

PRIVATIZATION OF QUAID-E-AZAM SOLAR POWER (PVT.) LIMITED

POWER POLICY AND TARIFF

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In collaboration with

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**POWER POLICY &
TARIFF OVERVIEW**

Salient Features of the 2006 Renewables Policy and 2015 Power Generation Policy

LEGAL PROTECTIONS

▪ GoP Guarantee	- Guaranteed off-take and payment obligation in terms of the Energy Purchase Agreement - Delayed payment surcharge (3M KIBOR + 200bps) in case of delayed payments - Compensation amounts due on termination subject to terms of the implementation agreement covering lenders debt O/S, ROE amongst others
▪ Force Majeure Events	Protection against specified force majeure events
▪ Taxes and duties regime	Protection against changes in taxes and duties regime
▪ Dispute Resolution under IA/EPA	Rules of London Court of International Arbitration
▪ Land Indemnity	Protections against defect in leasehold title

FISCAL INCENTIVES

▪ ROE	Attractive ROE of 17% p.a. - US\$ indexed
▪ Income taxes	Exemption from income tax under clause 132 of Part-1 of the second schedule to the Income Tax Ordinance 2001 (applicable on expansion of existing Projects as well) on sale of electricity
▪ Customs Duty	Exemption from custom duty
▪ Income & withholding tax on imports	Complete exemption from payment of income and withholding tax on imports

FOR FOREIGN INVESTORS

▪ Dividends	100% repatriation of dividends subject to SBP requirements
▪ Ownership	100% foreign ownership of companies is permissible
▪ Zakat	Non-muslims & non-residents exempted from payment of Zakat on dividends

Solar power upfront tariff overview

Tariff components

O&M cost

Insurance cost

Return on equity

Debt servicing

Key tariff determination parameters

Technical

Annual plant factor

Degradation factor

Solar irradiation risk

Financial

Debt: equity ratio

ROE

Interest on loans

Capital cost

O&M cost

Tariff evolution in Pakistan

South region

Date	Assumed plant capacity factor	Tariff (PKR/ kWh)			Tariff (₹/kWh)
		1-10 years	11-25 years	Levelized	Levelized
21 January 2014	17.5%	21.1138	8.7568	17.1216	16.3063
22 January 2015	17.5%	18.0397	8.1947	14.8591	14.1516
25 May 2015	17.5%	18.0397	8.1947	14.8591	14.1516
16 December 2015	18.0%	13.6994	6.1528	11.2614	10.7251

North region

Date	Assumed plant capacity factor	Tariff (PKR/ kWh)			Tariff (₹/kWh)
		1-10 years	11-25 years	Levelized	Levelized
21 January 2014	16.78%	22.0197	9.1325	17.8563	17.0060
22 January 2015	16.78%	18.8138	8.5463	15.4967	14.7588
25 May 2015	16.78%	18.8138	8.5463	15.4967	14.7588
16 December 2015	17.0%	14.5053	6.5148	11.9238	11.3560

Source: NEPRA upfront tariff for solar power plants

QASPL tariff overview

Key terms and conditions of tariff

- ▶ Annual plant capacity factor: **17.5%**.
- ▶ Return on Equity: **17.0%**.
- ▶ Tariff control period: **25 years** from CoD
- ▶ Risk of lower solar irradiation parked with: **QASPL**
- ▶ **Actual degradation** subject to maximum of **0.7%** per annum of initial power. No degradation shall be applicable if the generation remains in excess of the benchmark plant capacity factors i.e. 17.5%.
- ▶ **Taxes** such as income tax, workers profit participation fund and workers welfare fund, any other tax, custom/excise duty or other duty, levy, charge, surcharge or other governmental impositions, payable on the generation, sales, exploration: **Pass through**
- ▶ **Indexations**: Allowed as per tariff such as General CPI, US CPI, Exchange rate (PKR/USD), KIBOR, etc.
- ▶ **Carbon credits actual realization distribution**: **Power Purchaser and QASPL** in accordance with the Policy for Development of Renewable Energy for Power Generation 2006.

Revenue sharing mechanism with CPPA

Annual capacity factor	QASPL share	CPPA share
Up to 17.5%	100%	- %
>17.50% to 18.50%	75%	25%
>18.50% to 19.50%	80%	20%
>19.50%	100%	- %

Source: EPA agreement

- ▶ QASPL initially adopted Upfront tariff of **PKR 18.0397 per kWh** in March 2015.
- ▶ QASPL's reference tariff was adjusted to **19.0888 per kWh (US\$18.7698 per kWh)** in Jul16 on account of COD adjustments.
- ▶ QASPL had **a interest rate (spread) saving of 50 basis** points with 40% of such saving retained by it. Tariff is subject to indexation adjustments on quarterly basis