

CONFORMED COPY

LOAN NUMBER 4303 CHA

Project Agreement

(East China (Jiangsu) Power Transmission Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

EAST CHINA ELECTRIC POWER GROUP CORPORATION

Dated March 11, 1999

LOAN NUMBER 4303 CHA

PROJECT AGREEMENT

AGREEMENT, dated March 11, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and EAST CHINA ELECTRIC POWER GROUP CORPORATION (ECEPGC).

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 make available to the Borrower an amount equal to two hundred fifty million Dollars (\$250,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that ECEPGC 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 ECEPGC, the proceeds of the Loan provided for under the Loan Agreement will be made available to ECEPGC on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS ECEPGC, 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.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) ECEPGC 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, resettlement, 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 ECEPGC shall otherwise agree, ECEPGC 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) ECEPGC 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, ECEPGC 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 ECEPGC a plan for the future operation of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with ECEPGC on said plan.

Section 2.04. ECEPGC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, ECEPGC 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) ECEPGC 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) ECEPGC 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 ECEPGC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

## ARTICLE III

### Management and Operations of ECEPGC

Section 3.01. ECEPGC 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. ECEPGC 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. ECEPGC 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) ECEPGC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) ECEPGC shall:

(i) have its records, accounts and financial statements (balance sheets, statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank, and in accordance with any changes to its auditing practices recommended by the Financial Management Consultants to meet international auditing standards;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of said financial statements referred to in paragraph (i) above, for such year as so audited, and (B) the audit plan and 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 such records, accounts and financial statements as well as the audit thereof, as the Bank may from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, ECEPGC shall take all necessary measures, including, without limitation, adjustments of the structure or the levels of its tariffs, to ensure that its internal cash generation for each fiscal year during the term of any debt to be incurred shall be at least 1.5 times its estimated maximum debt service requirements in such year on all debt of ECEPGC, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of ECEPGC 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 other instrument providing for such debt or for the agreement or 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 "internal cash generation" means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income, excluding receipts from customer connection charges; 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, excluding capitalized  
interest during construction.

(vi) 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) ECEPGC shall enter into a power transmission agreement with  
JPEPC (JPEPC Agreement), satisfactory to the Bank, pursuant to which JPEPC shall agree  
to compensate ECEPGC for the total cost to ECEPGC of power transmission under a  
formula calculated using principles, satisfactory to the Bank, including:

(i) From January 1, 2000, to December 31, 2009, or the date on which  
ECEPGC fully repays its local currency loans in respect of the  
Project, whichever is later, calculation of ECEPGC's total  
cost of transmission shall include ECEPGC's: (a) full debt  
service requirements for the Project; (b) operation and  
maintenance costs for the Project (including depreciation but excluding debt  
repayments); (c) taxes payable in respect of the Project; and (d) an  
annual return of not less than 15% on the funds invested by  
ECEPGC in the Project.

(ii) From January 1, 2010, or the date on which ECEPGC fully repays its  
local currency loans in respect of the Project, whichever  
is later, calculation of ECEPGC's total cost of transmission  
shall include ECEPGC's: (a) full debt service requirements  
for the Loan; (b) operation and maintenance costs for the  
Project (including depreciation but excluding debt repayments); (c) taxes  
payable in respect of the Project; and (d) an annual return of not  
less than 10% on the net fixed assets of the Project.

(iii) For the purposes of this Section 4.03(a), "net fixed assets of the  
Project" means the gross value of the fixed assets formed  
under the Project less the amount of accumulated  
depreciation, and "gross value of the fixed assets formed  
under the Project" means one half of the sum of the gross value of  
fixed assets formed under the Project at the beginning and at the end of  
each fiscal year.

(b) ECEPGC shall cause JPEPC to take all measures necessary to increase its  
tariffs in amounts at least sufficient to compensate ECEPGC as agreed under the JPEPC  
Agreement, including the submission of such increased tariff proposal to the  
provincial and other relevant authority for approval.

Section 4.04. ECEPGC shall prepare and furnish to the Bank for its review and  
comment, by June 1 of each year commencing 1999, a rolling eight-year financial plan  
containing, inter alia, projected income statements, fund flow statements and balance  
sheets for each of the next eight years.

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 ECEPGC thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify ECEPGC 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 radiogram 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),  
64145 (MCI)

For the Borrower:

East China Electric Power Group Corporation  
201 Nanjing Road (East)  
Shanghai 20002  
People's Republic of China

Cable address:

2032

Telex:

33308 ECEPACN

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 ECEPGC, 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 ECEPGC 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Severino

Authorized Representative

EAST CHINA ELECTRIC POWER  
GROUP CORPORATION

By /s/ Li Zhaoxing

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

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 and August 1996 and September 1997 (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.

(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

Specialized equipment estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, and which the Bank agrees can only be purchased from a limited number of suppliers, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods which are readily available off-the-shelf or are standard specification commodities and which are estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 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 of a proprietary nature, which are related to the expansion of existing substations, and for reasons of compatibility with existing equipment and standardization, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines provided that each contract costs less than \$300,000 equivalent, and the aggregate amount of such contracts does not exceed \$500,000 equivalent.

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 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

With respect to: (i) all contracts for goods selected through international competitive bidding under Part B above; and (ii) each contract for goods selected through limited international bidding under Part C(1) above and estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 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 (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. Single Source Selection

Services for construction management 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.

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 the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract 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 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 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 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:

Power Sector Reform

1. With respect to Part C (1) of the Project, ECEPGC shall:

(a) implement the reform recommendations of the Initial Market Design for East China Power Network (IMDECPN) dated November 1997 prepared by ECEPGC, in accordance with a program and schedule agreed with the Bank; and

(b) carry out and complete by April 30, 1999, the technical assistance programs for improved inter-provincial power exchange policies and procedures recommended in IMDECPN to develop new guidelines and procedures for power exchange and trade.

Institution Building

2. With respect to Part C (2) of the Project, ECEPGC shall:

(a) carry out studies on organizational restructuring and financial management systems in accordance with terms of reference and a schedule, acceptable to the Bank, and implement the recommendations of such studies by December 31, 2001, taking into account the Bank's comments thereon;

(b) by June 30, 1999, implement the improvements recommended in the study on transmission planning to be completed prior to December 31, 1998, under the Reform,



Institutional Support and Preinvestment Project (Credit No. 2447-CHA), taking into account Bank comments on the recommendations; and

(c) carry out a program of management development and training for ECEPGC staff, acceptable to the Bank.

#### Environment

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

#### Resettlement

4. With respect to Part A of the Project, ECEPGC shall:

(a) prior to commencing the Stage I Activities, carry out the resettlement required for said activities in accordance with the Stage I RAP;

(b) prepare, in accordance with policies, planning principles, institutional arrangements and design criteria acceptable to the Bank, and furnish to the Bank not later than December 31, 1998, a resettlement action plan for the Stage II Activities; and

(c) prior to commencing the Stage II Activities, carry out the resettlement required for said activities, in accordance with such resettlement action plan as shall have been approved by the Bank.

#### Project Monitoring and Reporting

5. ECEPGC shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank: (i) the carrying out of the Project, including the Stage I RAP and Stage II RAP; and (ii) the achievement of the objectives of the Project;

(b) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank unaudited project accounts (including project cost estimates and project expenditures) and semi-annual reports on or about February 28 and August 31 in each year, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above on the progress achieved in the carrying out of the Project, including the Stage I RAP and Stage II RAP, during the preceding calendar year;

(c) review with the Bank each report furnished to the Bank pursuant to paragraph (b) above hereof and take such measures to further the objectives of the Project as shall have been agreed with the Bank;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about March 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above on the progress achieved in the carrying out of the Project during the period since its inception, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(e) review with the Bank, by June 30, 2001, or such later date as the Bank shall request, the report referred to in paragraph (d) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

