

CONFORMED COPY

LOAN NUMBER 4529 CHA

Project Agreement

(Tongbai Pumped Storage Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

ZHEJIANG PROVINCIAL ELECTRIC POWER COMPANY

Dated June 5, 2000

LOAN NUMBER 4529 CHA

PROJECT AGREEMENT

AGREEMENT, dated June 5, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ZHEJIANG PROVINCIAL ELECTRIC POWER COMPANY (ZPEPC).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount equal to three hundred twenty million Dollars (\$320,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that ZPEPC agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) by a subsidiary loan agreement to be entered into between the Borrower and ZPEPC the proceeds of the Loan provided for under the Loan Agreement will be made available to ZPEPC on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS ZPEPC in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth, wherever used herein.

ARTICLE II

Execution of the Project

Section 2.01. (a) ZPEPC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, technical, and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and ZPEPC shall otherwise agree, ZPEPC shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) ZPEPC shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, ZPEPC shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and ZPEPC, a plan for the future operation of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with ZPEPC on said plan.

Section 2.04. ZPEPC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, ZPEPC shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) ZPEPC shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) ZPEPC shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by ZPEPC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of ZPEPC

Section 3.01. ZPEPC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, environmental, technical and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. ZPEPC shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, environmental, technical and public utility practices.

Section 3.03. ZPEPC shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) ZPEPC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) ZPEPC shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, ZPEPC shall produce for each of its fiscal years after its fiscal year ending on December 31, 1999, funds from internal sources equivalent to not less than 30% of the annual average of ZPEPC's capital expenditures, incurred, or expected to be incurred, for that year, the previous year and the next following fiscal year.

(b) Before April 30 in each of its fiscal years, commencing in 2000, ZPEPC shall, on the basis of forecasts prepared by ZPEPC and satisfactory to the Bank, review whether it would meet the

requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that ZPEPC would not meet the requirements set forth in paragraph (a) for ZPEPC's fiscal years covered by such review, ZPEPC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between: (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and (B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.

(iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes and dividends.

(vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vii) The term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations, and long term investments.

(viii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such

other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, ZPEPC shall not incur any debt unless a reasonable forecast of the revenues and expenditures of ZPEPC shows that the estimated net revenues of ZPEPC for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of ZPEPC in such year, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of ZPEPC maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and

(B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income; and (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including rates and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) The term "reasonable forecast" means a forecast prepared by ZPEPC not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and ZPEPC accept as reasonable and as to which the Bank has notified ZPEPC of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of ZPEPC.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.04. ZPEPC shall prepare and, by April 30 of each year during Project implementation, commencing April 30, 2000, furnish annually to the Bank for review, a rolling long-term financial plan (including projected income statements, sources and uses of funds and balance sheets covering a period of no

less than eight years) and exchange views with the Bank on its financial position, focusing on comparison of actual financial performance with agreed targets, operating cost trend, future investment and related financing arrangements.

ARTICLE V

Effective Date; Termination Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of ZPEPC thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify ZPEPC thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

202-477-6391

For ZPEPC:

Zhejiang Provincial Electric Power Company
2 Jinzhu Road (South)
Hangzhou, Zhejiang
People's Republic of China

Telex:

35053 ZPEPB CN

Facsimile:

86-571-515-3979

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of ZPEPC may be taken or executed by its General Manager, or by such other

person or persons as said General Manager shall designate in writing, and ZPEPC shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

ZHEJIANG PROVINCIAL ELECTRIC POWER COMPANY

By /s/ Zhu Guangyao

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower excluding the Hong Kong Special Administrative Region.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods estimated to cost less than \$3,000,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, and goods, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which are of a proprietary nature or should be procured as an extension of an existing contract and costing \$1,500,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$3,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods to be procured in accordance with the procedures referred to in Part C above and estimated to cost the equivalent of \$300,000 or more, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft

contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Parts A and C of the Project for the provision of training and advisory services on regulatory and technical matters, and estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for construction management under Part A of the Project and for tasks that represent a natural continuation of previous work may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the

proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the following:

A. Project Management

In order to ensure the proper carrying out of the Project, ZPEPC shall continue to make available competent staff (including environmental staff organized in an environmental management unit) in adequate numbers and with terms of reference satisfactory to the Bank, to be responsible for the overall coordination and supervision of project implementation, the supervision of procurement of goods and services thereunder, the overall assessment of quality and impact of the Project, and the preparation and furnishing to the Bank of reports and other information thereon.

B. Project Implementation

1. ZPEPC shall carry out the training under the Project in accordance with a training and management development program acceptable to the Bank.

2. ZPEPC shall carry out a program of power sector restructuring under Part C of the Project in accordance with a plan acceptable to the Bank.

3. ZPEPC shall: (i) ensure that the Project is implemented in accordance with the Resettlement Action Plan, acceptable to the Bank, in a manner satisfactory to the Bank; and (ii) shall prepare and furnish to the Borrower and the Bank an

evaluation report promptly upon completion of the resettlement and rehabilitation of Affected Persons as described in the Resettlement Action Plan.

4. ZPEPC shall implement the Environmental Management Plan in accordance with a time bound action plan acceptable to the Bank.

5. ZPEPC shall, during the period of Project implementation:

(a) continue to employ a panel of experts to review design and construction procedures relating to dams;

(b) prepare, in a manner and according to a timetable satisfactory to the Bank, detailed plans for: (i) construction supervision and quality assurance; (ii) instrumentation; (iii) operation and maintenance; and (iv) emergency preparedness; and

(c) carry out periodic inspections of all dams after their completion.

C. Project Monitoring and Reporting

ZPEPC shall:

1. maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators satisfactory to the Bank, (a) the carrying out of the Project, including the Resettlement Action Plan and (b) the achievement of the objectives of the Project;

2. prepare, under terms of reference acceptable to the Bank, and furnish to the Bank semi-annual reports on or about April 30 and October 31 in each year, integrating the results of the monitoring and evaluation activities performed pursuant to Paragraph 1 above on the physical and financial progress achieved in the carrying out of the Project, including the Resettlement Action Plan, during the preceding calendar year together with any revisions proposed to be made in the Resettlement Action Plan in order to achieve the objectives thereof and any measures proposed to further the objectives of the Project; and

3. review with the Bank each report furnished to the Bank pursuant to Paragraph 2 above hereof, and promptly introduce such revisions into the Resettlement Action Plan as shall have been approved by the Bank, and take such measures to further the objectives of the Project as shall have been agreed with the Bank.

