

**POLICY FRAMEWORK AND  
PACKAGE OF INCENTIVES  
FOR PRIVATE SECTOR  
TRANSMISSION LINE PROJECTS  
IN PAKISTAN**

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**GOVERNMENT OF PAKISTAN**

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A. INTRODUCTION:

The large scale capacity additions in the electrical generation system expected in the next few years will require corresponding augmentation in the transmission network. Due to the encouraging response of the private sector for investment in thermal power generation and the constraints on public sector resources, Government of Pakistan (GOP) has decided to solicit proposals from the private sector for investment in the field of EHV power transmission lines and substations also.

This document describes the policy framework and the package of incentives that will be available to the prospective proposers interested in Bidding for these projects.

B. CHOICE OF PROJECTS AND OBJECTIVES

The list of EHV transmission line projects to be offered to the private sector for Bidding will be prepared by the GOP. The projects, to be offered as packages, will comprise one or more transmission line sections. The salient features of the packages are;

1. The projects would be offered on Build, Own and Maintain basis comprising of EHV Overhead Transmission Lines (OHL) and Grid Stations (G/S). EHV is defined to mean 220 kv and above.
2. A transmission package will comprise EHV OHL, associated G/S plant and equipment, and where required, interbus power transformers, shunt reactors and SVC equipment. The OHL will include a specified optical fibre shield wire and associated equipment.

3. The Sponsors will be eligible for submitting application(s) for any one or all of the Packages.
4. The minimum design and functional performance requirements for these projects will be prepared by the utilities to ensure compatibility with the existing systems. The development of detailed design will be the responsibility of the Sponsors (See Annexure-I).
5.
  - (a) LOI/LOS will be issued to the proposal satisfying the qualification and economic criteria set by PPIB on ICB basis.
  - (b) Proposals will only be considered from lead promoters who are able to demonstrate successful ownership and operation (for at least 3 years) of transmission systems comprising of lines not less than 3000 km length and associated Grid Stations operated at voltages of 380 kV and higher. In the event that the lead sponsor does not possess such credentials, they will be required to hold jointly at least 40% of the equity with an O&M contractor in the ITC who will fulfill the O&M criteria stated above. This joint holding of minimum equity shall be for at least ten years from the date of commissioning.
  - (c) Complete proposal for either or both packages indicating Transmission Service charges against each item Tables 1, 2 & 3 are to be provided. Incomplete prices or other information will result in rejection of the proposal. GoP retains the right to accept or reject any or all proposals without assigning any reason.
6. The ITC will be fully responsible for the availability and maintenance of the system contracted for. The Power System Operation including system security, voltage control and generation despatch shall be the entire responsibility of the utility.

7. The exact route/corridor for the Packages and locations of Grid Station would be determined by the GOP or its designated agency, which will also be responsible for acquisition of the legal right of way and securing the physical land and its access. This will be free of all costs to the ITC. The GOP will also provide consents and approvals to cover relevant environmental aspects and other regulatory requirements relevant to the right of way. The ITC shall be responsible for meeting the environmental standards in design and operation of the project.
8. The maximum utilization of indigenous material and expertise will be made by the Sponsors and it is expected that for the purpose of transmission lines and grid stations construction a nominated local sub-contractor will be part of the project Sponsors team.
9. All equipment and machinery for the proposed projects shall be new.
10. The Transmission Service Agreement (TSA) and Implementation Agreement (IA) will include provisions to ensure that the transmission package is completed on time and to technical and performance specifications as laid down by GOP.

C. FINANCING ARRANGEMENTS:

1. These projects will involve limited recourse financing, which means that the funds for the projects will be raised without any direct sovereign guarantee of repayment. Instead, the investors in, and lenders to, the project company must look to the revenues earned by the sale of Transmission Services for their returns on equity and the servicing of their loans.

2. The minimum requirement for equity investment is 20% of the total capital cost of the project.
3. The Government has established a Private Sector Energy Development Fund (PSEDF) with the assistance of the World Bank, USAID and other multi-lateral lending agencies, which may provide upto 40% of the Capital Costs of the project subject to availability, currently at a fixed interest rate of 14% per annum with a maturity period of upto 23 years including a grace period of upto 8 years.
4. To facilitate the creation and encouragement of a corporate debt securities market essential to raise local financing for power transmission projects, the following provisions have been made:-
  - i) Permission to power transmission companies to issue Corporate Bonds, both bearer and registered.
  - 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 to foreign banks to underwrite the issue of shares and bonds by the private transmission companies.
  - iv) Same tax facilities for private sector instruments as available to Non Banking Financing Institutions subject to approval by CLA.

- v) Recommendation by GOP to State Bank for modification of Prudential Regulations to allow 80:20 debt equity ratio.
- vi) Removal/reform of Section 13 of 1947 Foreign Exchange Regulation Act to enable non-residents to purchase securities issued by Pakistanis without State Bank permissions.
- vii) Abolition of 5% limit on investment of equity in associated undertakings.
- viii) An independent rating agency is being allowed to commence operations, so that individual investors can make informed decisions about the risk and profitability of the Bonds/TFCs.

D. FISCAL INCENTIVES:

1. The private transmission companies are exempt from corporate income tax earned from the power transmission line projects.
2. The companies are allowed to import plant and equipment without payment of Custom Duties, Sales Tax, Iqra, Flood Relief and other Surcharges as well as Import License Fee.
3. The companies are allowed to register anywhere in Pakistan to avail reduction in stamp tax and registration fee for registration of loan documents by Federal Government.
4. Repatriation of equity alongwith dividends is allowed freely.

5. Exemption from income tax in Pakistan for foreign lenders to such companies.
6. The service charges have been worked out in US dollars and will be paid on that basis.
7. The companies are free to get insurance from any source as per requirement of lenders and utilities.
8. The power generation and transmission has been declared as an industry and the companies are eligible for all other concessions which are available to industrial projects.
9. The sponsors may raise local and foreign finance in accordance with the regulations applicable to industry in general.
10. For local engineering and manufacturing companies, the present Statutory Revisionary Order (SRO) 555(1)/90 has been made applicable to private transmission line and substation projects.
11. Orders received by local engineering and manufacturing companies from private power transmission companies will be treated as an export for refinance under the State Bank Finance Scheme for Exports.
12. Withholding tax on dividends on shares of the Company shall be payable @ 7.5% and the Central Board of Revenue shall exempt shareholders of the private power companies from any withholding tax in excess of 7.5%.



13. Non-Muslim and non-resident shareholders shall be exempt from the payment of Zakat on dividends paid by the Company.
14. It is proposed that the import of construction equipment by private companies for transmission line projects would be exempted from custom duties/levies. However, the first right on equipment to be sold after the project construction will vest in the GOP or its designated agency.
15. The companies are liable to withhold and pay to the GOP as full and final income tax liability of its contractors @ 5% of the relevant payment made by the company to its contractors.

E. SECURITY PACKAGE:

1. Drafts of Model Implementation (Concessions) Agreement (IA) and Transmission Service Agreement (TSA) have been prepared for independent power transmission projects to eliminate the need for protracted negotiations between GOP and Sponsors.
2. The long term Transmission Service Agreement, typically for 30 years with WAPDA/KESC are guaranteed by the GOP for performance obligations of these utilities.
3. For independent power transmission projects, the Government will:
  - i) provide protection against specific force majeure risk

- ii) provide protection against changes in certain taxes and duties
- iii) subordinate the PSEDF loans in certain respects to the other commercial lenders.

**F. ISSUANCE OF SEPARATE SRO**

If required, GOP will issue a separate SRO for private transmission line projects so that incentives and concessions given in various regulations and directives are placed together and consolidated to facilitate understanding and implementation of the incentive package.

**G. ONE WINDOW OPERATION:**

The Private Power and Infrastructure Board of GOP is responsible for coordinating with all the agencies and Ministries concerned and taking decisions, monitoring the performance of private sector projects in accordance with the agreements, and safeguarding the interests of the consumers.

**H. PROCEDURES FOR APPLICATION AND PROCESSING OF PROPOSALS:**

- i) On receipt of a fee of Rs. 50,000 the Private Power and Infrastructure Board (PPIB), will register the applicants and provide them with a set of documents comprising Brochure outlining new policy, and main headings of Model IA (Implementation

Agreements), TSA (Transmission Service Agreement), application form and format of bank guarantee.

- ii) Applications will be accepted by PPIB against payment of a non-refundable application fee to be received are follows:

Line Length	upto 100 km	Rs. 200,000
	101-200 km	Rs. 300,000
	above 200 km	Rs. 500,000

- iii) In case PPIB considers that the proposal has been found to be technically and financially viable, a Letter of Interest will be issued to the Sponsors of the project. The applicant shall have to furnish a Performance Guarantee, valid for eight (8) months and encashable without recourse to the applicant, in the form of an irrevocable bank guarantee from a scheduled local bank or from a reputed foreign bank acceptable to PPIB. Insurance or Corporate Bonds shall not be acceptable as Performance Guarantee. The amount of Performance Guarantee shall be Rs. 25,000 per km. If the Guarantee is not furnished with the proposal, the proposal shall not be entertained.

- iv) On receipt and acceptance of Performance Guarantee by the PPIB, a Letter of Support will immediately be issued to the Sponsors. The IA and TSA will be initialled/signed within a period of six weeks of the issuance of the LOS.

- v) The Guarantee will be encashed in case the Sponsors are unable to achieve financial close within eight (8) months of the issuance of the LOS. Under normal circumstances no extensions will be granted. However, if on the Sponsor's request for extension, PPIB is satisfied that delays are due to the factors beyond the control of the Sponsors and financial close will be achieved very shortly, an extension of a maximum of four

months will be given against extending the validity period of the Guarantee and raising the Guarantee by 100% i.e. Rs. 50,000 per km.

I. **TRANSMISSION SERVICE CHARGE:**

The power shall be transmitted over the transmission facilities by WAPDA/KESC under a long term contract covering the life of EHV transmission line and substations (assumed as 30 years). The Sponsor will be insulated from the uncertainty of daily despatches and will be paid service charges covering capital and maintenance cost including return on equity. This tariff on per km per month basis for the transmission lines has been calculated for the following regions of the country keeping in view the different terrain, geographical conditions and other relevant factors that have a cost bearing:

- North of Guddu "Zone A"
- South of Guddu to Jamshoro "Zone B"
- South of Jamshoro "Zone C"

Similarly the service charge for associated substation bays/equipment have been calculated on per unit per month basis.

The other details of the Transmission Service charge are as follows:

- i) Remuneration will be paid for each commissioned circuit and substation entity on a monthly basis. The service charge for each circuit will be calculated as the sum of the service charges for the components which comprise that circuit. The service charge for

each component will be entered in the attached tables. The ITC will be required to make proper provision for insurance and spares within these tariffs

- ii) The remuneration for transmission system is based on 100% availability with 1.5% annual unpenalised maintenance outages for mutually agreeable planned maintenance outages. If unused, this allowance may be carried into next year. The ITC will pay a penalty by way of a discount to monthly billing for circuit and/or substation outages on the following basis:
  - (a) the penalty for delay in commissioning for each circuit beyond the contracted dates will be equal to 200% of the daily income for the circuit for each days' delay in commissioning subject to a maximum of 20% of the annual income of that circuit.
  - (b) forced (unplanned) outages set out in the TSA as under the control of the ITC will be penalized at the rate of 150% of the hourly income for that circuit or substation component per hour.
  - (c) total outage penalties for any circuit or substation component in any one year for the first five years will not exceed 10% of the annual income for that circuit and total penalties for any circuit in any one year for the subsequent period of operation will not exceed 20% of the annual income for that circuit.
- iii) The ITC will be charged a penalty in case of energy losses greater than the specified limits. This penalty would be applied and recovered from the monthly payments of the ITC in proportion to the average revenue loss attributable to utilities during that time.

- iv) Other categories of outages such as Force Majeure, Acts of God, and System failure(s) etc., shall not attract penalties.
- v) Service charges Payments for different components will be as per service charge Tables (1, 2 & 3) to be provided.

**J. VALIDITY PERIOD OF SERVICE CHARGE:**

The service charges applies to the projects defined as Package A and B plus any additions to them during the construction period and will remain unchanged during the execution period.

## OHL SERVICE CHARGES (TABLE 1)

*All figures in US Dollars*

500 kv Overhead Lines	Conductor Type/Size	U.S. \$ / km per month / circuit			
		Year (1-10)	Year (11-20)	Year (21-30)	Av. Over * Year (1-30)
<p><u>North of Guddu Zone 'A'</u></p> <p>Mixed dry, some submerged and semi-submerged ground conditions</p> <p><u>With River Crossing</u></p> <p>Escalable component Non-escalable component Total</p> <p><u>Without River Crossing</u></p> <p>Escalable component Non-escalable component Total</p>	<p>Single OCT Line 4-Bundle Conductor</p>				
<p><u>South of Guddu to Jamshoro Zone 'B'</u></p> <p>Conditions: Intermediate Pollution zone; Semi-submerged and submerged ground conditions</p> <p><u>With River Crossing</u></p> <p>Escalable component Non-escalable component Total</p> <p><u>Without River Crossing</u></p> <p>Escalable component Non-escalable component Total Single OCT</p>	<p>Single OCT Line 4-Bundle Conductor</p>				

Note: Please indicate Average Service Charges payable for 1-10 yrs, 11-20 yrs, 21-30 yrs for all items on tables 1, 2 and 3. A 30 yrs average shall also be indicated. A detail stream of proposals service charge for the yrs 1 to 30 are also to be provided.

## SUBSTATIONS SERVICE CHARGES (TABLE 2)

ALL FIGURES IN US DOLLARS

Voltage	Plant Description	U.S. \$ / Unit per month			
		Year (1-10)	Year (11-20)	Year (21-30)	Av. Over Year (1-30)
500 kv	1 diameter, 1 1/2 switch bay configuration (including Substation Infrastructure)  Escalable component Non-escalable component Total				
500 kv	Switchable Shunt Reactor (including connections)  3 x 37 MVA  Escalable component Non-escalable component Total				
500/220 kv	Interbus Transformers (including connections)  450 MVA  Escalable component Non-escalable component Total				

Notes

- 1) A diameter consists of two 1 1/2 switch bay configurations.
- 2) All primary equipment associated with one complete diameter shall be owned by a single party.
- 3) On existing sites, the utility will own the primary busbar and busbar extension.
- 4) On new sites, the ITC will own the primary busbar and busbar extensions.



### SUBSTATIONS SERVICE CHARGES (TABLE 3)

ALL FIGURES IN US DOLLARS

Voltage	Plant Description	U.S. \$ / Unit per month			
		Year (1-10)	Year (11-20)	Year (21-30)	Av. Over Year (1-30)
220 kv Zone A or B	1 diameter, 1 1/2 switch bay configuration (including Substation Infrastructure)  Escalable component Non-escalable component Total				
220 kv Overhead Line Zone A	Double circuit have twin Bundle "RAIL" or equivalent ACSR Conductor  Escalable component Non-escalable component Total				