per requirements.

19. SAVINGS

This Policy will not be applicable to renewable energy power projects implemented under the Renewable Energy Policy 2006 (read with amendments made from time to time and any guidelines thereto) and will continue to be in full force and effect on its own terms and conditions.





Private Power & Infrastructure Board

Ground & 2nd Floors, Emigration Tower, Plot No.10, Mauve Area,
G-8/1, Islamabad - Pakistan.

Tel: (92-51) 9264034-45, Fax No. (92-51) 9264030-31

Email: ppib@ppib.gov.pk Internet: <http://www.ppib.gov.pk>



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