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TRANSITION PROGRAMME

for

PRIVATISATION OF THE PAKISTAN POWER SECTOR

INTERNATIONAL RESOURCES GROUP, Ltd.

DECEMBER 1992

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TABLE OF ACRONYMS

ADB	Asian Development Bank
AEB	Area Electricity Board
A.I.D.	Agency for International Development
BST	Bulk Supply Tariff
FAEB	Faisalabad Area Electricity Board
GOP	Government of Pakistan
IRG	International Resources Group, Ltd.
LOE	Level of Effort
MOF	Ministry of Finance
MW	mega watts
MWP	Ministry of Water and Power
N/A	Not applicable
NDFC	National Development Finance Corporation
NEPRA	National Electric Power Regulatory Authority
ODA	Overseas Development Administration (U.K.)
PC(PS)	Privatisation Commission (Power Sector)
PM	Person Months
PPA	Power Purchase Agreement
PPC	Private Power Cell
PPS	Pakistan Power Sector
SOW	Scope of Work
TOR	Terms of Reference
USAID	U.S. Agency for International Development
WAPDA	Water and Power Development Authority
WPPO	WAPDA Private Power Organisation

INTRODUCTION

The *Strategic Plan for the Privatisation of the Pakistan Power Sector* (the "*Strategic Plan*") proposes that the Pakistan Power Sector (the "PPS") be restructured over time into a disaggregated, largely privately owned system, with as much competition as practical to force efficiency and to minimise the burden of regulation. A phased implementation programme is recommended that, over a period of four years or so, will accomplish four principal objectives:

1. **Restructure and Corporatise WAPDA¹:** The Water and Power Development Authority (WAPDA) will be restructured and corporatised, with distinct business units established as subsidiary corporations suitable for sale to private investors. Several generating plants and one distribution company will be sold quickly, and additional private generation capacity will be solicited competitively, to gain experience with the processes and to demonstrate commitment to and progress toward privatisation.
2. **Establish NEPRA:** A National Electric Power Regulatory Authority (NEPRA) will be established to assist and oversee the development of the private FPS and to regulate prices and operations in well-defined ways. NEPRA will be an autonomous agency to minimise political intervention in the PPS, and the PPS itself will be as competitive as possible to minimise regulatory burdens and intervention.
3. **Establish Electricity Pricing Arrangements:** A wholesale electricity market based on WAPDA's central dispatch process and separate transmission charges will be developed to assure proper coordination, adequate compensation and appropriate price signals for the decentralised, competitive entities. Procedures for converting wholesale electricity prices into a bulk supply tariff (BST) or wholesale contracts, and for converting wholesale electricity costs and distribution costs into cost-reflective retail prices will be established, along with methods for explicit subsidies to modify cost-based

¹ All references to WAPDA, unless otherwise specified, refer to the Power Wing. The Water Wing of WAPDA falls outside the scope and objective of the privatisation programme as well as of this Transition Programme document.

prices where required.

4. **Privatise WAPDA's Power Operations:** WAPDA will privatise its power operations by purchasing any new thermal generation competitively from private producers and selling its thermal generation and distribution operations as soon as practical. This will require WAPDA to develop an improved competitive solicitation process for new generation and to make its existing assets more attractive to potential buyers by implementing a labour transition programme, performing environmental and due-diligence assessments, and putting purchase and sale contracts into place for its subsidiaries. WAPDA's power subsidiaries will then be sold as rapidly as commercial, financial, political, and administrative conditions allow.

The *Strategic Plan* describes a phased implementation programme for accomplishing these four objectives, beginning in August 1992 and leading to operation of the fully implemented system by August 1996. This Transition Programme provides more details on the implementation plan, reflecting progress and developments since preparation of the *Strategic Plan* and decisions by the Government of Pakistan (GOP) concerning its objectives and preferred schedule for privatisation of WAPDA. The tasks described here are organised in terms of the four principal objectives outlined above; a timeline relates these tasks to the implementation phases in the *Strategic Plan*. The task descriptions are considered adequate for the initial allocation of responsibilities and funding, and as the basis for preparing detailed statements of work for the purpose of soliciting consultants and advisors. Detailed statements for some of the early, priority tasks are attached as annexes to this Transition Programme. It is anticipated that experience gained in the early stages of the process and future policy decisions by the Government of Pakistan (GOP) and its Privatisation Commission (Power Sector) ["PC(PS)"] will require additions and modifications to these task descriptions, consistent with the *Strategic Plan's* design as an evolving document rather than as an inflexible schedule and blueprint.

The GOP has indicated its desire to try to accelerate the privatisation process by selling generating plants and distribution

companies earlier than recommended in the *Strategic Plan*. This Transition Programme describes how such an accelerated option can be explored without compromising the basic economic objectives of privatisation, provided that early sale of assets does not become the definition of "success" of the programme so that assets must be sold even if this requires terms unfavorable to the GOP's objectives. In effect, the programme is designed to privatise assets as quickly as possible without unacceptable costs in terms of the value received for assets and the shape of the future PPS, with the schedule accelerated (or slowed) in light of the market response and GOP policy decisions. This process might allow acceleration of the privatisation schedule; however, the schedule in the *Strategic Plan* is already aggressive in light of international experience and of the obstacles that significant acceleration will encounter.

Privatisation of the electric industry will require substantial political commitment. The GOP's Cabinet Energy Committee, at its meeting on July 18, 1992, accepted the *Strategic Plan for the Privatisation of the Pakistan Power Sector*, with slight modifications regarding the timing and the number of generating plants to be sold on a fast-track basis, thus firmly approving the principles, goals, objectives, long-term industry structure, and transition programme as outlined in the Plan². It is now critical that the GOP and its various entities, the international donor community, and implementing organisations work closely to convert the GOP's privatisation policies into reality.

As a first task, the PC(PS) has entrusted International Resources Group, Ltd. (IRG) with the task of preparing this Transition Programme³, which outlines the various tasks necessary for privatisation of the PPS, the objectives, approaches, responsibilities, funding sources, and timing. It is important to emphasize that this document is not the result of a rigorous

² In this report, "Plan" refers to the "*Strategic Plan for the Privatisation of the Pakistan Power Sector*".

³ The authors of this report are Arun Banskota and Larry Ruff.

feasibility study, but is based upon prior experience in conducting such tasks. Question marks ("??") appear in the funding agency line item on tasks where no donor has been clearly identified or the choice among donors must be determined by the GOP.⁴ This Transition Programme will form the basis for tracking the progress of privatisation and for ensuring that various tasks are carried out simultaneously and effectively.

⁴ The World Bank has expressed interest in funding all aspects of the privatisation programme that will not be undertaken by other donors; the Bank plans to utilise its Energy Sector Loan as a mechanism for the provision of all such technical assistance.

Task A: Prepare Transition Programme: The Government of Pakistan, at its Cabinet Energy Committee meeting of July 18, 1992, has accepted the *Strategic Plan*. This Plan forms a consensus within the GOP for the goals and objectives of privatisation, the long-term structure of the competitive industry, and includes a brief transitional programme. In May 1992, the GOP established the Privatisation Commission (Power Sector) to take the lead in privatisation efforts. It now becomes critical to turn the *Strategic Plan* into an implementable document, with detailed tasks, responsibilities, timing, and funding details. Such a document, hereafter referred to as the Transition Programme, will provide a good sense of the future direction of efforts in privatising the power sector, and is meant to assist the GOP, donor community, and implementing organisations coordinate the privatisation activities.

Objectives: The objective of this subtask is to develop a workable implementation document for the *Strategic Plan*.

Approach: Consultants already contracted by A.I.D. will work closely with the GOP and funding agencies to come up with a realistic, implementable, and effective plan.

Level of Effort: 4.5 PM

Responsibilities: PC(PS)

Funding Agency: A.I.D.

Timing: July 1992 -- December 1992

[See Annex I for the complete Terms of Reference.]

OBJECTIVE 1: RESTRUCTURE AND CORPORATISE WAPDA

The activities necessary to restructure and corporatise WAPDA have begun, with the preparation of Jamshoro Power Plant and Faisalabad Area Board for an early sale. Completion of these sales is a priority objective, as is development of an overall restructuring plan for WAPDA. At the July 18, 1992 Cabinet Energy Committee meeting, the PC(PS) was instructed to prepare five additional power plants for possible early privatisation on a fast-track programme. The principal tasks that need to be accomplished for this objective include the following.

Task 1.1 -- Enact WAPDA Corporatisation Legislation: GOP has prepared drafts of amendments to the WAPDA Act allowing WAPDA to establish subsidiaries and to sell assets. Amendments are also required to the Stamp, Income Tax and Registration Acts to exempt WAPDA subsidiaries from taxes as an interim measure. This legislation needs to be enacted as a high priority task, in order to give legal protection to all the restructuring activities.

Objective: To allow WAPDA to be legally corporatised.

Approach: GOP/consultants will revise draft legislation, if necessary. GOP will manage the Parliamentary process for submission and enactment of the legislation.

Level of Effort: Consultant inputs have been provided. Relevant GOP institutions are now reviewing the document.

Tentative Budget: already funded

Responsibility: PC(PS)

Funding Agency: A.I.D.

Timing: September 1992 -- December 1992.
Parliamentary approval by March 1993.

Task 1.2: Corporatise Jamshoro Power Corporation: Much of the necessary legal and due-diligence work necessary for corporatisation of Jamshoro has been completed by USAID-supported consultants. A financial advisor has prepared financial pro formas and related analyses. Corporatisation should be possible soon, following appointment of corporate management and board of directors and establishment of terms of power purchase agreement. Some of the subtasks under this task include: completion of legal documents for corporatisation and preparation/ communication of labour transition programme.

Objective: To establish Jamshoro as a profit-center before privatisation.

Approach: Consultants will finish remaining work. GOP will appoint management and board of directors, and set Power Purchase Agreement terms.

Level of Effort: ongoing

Tentative Budget: already funded

Responsibility: WAPDA/WPPO

Funding Agency: A.I.D.

Timing: November 1991 -- October 1992.

Task 1.3: Corporatise Faisalabad Area Electricity Board (FAEB): The *Strategic Plan* recommends that high priority be given to the privatisation of at least one Area Electricity Board (AEB), and the GOP has recommended Faisalabad as the most appropriate one. The FAEB is one of the eight AEBs established in the WAPDA Power Wing that provides electricity distribution services. The operations of the FAEB are currently integrated with the WAPDA system. Corporatisation will establish the FAEB as a discrete profit center wholly owned, at least initially, by WAPDA.

Technical assistance is required on numerous fronts, including engineering, financial, accounting, economic, and legal. Interim transfer pricing defining the terms on which FAEB will purchase electricity from WAPDA, and interim regulatory conditions defining how FAEB is allowed to charge for its distribution services and for

the electricity it delivers must be defined.

Objective: To establish Faisalabad as the first profit-center Area Electricity Board (AEB) before privatisation.

Approach: Consultants will work closely with WAPDA and Faisalabad Area Board.

Level of Effort: 60 PM

Tentative Budget: \$1,500,000

Responsibility: WAPDA/WPPO and PC(PS)

Funding Agency: A.I.D.

Timing: February 1993 -- March 1994

[See Annex II for a complete Terms of Reference.]

Task 1.4 -- Corporatise other Power Plants: WAPDA and GOP have identified Shahdara Gas Turbine Power Station (85 MW); Multan Steam Power Station (130 MW); Multan, Piran Ghaib, Natural Gas Power Station (265 MW); Faisalabad Steam Power Station and Gas Turbine Power Station (132 MW + 200 MW); Kot Addu Gas Turbine Power Station (1000 MW) as potential candidates for early offering to market, as a test of the feasibility of accelerating the privatisation programme. The experience gained with Jamshoro should allow corporatisation to proceed quickly for these plants.

At present, IRG has already fielded personnel to conduct a technical due diligence.

Objective: To accelerate the pace of privatisation, other generating plants will be corporatised in parallel with Jamshoro, preparing these other plants for fast-track privatisation.

Approach: Consultants will conduct due diligence review, prepare financial statements,

prepare power purchase agreement and
corporatisation documents. GOP will
appoint management and set PPA terms.

Level of Effort: 55 PM
Tentative Budget: \$1,375,000
Responsibility: PC(PS)
Funding Agency: A.I.D.
Timing: November 1992 -- October 1993.

Task 1.5 -- Plan/Implement WAPDA Reorganisation and Establish Privatisation Priorities: WAPDA must design and implement a decentralised structure for itself. Such a structure will establish separate divisions for individual thermal power plants (or perhaps several small plants), for individual Area Boards (or subdivisions of area boards) and for service activities, and will define how WAPDA's Water Wing and hydel activities will be organised and how they will interact with the separate Power Wing activities. WAPDA will establish priorities for privatisation of its Power business units, presumably beginning with early sale of "non-core" service activities, smaller power plants and urban Area Boards. This task will take into account the recommendations from the Asian Development Bank (ADB) study, which is conducting an organisational diagnosis of WAPDA, analyzing alternative organisational structures consistent with the *Strategic Plan* recommendations, and preparing an implementation plan to map the restructuring process. The ADB study is due for completion in December 1992 and Task 1.5 will resume in January 1993 from where the ADB study ends.

Objective: To establish various units of WAPDA as profit centers before spin-offs.

Approach: WAPDA, with assistance from management and organisational consultants, will develop a proposed structure and schedule and, following GOP approval, will implement it.

Level of Effort: 16 PM

Tentative Budget: \$400,000

Responsibility: WAPDA/PC(PS)

Funding Agency: ???

Timing: August 1992 -- December 1993
(The August 1992 start date refers to the work already initiated by the ADB. Identify business units and management by March 1993; complete internal reorganisation by December 1993.)

Task 1.6 -- Corporatise WAPDA and Subsidiaries: Once WAPDA has been reorganised into separate business units, these must be established as businesses, with individual income statements and balance sheets, and with transfer prices for the products and services flowing among them. The experience gained in the early corporatisation of Jamshoro, Faisalabad, and various other proposed power plants (Shahdara, Multan Steam, Multan Natural Gas, Faisalabad Steam and Gas, Kot Addu Gas) will allow this work to be accomplished relatively quickly.

Objective: To establish profit-centers and prepare individual units for privatisation.

Approach: Management consultants and accountants will prepare accounts; preliminary work on the wholesale market and on transmission and distribution pricing will be used to establish interim transfer prices; legal advisors will prepare corporatisation documents.

Level of Effort: 48 PM

Tentative Budget: \$1,200,000

Responsibility: WAPDA

Funding Agency: ???

Timing: January 1993 -- June 1994.

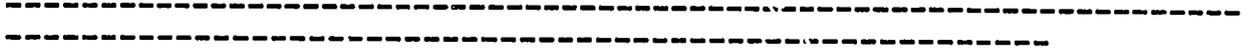


TABLE 1: Restructure and Corporatise WAPDA

TASK #	TASK	TIMING	LOE (PM)	RESPON-SIBILITY	FUNDING AGENCY
I	RESTRUCTURE AND CORPORATISE WAPDA	Nov 91 Jun 94			
1.1	Enact WAPDA Corporatisation Legislation	Sep 92 Dec 92	N/A	PC(PS)	N/A
1.2	Corporatise Jamshoro	Nov 91 Oct 92	N/A	WPPO	A.I.D.
1.3	Corporatise Faisalabad AEB	Feb 93 Mar 94	60	WPPO	A.I.D.
1.4	Corporatise other Power Plants	Nov 92 Oct 93	55	PC(PS)	A.I.D.
1.5	Plan/Implement WAPDA Reorganisation and Establish Privatisation Priorities	Aug 92 Dec 93	16	WAPDA/ PC(PS)	???
1.6	Corporatise WAPDA and subsidiaries	Jan 93 Jun 94	48	WAPDA	???

OBJECTIVE 2: ESTABLISH NEPRA

The design of the National Electric Power Regulatory Authority has been begun by the consulting firm of International Resources Group (IRG), under contract to USAID. This project will result in two principal products by December 1992: A draft report outlining the structure, responsibilities and mode of operation of NEPRA; and draft legislation to establish NEPRA. Implementation of NEPRA can then begin. The principal tasks for Objective 2 include the following.

Task 2.1 -- Complete NEPRA Design: A regulatory framework and a regulatory authority must be developed concomitantly with the privatisation of the electric power industry. The *Strategic Plan* recommends a phased programme for the development of such a National Electric Power Regulatory Authority (NEPRA). This design work (Phase I) will define the regulatory tasks of NEPRA, recommend changes to existing laws and regulations applicable to the electric power sector, draft legislation that allows formation of NEPRA, consider options and recommend the best structure for the authority, and develop a programme for institutionalizing NEPRA.

A final draft report recommending the regulatory tasks and organisational structure for NEPRA was submitted to the Government of Pakistan in December 1992. The Federal and Provincial governments are scheduled to meet in January 1993 in order to resolve remaining issues.

Objective: To gain a consensus among various GOP and provincial governments regarding the objectives, tasks, and structure of NEPRA.

Approach: Consultants funded by USAID will complete assignment and provide final report and draft legislation.

Level of Effort: 12.5 person-months

Tentative Budget: already funded

Responsibility: PC(PS)

Funding Agency: A.I.D.

Timing: July 1992 -- March 1993.

Task 2.2 -- Enact NEPRA Enabling Legislation: The NEPRA legislation must be enacted into law. This is primarily the task of the relevant GOP institutions, including WAPDA, Ministry of Water and Power, and Ministry of Justice. The federal and provincial governments need to agree upon issues regarding NEPRA's structure and functions before enabling legislation can be drafted in final.

Objective: To allow NEPRA to be legally established.

Approach: Appropriate GOP processes will be followed in order to introduce the legislation before the national parliament.

Level of Effort: N/A

Tentative Budget: N/A

Responsibility: PC(PS) and National Parliament

Funding Agency: N/A

Timing: Enactment of legislation by May 1993.

Task 2.3 -- Create and Staff NEPRA: The GOP must establish the administrative support structures required for NEPRA, appoint the commissioner(s) and recruit staff. Various logistical arrangements are required to establish NEPRA, including office space, furniture and equipment, library resources, etc.

Objective: To enable NEPRA to function as an efficient and capable regulatory entity.

Approach: GOP processes will be followed to establish the organisation. GOP, perhaps

through a professional advisory board,
will identify commissioner(s) and recruit
key staff.

Level of Effort: 27 PM
Tentative Budget: \$729,000
Responsibility: GOP/PC(PS)
Funding Agency: ???
Timing: June 1993 -- November 1993.

Task 2.4 -- Institutionalize NEPRA Regulations/Procedures:
NEPRA must develop its procedures and approach,
consistent with the legislation and with the
emerging structure of the decentralised PPS.
External technical assistance, especially those of
legal, financial/accounting, and engineering
specialists, will be critical in the early stages
of this effort.

Objective: To allow NEPRA to function
efficiently.

Approach: NEPRA will retain external advisors
familiar with regulation of competitive
utility markets elsewhere; care must be
taken to prevent simple importation of
practices inappropriate for the new PPS
structure.

Level of Effort: 72 PM
Tentative Budget: \$1,944,000
Responsibility: NEPRA
Funding Agency: ???
Timing: December 1993 -- Ongoing
Advisors should be available from the
creation of NEPRA until NEPRA and the new
PPS structure are fully operational; the

major advisory effort will be in late
1993 (under Phase II) and throughout
1994.

[For a complete Terms of Reference for the NEPRA, please refer to
Annex III.]

TABLE 2: Establish NEPRA

TASK #	TASK	TIMING	LOE (PM)	RESPON-SIBILITY	FUNDING AGENCY
II	ESTABLISH NEPRA	Jul 92 Mar 96			
2.1	Complete NEPRA design	Jul 92 Mar 93	12.5	PC(PS)	A.I.D.
2.2	Enact NEPRA enabling legislation	Oct 92 May 93	N/A	PC(PS)	N/A
2.3	Create and Staff NEPRA	Jun 93 Nov 93	27	PC(PS)	???
2.4	Institutionalize NEPRA Regulations/Procedures	Dec 93 Ongoing	72	NEPRA	???

**OBJECTIVE 3: ESTABLISH COMMERCIAL ELECTRICITY PRICING
ARRANGEMENTS**

A decentralised, competitive electricity industry requires for its proper operation wholesale markets and wholesale contracts that are different than the cost-based tariffs that are traditional in monopoly utility systems; designing such market arrangements requires innovative thinking, not just "cost of service studies" for the various entities in the industry. A decentralised electricity system also requires separate and regulated pricing for transmission and for distribution, arrangements for setting and regulating retail prices, and mechanisms for paying explicit subsidies where public policy requires deviations from commercial, cost-reflective prices.

The current tariff regime in Pakistan is very distorted. In sum, the industrial and commercial establishments are heavily subsidising the domestic and agricultural consumers. Under the domestic and agricultural categories, all consumers, including the wealthy, are effectively subsidised. The *Strategic Plan* recommends a cost-reflective tariff structure, which is most suitable for a privatised, competitive, and efficient power system. Effectively, this means doing away with cross-subsidies.

The *Strategic Plan* does not advocate the total removal of subsidies; indeed, social policies are the prerogative of any government. However, it is strongly recommended that tariffs should be economic and efficient to the extent possible; without restructuring tariffs, the efficiency objective of privatisation will be defeated. A more appropriate methodology for providing social subsidies, such as rural electrification, is to raise the financing through general revenues, and to remit the cost of the programme to the implementing private sector firm. This process ensures transparency of such subsidies, and forces the government to continuously evaluate the desirability of such subsidies.

The tasks that must be completed in order to establish these pricing arrangements include the following.

Task 3.1 -- Define Market Principles and Structure: The principles and general structure of the wholesale and retail markets must be defined before detailed implementation and tariff design can begin. For example, will there be a monopoly buyer-and-reseller of all power, or will bilateral contracts between generators and wholesale customers be allowed; will prices depend on actual system conditions or predetermined time periods; will dispatch be based on contract prices, engineering estimates of costs, or bids; will retail customers have access to the wholesale market directly or only through distribution companies?

Approach: Consultants familiar with competitive electricity systems will identify the principal options and issues, and then work closely with WAPDA and PC(PS) so that design decisions will be made in an informed manner.

Level of Effort: 6 PM

Tentative Budget: \$150,000

Responsibility: PC(PS)

Funding Agency: ???

Timing: February 1993 -- April 1993 (3 months)

Task 3.2 -- Conduct System Cost/Pricing Study: Electricity prices in an efficient, competitive electricity market must reasonably reflect the marginal cost of providing electricity (or of curtailing customers). Thus, an essential preparatory step in developing pricing policies is to study the operations and costs of WAPDA's generating and transmission system and to estimate marginal system costs at various times and places, under various conditions. Such an analysis will be required not only for pricing purposes, but also for estimating the market value of each of WAPDA's generating units.

Approach: Consultants familiar with economic and operational modeling of competitive

electricity systems will work with WAPDA's system modelers to determine the best approach to this task and to carry out the required analysis.

Level of Effort: 12 PM
Tentative Budget: \$300,000
Responsibility: WAPDA/PC(PS)
Funding Agency: ???
Timing: February 1993 -- July 1993 (6 months)

Task 3.3 -- Design and Implement Wholesale Electricity Market:
The principles agreed to in Task 3.1 and the system cost information developed in Task 3.2 will be used to develop a wholesale electricity market. This market will be simple initially, involving a bulk supply tariff (BST) specifying electricity prices by time of use, perhaps combined with "emergency period" prices and voluntary load-management contracts to rationalise the load-shedding that causes such serious problems in Pakistan. Extensions and refinements of the market will be developed and incorporated as required.

Approach: Consultants familiar with decentralised, competitive electricity systems will work with WAPDA to define the initial market and the work required for future extensions.

Level of Effort: 12 PM
Tentative Budget: \$300,000
Responsibility: WAPDA/PC(PS)
Funding Agency: ???
Timing: July 1993 -- December 1993 (6 months)

Task 3.4 -- Develop Transmission Pricing: The concepts to be used in setting and regulating transmission and

other system charges must be developed and agreed to, and then applied to determine the initial transmission charges. Simple but non-discriminatory transmission and system access charges will be established initially, e.g., charges providing a reasonable rate of return on the replacement cost of WAPDA's transmission system, and/or reflecting the long-run marginal cost of extending and strengthening WAPDA's system.

Approach: Consultants familiar with transmission systems will be retained to work with WAPDA.

Level of Effort: 24 PM

Tentative Budget: \$600,000

Responsibility: WAPDA/PC(PS)

Funding Agency: ???

Timing: June 1993 -- January 1994 (8 months)

Task 3.5 -- Develop Distribution and Retail "Supply" Pricing:
The principles to be used in setting and regulating distribution system charges must be developed and agreed to, and then applied to determine the initial distribution charges. Similarly, the principles that distribution companies will use to set prices for retail customers, presumably allowing pass-through of wholesale power purchase costs plus regulated distribution system prices, must be developed and applied to a typical distribution company.

Approach: Consultants working closely with WAPDA, distribution companies (Area Boards) and PC(PS) develop and agree on principles/methods and apply them to one distribution company; thereafter, WAPDA and distribution companies apply methods under review by NEPRA.

Level of Effort: 12 PM

Tentative Budget: \$300,000

Responsibility: PC(PS)
Funding Agency: ???
Timing: July 1993 -- December 1993

Task 3.6 -- Develop Subsidy Principles and Mechanisms: The GOP must decide which subsidies it desires to maintain in the new PPS -- e.g., rural-electrification, agricultural irrigation, life-line rates -- and then mechanisms for providing these in a commercial, competitive market must be developed. In general, such subsidies should be explicit, with GOP decisions makers responsible for deciding the amount and disposition of the subsidies, and the sources of the funds, whether from general GOP revenues or from a tax (explicit or implicit) on electricity.

Approach: The GOP, working closely with consultants, must define the objectives and targets of subsidies; the consultants will then design alternative "taxing" arrangements and administrative processes for review by the GOP. The chosen options will be incorporated into the pricing and regulatory mechanisms.

Level of Effort: 9 PM
Tentative Budget: \$225,000
Responsibility: PC(PS)
Funding Agency: ???
Timing: March 1993 -- August 1993

TABLE 3: Establish Commercial Electricity Pricing Arrangements

TASK #	TASK	TIMING	LOE (PM)	RESPON-SIBILITY	FUNDING AGENCY
III	ESTABLISH COMMERCIAL ELECTRICITY PRICING ARRANGEMENTS	Feb 93 Jan 94			
3.1	Define Market principles and structures	Feb 93 Apr 93	6	PC(PS)	???
3.2	Conduct System Cost/Pricing Study	Feb 93 Jul 93	12	WAPDA	???
3.3	Design and Implement Wholesale Electricity Market	Jul 93 Dec 93	12	WAPDA	???
3.4	Develop Transmission Pricing	Jun 93 Jan 94	24	WAPDA	???
3.5	Develop Distribution and Retail "Supply" pricing	Jul 93 Dec 93	12	PC(PS)	???
3.6	Develop Subsidy principles and mechanisms	Mar 93 Aug 93	9	PC(PS)	???

OBJECTIVE 4: PRIVATISE WAPDA'S POWER OPERATIONS

WAPDA will increase its efforts to attract private investors to build new thermal power plants in Pakistan and will undertake extensive work to increase the attractiveness of its existing assets for sale to private investors. Throughout this process it will sell assets as soon as it responsibly can without unacceptable effects on the objectives of obtaining fair value for the assets and creating a strong, competitive PPS in the long run. Among the tasks that will be undertaken to accomplish this objective are the following.

Task 4.1 -- Implement an Improved Competitive Solicitation Process: WAPDA will continue to function as the primary buyer and seller of electricity for at least another one to two years. This function will continue until the distribution businesses and the transmission entity are corporatised, at a minimum. Eventually, AEBs and larger consumers will be able to contract directly with the generators, and the existing contracts with WAPDA should be reassignable to the AEBs.

In the interim, introduction of a competitive solicitation process for new generation is essential to promote private sector participation in the power business. Several different approaches to competitive solicitations are being used with success around the world, and can serve as models for Pakistan, with appropriate modifications.

Consultants will also advise WAPDA on appropriate insurance provisions for the utility as well as for private developers. This advisory work has already been conducted. It may be advisable to develop a standard Risk Management procedure and format that WAPDA can utilize during the transitional period when it is buying power from private developers.

Objective: To formulate a competitive solicitation programme that can be utilised by WAPDA to purchase new generating capacity.

Level of Effort: 13 PM
Tentative Budget: \$325,000
Responsibility: PC(PS)
Funding Agency: ???
Timing: October 1992 -- March 1993 (6 months)

[For a complete Terms of Reference, please refer to Annex IV.]

Task 4.2 -- Design and Implement a Labour Transition Programme:
One of the most serious potential obstacle to successful privatisation is opposition from labour and the fear of potential buyers that future labour problems will destroy the profitability of any assets they might buy. WAPDA must solve this problem generically, by finding some combination of staff reductions, distribution of stock to workers, employment guarantees, etc, that is acceptable to workers, the GOP, and potential buyers. These measures will be implemented prior to offering the bulk of WAPDA assets for sale, so that buyers will have reasonable confidence in the labour situation at the assets they are buying.

Approach: Consultants will work closely with WAPDA, GOP, and workers' organisations to identify the major concerns and options for dealing with them, will propose programmes for WAPDA and GOP decision, and will assist in implementing the initial programmes. It may be necessary to provide technical assistance to retrain workers.

Level of Effort: 30 PM
Tentative Budget: \$750,000
Responsibility: WAPDA/GOP
Funding Agency: ???
Timing: January 1993 -- December 1993 (12 months)

[For a complete Terms of Reference, please refer to Annex V.]

Task 4.3 -- Conduct Environmental Assessments and Develop Warranty Policies: The GOP may want to impose environmental conditions on asset sales or may be willing to limit environmental liabilities for purchasers. Prospective purchasers of WAPDA assets will want to know what environmental liabilities and limitations come with the deal. Environmental assessments of WAPDA's assets must be performed in order for the GOP and prospective buyers to make informed decisions.

Approach: Environmental consultants will be retained to perform an audit of WAPDA sites and operations and to report to the GOP.

Level of Effort: 24 PM

Tentative Budget: \$600,000

Responsibility: PC(PS)

Funding Agency: ???

Timing: January 1993 -- December 1993 (12 months)

Task 4.4 -- Obtain Independent "Due Diligence" Reviews: Prospective buyers of WAPDA assets will want to make their own site inspections before making commitments, but cannot know if they are even interested enough to look without some independent information. PC(PS) will contract with independent engineering firms to inspect sites and provide independent reports on physical condition, operating procedures, etc. of WAPDA assets. (The due diligence of Jamshoro and Faisalabad are included in Tasks 1.2 and 1.3, respectively. Task 1.4 includes due diligence for Multan, Shahdara, Faisalabad, and Kot Addu power plants.) These reports will be used by WAPDA to correct the problems of most concern to potential buyers and will then be provided to prospective buyers as part of the solicitation documents.

The budget for this task depends upon how many more WAPDA assets are identified and approved for sale.

Approach: International engineering consultants will be retained to perform the inspections and report their findings.

Level of Effort: 24 PM

Tentative Budget: \$600,000

Responsibility: PC(PS)

Funding Agency: ???

Timing: November 1992 -- Ongoing, as power plants are slated for sale

Task 4.5 -- Retain O&M Contractors for Selected Facilities:
WAPDA will contract with external engineering firms to operate and maintain certain facilities prior to offering them for sale, as a way to provide additional confidence to potential buyers. This may be necessary for some of the older plants without a good track record. (We are assuming that O&M contractors will be required for at least four plants. Also, we assume that the cost for the O&M contractors will be borne under the rate structure at the distribution company level, and will not have to be directly funded.)

Approach: International engineering firms will be retained.

Level of Effort: N/A

Tentative Budget: N/A

Responsibility: WAPDA

Funding Agency: N/A

Timing: February 1993 -- Ongoing, as power plants are identified for sale

Task 4.6 -- Sell "Non-Core" Business Units As Soon As Possible:
WAPDA currently has within its organisation some support and service activities (e.g. printing press, distribution construction circles) that could easily be provided by external contractors.

These will be identified early in the WAPDA restructuring process and offered for sale, perhaps to the managers and workers in those divisions. Such sales will presumably be made with contracts assuring continuing business with WAPDA, but with the guaranteed business declining over time so that WAPDA can seek competitive bids within a few years.

Approach: The identified units will be structured as independent businesses, using external consultant assistance as appropriate, and offered for sale by competitive tender or negotiation.

Level of Effort: 32 PM

Tentative Budget: \$896,000

Responsibility: PC(PS)/WAPDA

Funding Agency: ???

Timing: March 1993 -- August 1994

Task 4.7 -- Offer Core Assets to Market When and As Appropriate: As WAPDA's various divisions are established as independent businesses with defined assets, markets, labour relations, etc, they will be offered to market. The rate at which they are sold will depend on the speed at which the preparatory work can be completed and on the extent of market interest.

Approach: Financial advisors will be appointed to decide the best strategy for selling each asset as it becomes ready for privatisation.

Level of Effort: 36 PM

Tentative Budget: \$1,008,000

Responsibility: PC(PS)

Funding Agency: ???

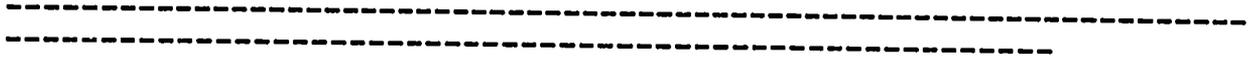
Timing: October 1992 -- Ongoing.
Jamshoro may be ready for offer by early

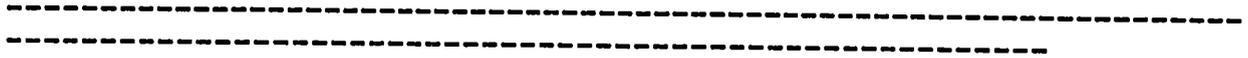
1993 and by mid-1993 at the latest.
Faisalabad AEB may be ready by mid-1994.
Various other power plants can be sold on
a fast-track basis, beginning mid-1993.
Other Power Wing assets will be offered
as soon as practical.

TABLE 4: Privatising WAPDA's Power Operations

TASK #	TASK	TIMING	LOE (PM)	RESPON-SIBILITY	FUNDING AGENCY
IV	PRIVATISE WAPDA'S POWER OPERATIONS	Oct 92 Ongoing			
4.1	Implement a Competitive solicitation program	Oct 92 Mar 93	13	PC(PS)	???
4.2	Design and Implement a Labour Transition Programme	Jan 93 Dec 93	30	PC(PS) / WAPDA	???
4.3	Conduct Environmental Assessments and Develop Warranty Policies	Jan 93 Dec 93	24	PC(PS)	???
4.4	Obtain Independent Due Diligence Reviews	Nov 92 Ongoing	24	PC(PS)	???
4.5	Retain O&M Contractors for Selected Facilities	Mar 93 Aug 94	32	PC(PS)	???
4.6	Sell Non-Core Business Units as soon as possible	Oct 92 Ongoing	36	PC(PS) / WAPDA	???
4.7	Offer Core Assets to Market when and as appropriate				

impplan5.d92/ab/december 31, 1992





ANNEX I

TRANSITION PROGRAMME

Subtask A: Prepare Transition Programme

Background

The Government of Pakistan, at its Cabinet Energy Committee meeting of July 18, 1992, gave approval to the *Strategic Plan for the Privatisation of the Pakistan Power Sector*. This Plan forms a consensus within the GOP for the goals and objectives of privatisation, the long-term structure of the competitive industry, and includes a brief transitional programme. In May 1992, the GOP established the Privatisation Commission (Power Sector) to take the lead in privatisation efforts. It now becomes critical to turn the *Strategic Plan* into an implementation document, which includes detailed tasks, responsibilities, timing, and funding details.

Objectives

The objective of this subtask is to develop a workable implementation document for the *Strategic Plan*.

Scope of Work

The Scope of Work for the Transition Programme includes:

1. Develop a detailed plan for executing the tasks described in the *Strategic Plan* as well as relevant tasks that may be identified by the Privatisation Commission (Power Sector).
2. Develop a matrix of tasks being performed and those planned, outlining task dependencies and interrelations, the need for parallel efforts in the cases where GOP policy priorities make this necessary, and assignments of respective responsibilities within the GOP.
3. Identify the resources required to accomplish the detailed plan.
4. Design and develop for Privatisation Commission (Power Sector) a management information system for coordinating and monitoring implementation of the *Strategic Plan* including coordination of ongoing tasks of GOP and its consultants.

Level of Effort

Team Leader/*Strategic Plan* Team Leader: 1 person month (PM)
Electric Power economist: 1.5 PM
Economist/Financial analyst: 1.5 PM
Legal expert: 0.5 PM

All the four team members are authors of the *Strategic Plan*, and are familiar with GOP and donor agency views regarding the Plan and its implementation.

Total LOE: 4.5 PM

Responsibilities

The PC(PS) will be the GOP entity responsible for ensuring this task is effectively completed. A.I.D. has agreed to fund this study, and the consultants have started work on the task.

Timing

Work on the Transition Programme started in July 1992 and will be completed by December 1992. A first draft of this report will be circulated in September 1992. A longer time-frame is necessitated since various GOP and funding agencies need to agree on the tasks, timing, level of effort, responsibility, and financing of the various tasks.

Reporting

Sep 1992: Draft Transition Programme. Copies to be distributed to the PC(PS) and A.I.D.

Oct 1992: Final Report. Five copies each of the Final Report will be distributed to the PC(PS) and A.I.D.

TASK#	TASK	TIMING	LOE (PM)	RESPON- SIBILITY	FUNDING AGENCY
A.	Prepare Transition Programme	Jul 92 Dec 92	4.5	PC(PS)	A.I.D.

ANNEX II

CORPORATISE FAISALABAD AEB

Corporatisation of the Faisalabad Area Electricity Board

Background

The Government of Pakistan has adopted WAPDA's Strategic Plan for the Privatization of the Pakistan Power Sector and in keeping with the overall strategy of that plan, has designated the Faisalabad Area Electricity Board (FAEB) as the priority Area Electricity Board (AEB) for corporatisation and privatization. The FAEB is one of the eight AEB's established in the WAPDA Power Wing that provides electricity distribution services. The operations of the FAEB are currently integrated with the WAPDA system. Corporatisation of the FAEB, which is proposed to be accomplished with this Control Work Plan, will establish the FAEB as a discrete profit center wholly owned by WAPDA.

It is foreseen that the work to corporatise the FAEB will proceed in parallel with development work for a National Electric Power Regulatory Authority (NEPRA) and with tariff reform studies. Work may also be in progress corporatising and privatizing WAPDA's thermal generating stations. It is recognized that this environment will require close cooperation amongst all parties so involved.

Scope of Work

A. ENGINEERING AND TECHNICAL ISSUES

1. Identify the engineering and technical functions that will become a part of the corporatised FAEB and identify the organization positions and facilities needed to carry out the identified functions. Identify engineering and technical functions that will be subcontracted from the private sector, or in some interim period, from WAPDA and establish operational procedures for obtaining these services.

2. Identify the geographic definition of the FAEB and assure that the area identified can be clearly supplied from the transmission system through metered substations and that any interconnection with other AEB's engineering and technical functions that will be subcontracted from the private sector, or in some interim period, from WAPDA and establish operational procedures for obtaining these services.

3. Carry out due diligence on the meter calibration and test facilities.

4. Carry out due diligence on the meter installation and meter reading program, including metering installation at the transmission and interconnect facilities.

5. Review the interconnect protection and relaying system for adequacy. Recommend changes as necessary. Establish required communication systems and normal and emergency operational procedures between the FAEB and the transmission system.

6. Review the engineering and technical operations and maintenance procedures and programs for general levels of adequacy. Recommend revision and improvements to these programs consistent with the corporatised character of the FAEB.

7. Review all physical inventory available with the FAEB and at WAPDA that is designated for the FAEB including spare and reserve parts, vehicles and equipment. Determine the adequacy of inventory identified for operation as a corporatised entity and recommend changes as appropriate. Establish agreements with WAPDA, as necessary, for spare parts supply. Review the inventory control program and recommend revisions as appropriate.

8. Review the switching order system and recommend changes as appropriate for the corporatised entity. Determine any distribution switching that is performed by WAPDA from central despatch facilities or other locations remote to the FAEB and recommend relocation of control to the FAEB or management control of any switching that remains with WAPDA.

9. Review the FAEB expansion and new connect plans for the next five years, or prepare estimate based on available information the probable expansion required and determine the capabilities of the proposed corporatised FAEB to attend to the expansion requirements. Assess transmission system plans to provide required services in the planning years.

10. Assess the technical adequacy of any FAEB distribution control centers and recommend changes as may be appropriate.

11. Assess the design criteria of the FAEB distribution system as per current and future load carrying capability, customer service reliability and adequacy, and customer and employee safety. Identify overloaded or about to be overloaded circuits. Recommend changes as appropriate.

B. FINANCIAL, ACCOUNTING AND TARIFF ISSUES

1. Conduct an inventory and evaluation of the

assets/liabilities to be transferred to the corporatised FAEB, the Faisalabad Electric Company (FEC). Determine the value of the FAEB.

2. Develop a financial model for the FEC and FAEB.
3. Prepare a detailed five year business plan for the FEC and FAEB that includes pro forma balance sheets, income and cash flow statements, revenue calculations, operating and maintenance costs, projections of required investment, and a financing strategy to meet resource requirements.
4. Review the FAEB accounting policies and procedures and chart of accounts. Recommend and implement revisions as appropriate for operating as a regulated, private company and for preparation of rate cases to be placed before the National Electric Power Regulatory Authority (NEPRA).
5. Establish a budgeting function within the FEC and FAEB that will support financial planning, cost control and provide input for performance monitoring.
6. Determine, to the extent possible, realizing the time and financial restraints, the Cost of Service for the FEC and FAEB based on customer classes and determine what, if any, subsidies are in existence. Establish the extent of unbilled service in the FAEB. Prepare position paper for Privatization Commission (Power Sector) regarding handing of subsidies.
7. Establish, through negotiations, Bulk Power Tariff between FEC, FAEB and WAPDA.
8. Develop a tariff model. This model should be reviewed with NEPRA's as their work in this area progresses.
9. Establish a financial monitoring and reporting system suitable for the FEC and FAEB management and NEPRA.

C. LEGAL ISSUES

1. Amendments to the WAPDA ACT, Registration Act and Stamp Act and changes to the Income Tax Ordinance, as proposed for the corporatisation of WAPDA's thermal generating stations will, if adopted, allow the corporatisation of the FAEB. The authority of the Province regarding the tariff selling process and the granting of franchise rights for distribution of electricity to consumers

must be clarified.

2. Create Transfer Agreement between WAPDA and the FEC. The Agreement will provide a blueprint for the proposed transfer of assets to FEC, and will provide in detail the specific rights, obligations, and liabilities assumed or retained by each party to the Agreement.

- a. Forms of all new agreements to be entered into by the FEC will be included as appendices to Agreement.
- b. List of all agreements to be assigned from WAPDA to the FEC will be included as an appendix to Agreement.
- c. List of all licenses, permits, etc. to be assigned from WAPDA to the FEC will be included as an appendix to Agreement.
- d. List of licenses, permits, etc. to be obtained by the FEC will be included as an appendix to Agreement.

3. Review in detail of all contracts, loan documents, licenses, permits, and real estate, records relating to Faisalabad Area Board to ensure that the transaction contemplated by the Transfer Agreement will not create a breach of, or default under, and existing agreement related to the FAEB.

- a. Upon completion of the review, if any problems are disclosed, the terms of each Transfer Agreement will be examined to determine if the Agreement can be modified to avoid such problems.
- b. Alternatively, will consider negotiation with third party to modify a problem agreement or to obtain waiver of breach or default.

4. Form the FEC.

- a. Draft Articles of Incorporation for the FEC.
- b. Draft Bylaws for the FEC.
- c. Establish Directors and Officers of the FEC.
- d. Draft all necessary conveyance documents -- deeds, bills of sale, assignment agreements, etc.

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- e. Review laws to determine all filings and applications necessary to comply with Pakistani law. Make all such filings and applications.
 5. Draft and negotiate the Facilitation Agreement and the terms and liabilities associated with the service franchise.
 6. Draft and negotiate a Bulk Power Supply Agreement.
 7. Draft and negotiate a Wheeling Agreement between WAPDA and the FEC that provides for the transfer of power through their respective transmission lines, and establishes the charges to be paid to each party for such transfer.
 8. Draft and negotiate all other agreements necessary for WAPDA and the FEC.
 9. Draft and negotiate all other agreements necessary for FEC to operate as a subsidiary corporation.
 10. Consider capital structure issues and forms of debt.
 - a. Examine issuance of debt by the FEC.
 - b. Draft debt instruments.
 11. Consider how the transaction and agreements should be integrated into the regulatory scheme that is to be developed pursuant to a separate scope of work, and make all necessary filings with and obtain approvals from appropriate regulatory authorities.
 12. Review and advise as to the continued role of the Provincial Electrical Inspector.

Level of Effort

The level of effort is estimated at 60 person months, and will include experts with the engineering, financial, economic, and legal backgrounds.

Responsibilities

International Resources Group will provide the technical assistance for the corporatisation work to WAPDA/WPPO and the PC(PS).

Timing

The corporatisation work on the Faisalabad AEB will tentatively start in February 1993. This will depend upon formal approval of the Control Work Plan by A.I.D. before mid-January 1993. The work can be completed by March 1994.

TASK#	TASK	TIMING	LOE (PM)	RESPON- SIBILITY	FUNDING AGENCY
1.3	Corporatise Faisalabad AEB	Feb 93 Mar 94	60	WPPO	A.I.D.

ANNEX III

DESIGN/CREATE THE REGULATORY SYSTEM

Task 2: Design/Create the Regulatory System

Background

The Government of Pakistan (GOP) has embarked on an initiative to privatise the electric power sector in Pakistan. At the direction of the Prime Minister, a *Strategic Plan* for privatising the Pakistan Power Sector (PPS) was finalised by the Water and Power Development Authority (WAPDA) and submitted to the GOP for approval in April 1992. On July 18, 1992, the Cabinet Energy Committee gave its approval to the *Strategic Plan*; even prior to that, on May 10, 1992, the GOP created the Privatisation Committee (Power Sector). Among other things, this committee will supervise the privatisation of the power sector and propose a regulatory framework that will (1) ensure the smooth and efficient operations of a privatised electric power sector and (2) protect the interests of consumers.

Scope of Work

As currently envisioned, and as recommended in the *Strategic Plan*, the GOP will develop a National Electric Power Regulatory Authority (NEPRA)⁵ in a three phase process:

Phase I: Design of objectives, tasks, and structure of NEPRA.

Phase II: Creation, staffing, and initial operation of NEPRA.

Phase III: Institutionalise the mandate, objectives, tasks, and procedures of the NEPRA.

The consulting firm of International Resources Group (IRG) is responsible for the completion of Phase I by March 1993 with the financial assistance of the U.S. Agency for International Development (USAID). The GOP has requested financial support for

⁵ The Strategic Plan recommended creation of a National Regulatory Authority. For purposes of this paper, the regulatory authority is referred to as the National Electric Power Regulatory Authority so as to convey more accurately the scope of the agency's regulatory responsibilities.

Phases II and III from other bilateral and multilateral financial agencies.

Phase I

Under Phase I, the regulatory framework will be designed utilising a stepped approach intended to foster close cooperation among all relevant GOP institutions. The design of the regulatory framework will occur in the following three steps.

- Step I:** Define regulatory objectives and tasks.
- Step II:** Design the structure of the NEPRA.
- Step III:** Finalise design, authority, and responsibilities of NEPRA; draft all legislation to create NEPRA; and develop an implementation plan for Phase II.

The working paper of July 1992 initiates Step I and outlines the IRG Team's recommendations regarding the NEPRA's regulatory objectives and tasks. The intended result of this paper and the July discussions is a consensus about the purposes of the regulatory framework such that Step II and the design of the NEPRA can begin immediately.

The design of NEPRA, its authority, its relationship to the GOP and provincial authorities, its governance and staffing and appropriate methodologies for regulation will be the subject of a second working paper to be prepared and discussed with all relevant GOP institutions as part of Step II. The second working paper will evaluate the best method for creating NEPRA -- which may involve expanding the authority and responsibilities of an already existing GOP entity, such as the recently created Privatisation Committee (Power Sector), and will draw from the regulatory models available around the world. The IRG Team intends to initiate work on the second working paper during the July trip and intends to raise design related issues during the July discussions with the GOP. The Advisory Team intends to complete initial design of NEPRA and the second working paper in early to mid-September. The second working paper will then be the subject of a second round of discussions in Pakistan between the IRG Team and the GOP.

This phase will culminate in the preparation of:

- o a Report outlining the recommended objectives, tasks, and structure of NEPRA; and

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-
- o legislation enabling the establishment of the NEPRA.

Phase II: Creation, Staffing, and Initial Operation of NEPRA

Once the national assembly has approved legislation enabling the establishment of NEPRA, this phase will start. During this phase, which will take approximately six (6) months, the NEPRA will be actually created. The Scope of Work for this activity includes:

1. Select the Chief Commissioner and the other Commissioners.
2. Authorise budget for the NEPRA.
3. Procure office space, equipment, and other items necessary for the proper functioning of NEPRA.
4. Select staff for NEPRA.
5. Provide initial training to the staff members. Organise some visits to other regulatory authorities for staff to receive proper orientation.

Phase III: Institutionalize the NEPRA

There is the potential for collapsing Phases II and III, since there may be efficiencies in the same consultants conducting both phases. Phase III is a longer term technical assistance programme that will result in a highly qualified regulatory body capable of carrying out its mandate. Phase III will last for two and a half (2.5) years or more.

The Scope of Work for Phase III includes:

1. Provide resident advisors to the financial/accounting, engineering, and legal departments of NEPRA.
2. Provide training to NEPRA staff. Such training should include in-country training as well as site visits to various foreign regulatory bodies. It may be possible to organise three to six-month internships for NEPRA staff to other more experienced regulatory bodies.
3. Develop and institutionalize operational systems for licensing, monitoring, receiving and resolving disputes, and setting and reviewing tariffs.

Level of Effort

Phase I:

Team Leader:	3	person months
Economic/Financial Analyst:	3	PM
Regulatory Economist:	2	PM
Regulatory Attorney (Principal):	2.5	PM -
Regulatory Attorney:	2	PM

Total		12.5 PM

Phase II:

Regulatory Advisor:	6	PM
Organisational Specialist:		6 PM
Finance/Economic Specialist:	6	PM
Other Short-term TA:	9	PM

Total		27 PM

Phase III:

Financial/Accounting Advisor:	24	PM
Engineering Advisor:	12	PM
Legal Advisor:	18	PM
Other Short-term TA:	18	PM

Total		72 PM

Responsibilities

The PC(PS) will be the GOP agency primarily responsible for carrying out this task, with assistance from the MWP and WAPDA.

USAID has already financed Phase I of this task. In order to ensure continuity, it is essential that one or more donor agency agrees to fund Phases II and III of this task. Both the World Bank and the ADB have already indicated strong interest in funding the remainder portion of this task; however it is critical to get a firm commitment and to commence the process for provision of technical assistance. The PC(PS) should take primary responsibility for arranging financing for the later phases of this task.

Timing

Phase I: July 1992 to March 1993
 Phase II: June 1993 to November 1993
 Phase III: December 1993 to Ongoing 1996

Again, since one funding agency may not be available for carrying out all three phases of this task, it is essential to assure continuing of funding to ensure the NEPRA is designed, set up, and in full operation by the desired date.

TASK #	TASK	TIMING	LOE (PM)	RESPON-SIBILITY	FUNDING AGENCY
II	ESTABLISH NEPRA	Jul 92 Mar 96			
2.1	Complete NEPRA design	Jul 92 Mar 93	12.5	PC(PS)	A.I.D.
2.2	Enact NEPRA enabling legislation	Oct 92 May 93	N/A	PC(PS)	N/A
2.3	Create and Staff NEPRA	Jun 93 Nov 93	27	PC(PS)	???
2.4	Develop initial NEPRA Regulations/Procedures	Dec 93 Ongoing	72	NEPRA	???

ANNEX IV

IMPLEMENT A COMPETITIVE SOLICITATION PROCESS

Task 4.1: Implement a Competitive Solicitation Process

Background

WAPDA will continue to function as the primary buyer and seller of electricity for at least one to two years more. This function will continue until the distribution businesses and the transmission entity is corporatised, at a minimum. Eventually, the Area Electricity Boards (AEBs) and larger consumers will be able to contract directly with the generators, and the existent contracts with WAPDA should be reassignable to the AEBs.

In the interim, introduction of a competitive solicitation process for new generation is essential to promote private sector participation in the power business. Several different approaches to competitive solicitations are being used with success around the world, which can serve as models for Pakistan, with appropriate modifications.

Objective

To formulate a competitive solicitation programme that can be utilised by WAPDA to purchase new generating capacity.

Scope of Work

This study will culminate in a model competitive solicitation document. The Scope of Work for this study includes:

1. Clearly define the process, timetable, and evaluation criteria and methods.
2. Design procedures that ensure a competitive solicitation and objective selection of successful projects.
3. Design approaches to project/bid evaluation that focus on the price, availability, and reliability of offered power, rather than on rate-of-return and other technical details typically of concern to the GOP if it were to own and operate the projects itself.
4. Design approaches that give private sector bidders the maximum flexibility in project design, while satisfying the criteria of amount of energy, capacity, and timing of

supply to the buyer.

It will be very useful, as part of this study, to evaluate the various organisations involved in formulating, issuing, and evaluating private power proposals today. USAID's consultants have made strong recommendations to the GOP to implement a "one-stop shopping" entity for power developers. Today, the developers have to directly interface with various GOP entities, including the PC(PS), PPC, WAPDA/WPPO, NDFC, MWP, MOF, and others. Besides, the lack of a central entity that can make final decisions sows confusion and radically increases the cost of doing business for the developers. If the GOP were to attract developers with more ease, this convoluted process should be done away with and a streamlined process put in place. Thus, it is once again recommended that the GOP reexamine the issue as part of this study.

Level of Effort

The Team of consultants should include:

- | | |
|--------------------------------------|------|
| 1. Team Leader/Contracts Specialist: | 5 PM |
| 2. Engineering Specialist: | 2 PM |
| 3. Economic/Finance Specialist: | 3 PM |
| 4. Legal Specialist: | 3 PM |

Total LOE: 13 PM

Responsibilities

The PC(PS) should be directly responsible for directing this study. Although the PPC, WAPDA/WPPO, and NDFC are directly involved in issuing and evaluating private power proposals at the moment, it will be useful to have an entity like the PC(PS) to make an independent evaluation of the various entities involved and their roles and responsibilities under the new privatised industry structure.

The funding agency for this study will have to be identified.

Timing

This study can start on/around October 1992 and be completed by

March 1993.

Reporting

Month 3: Issue Draft competitive solicitation document to PC(PS).
Five copies of this report will be submitted.

Month 6: Finalise and issue Final competitive solicitation
document. Ten copies will be submitted to PC(PS).

TASK #	TASK	TIMING	LOE (PM)	RESPON-SIBILITY	FUNDING AGENCY
4.1	Implement a Competitive Solicitation Process	Oct '2 Mar 93	13	PC(PS)	???

ANNEX V

PREPARE A LABOUR TRANSITION PROGRAMME

Task 4.2: Prepare a Labour Transition Programme

Background

The *Strategic Plan* recommends the restructuring and privatization of the Pakistan Power Sector (PPS). This restructuring will significantly affect labour. In order to win labour agreement and support for the privatization process, it is essential that a viable labour transition programme be developed and accepted by the Government of Pakistan, labour, and potential buyers of WAPDA assets.

Over-staffing is among the major inefficiencies of the PPS at present. It is clear that many of the efficiencies that can be brought about by the private sector will be from the restructuring and realignment of labour. To achieve the benefits of privatization, it is absolutely essential that the government not encumber the private sector with restrictive rules and regulations that prevent the new owners and operators from efficiently managing their business. At the same time, though, for privatisation to be successful, a transitional period will be required to manage labour dislocations.

Objective

The objective of this study is to devise a viable labour transition programme that allows the private sector the ability to restructure their businesses for maximum efficiency, while protecting labour from severe consequences of dislocation during the transition period to privatisation. The objective of this study is also to win the acceptance of labour to the privatisation programme underway, in order to ensure a smooth transition to a privatised power sector.

Scope of Work

1. Review existing labour contracts, unions, legislation

under the Pakistan constitution, the 1910 Act, the WAPDA Act, as well as various other agreements.

2. Review existing labour deployment within WAPDA; its generation, transmission, and distribution entities; and the various other businesses managed by WAPDA.
3. Interview a large cross-section of WAPDA management and staff to determine their views.
4. Examine various options for labour, including:
 - a. implementation of attractive early retirement programmes, coupled with a hiring freeze within WAPDA, except the Water Wing;
 - b. providing assurance that any WAPDA employees that are not transferred to the private sector will continue to be employed by WAPDA for some defined period of time;
 - c. allocating some ownership shares of the privatised WAPDA facilities, or some participation in the privatisation proceeds, for WAPDA employees;
 - d. limiting annual staff reductions for employees transferred to the private sector to natural attrition plus five percent of existing staff;
 - e. providing redundant staff with free outplacement counseling services that may include retraining.
5. Recommend a labour plan, including a transition programme from the present WAPDA status to that of a private competitive power sector. This plan should include detailed cost estimates, sources of financing, and responsibilities.

Level of Effort

There will be a four-person Team for the study, including:

1. Team Leader/Labour Policy expert. This person will lead the study and ensure the technical and administrative responsiveness of the study. 12 months.

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2. Financial Expert. This person will evaluate the financial/economic implications of the labour transition programme, and ensure that recommendations make economic and financial sense. 6 months.
 3. Legal Expert. This person will review all existing laws and regulations and ensure that final recommendations conform with existing laws. 4 months.
 4. Negotiation Expert. This person will have experience in dealing with various levels of management and staff, in soliciting their views, and negotiating with them on the recommended approach. 8 months.

Total LOE: 30 person months.

Responsibilities

The GOP will contract for consultant services to carry out the study. The counterpart organisation will be the PC(PS) and WAPDA's WPPPO. PC(PS) will have overall responsibility for the study and the implementation of recommendations.

The funding agency will ensure that the funds are in place by the required deadline.

Timing

The Labour Transition Programme study will start by January 1993, and will be completed within one year, i.e. by December 1993.

Reporting

- 1st month: Initial Planning Report, outlining the consultants' plan for carrying out the report and the feedback from the definitional mission.
- 6th month: Draft progress report.
- 9th month: Draft Report, circulated to all relevant GOP organizations and the funding agencies. Receive feedback within one month.
- 12th month: Final Report.

The Consultants should submit five copies of each report and 20 copies of the Final Report to the PC(PS).

TASK #	TASK	TIMING	LOE	RESPON-SIBILITY	FUNDING AGENCY
4.2	Design and Implement a Labour Transition programme	Jan 93 Dec 93	30 PM	PC(PS) / WAPDA	???

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