

## Procurement, Installation and Operation & Maintenance of Water Meters under PPP

# Market Consultation Project Information Memorandum

February 2020



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### Foreword

Water Metering Project is one of Government of Punjab top priorities for investment and benefits from the Punjab Government's funding support.

Throughout the development of the Water Metering Project the Transaction Advisor has taken into account the views of industry and funders leading to the current proposals, which are explained in this Memorandum. In reaching this position, where we are at the cusp of delivery, the project has demonstrated resilience against an economic situation and water crisis Pakistan is facing.

A key factor in our successful preparation has been the readiness of the Council to adapt to these changing market and political conditions. The high proportion of private finance secured through toll revenue continues to safeguard the project from the budget cuts now taking place across the public sector. The Council is committed to securing the best value from its tolling strategy and has considered at some length the views of the market towards achieving this aim.

A key development aimed at securing value and ensuring that the project remains affordable has been the move away from a concession structure. The current plan is to launch procurement based on a Build, Operate and Transfer (BOT) contract where meter installment revenue risk will be taken by the WASA, supported by the Punjab Government.

We recognize that a move to a BOT contract, where payments are linked to the proper functioning of the meters, presents the best option for a robust competition and securing value for money.

However, this BOT under PPP Act 2019 requires private sector partner, the Project Company, to bring competence and expertise in supporting the WASA/Government of Punjab in the delivery of a viable project that achieves all our objectives. Securing the



water meters that meets our requirements at minimum cost and per month installment is the principal objective along with other economic benefits but it is also, essential that the Project Company offers a service that is integrated with the operation and maintenance and the management of the revenue risk retained by the WASA/Government of Punjab. Such a partnership will be robust and last for many years.

Water Metering Project offers considerable scope for innovation and effective risk control through the interaction of meter technology, capital and operation costs assessed in whole life terms. We look forward to the comments received that will assist the project team to refine our plans so that we gain maximum value from an efficient procurement process.

*Your contribution to this consultation is appreciated greatly. Kind regards*

**Managing Director WASA Lahore**



## **1. Introduction**

### **1.1 The Water Metering Project**

- i. The Procurement, Installation and Operation & Maintenance of Water Meters Project (“the Project”) is a Public Privat Partnership (“PPP”) project to be undertaken on Build, Operate and Transfer (“BOT”) Mode.
- ii. Punjab Public Private Partnership Authority (PPPA) through Water and Sanitation Agency, Lahore (“the WASA”), the Contracting Authority, is looking to enter into a competitive procurement process with a view to awarding a concession for the Project for a period currently envisaged to be 10 years with 2 years installation time.

### **1.2 Purpose of this Project Information Memorandum (“PIM”)**

The WASA/Government of Punjab wish to procure the Project in a way that is commercially attractive to the market and meets the WASA's/ Government of Punjab objectives. This document forms part of an ongoing process of interaction between the WASA/Government of Punjab and interested parties and has been prepared to inform interested parties as to the Project’s development and invite response on the approach proposed to be taken to specific aspects.



### 1.3 Timetable

The roads shows were proposed at the initial stage but due to COVID-19, the said process was not possible and following is a summary of the WASA/Government of Punjab proposed timetable in relation to market engagement through formal procurement process.

| Action   | Date          |
|--|---------------|
| <b>Issuance of PIM</b>                               | July 10, 2020 |
| <b>Publication of Pre-<br/>Qualification Process</b> | July 15, 2020 |



## **2. Project Parties**

### **2.1 Contracting Authority**

The Contracting Authority for the Project is PPP Authority through WASA in accordance with PPP Act 2019. WASA is a unitary authority, responsible for all local government services specially Water Supply and Sanitation within the borough.

### **2.2 The delivery teams**

- a) The Project is being delivered by a dedicated core team of Punjab Public Private Partnership Cell, PPP Authority, Water and Sanitation Agency, Risk Management Unit, and other stakeholders of Punjab Government.
- b) The Council is supported by a team of Transaction Advisor.

| <b>Advisor</b>  | <b>Project Role</b>                           |
|---|---|
| <b>International Consulting Associates Pvt Limited<br/>formerly Grant Thornton Consulting</b> | Transaction Advisory up to<br>Financial Close |



### 3. Project Description

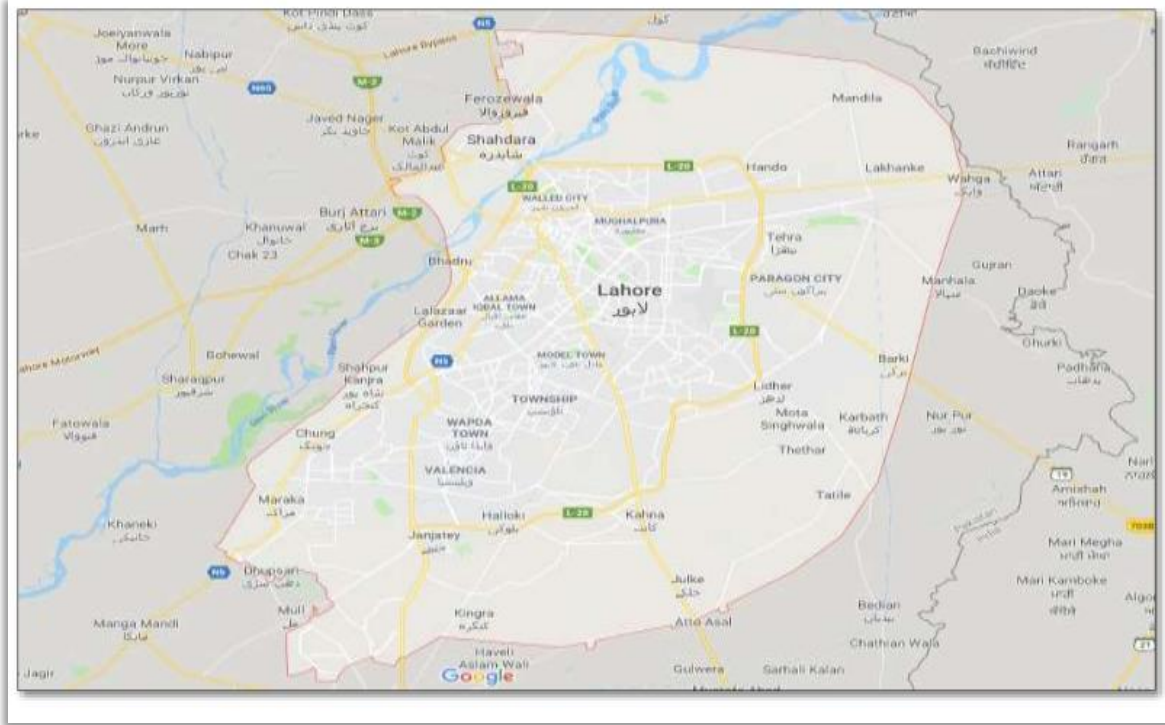
#### 3.1 WASA Lahore

Lahore is the 2nd largest city of Pakistan and capital city of the Punjab Province. It is situated at the bank of river Ravi. The population of this District is more than 10.00 Million and the area is about 1,772- Sq.KM. Water and Sanitation Agency (WASA) Lahore is the subsidiary agency of Lahore Development Authority (LDA) created under Section 10 (2) of the LDA Act, 1975 to perform all functions and exercise powers with regard to water supply, sewerage and drainage with power to collect rates, fees and charges for water supply, sewerage & drainage, and is the second largest water utility of Pakistan as a regulated monopoly for water supply & sewerage services in the City, operating in the area of more than 350-Sq.Km, through 596 Tube Wells, about 5,400-Km water supply lines and about 4000-Km Sewerage Network.

#### 3.2 Project Area

Lahore is the 2nd largest city of Pakistan & capital of the Punjab Province. It is situated at the bank of river Ravi. The overall population of this District is 11,126,285 and the area is about 1772km<sup>2</sup>. The project area corresponds to 6 towns in Lahore district which includes Aziz Bhatti Town, Ravi Town, Nishtar Town, Shalimar Town, Data Ganj Baksh Town, and Allama Iqbal Town. Under this project 711,265 meters will be installed.





### 3.3 Need Analysis

Before proceeding with the Project, the need analysis was done with the purpose to understand the current scenario of provision of Project Background. Due to ever increasing number of tube wells, the water table is depleting rapidly. The current declining rate is more than 1-Meter Per Annum. Keeping in view that the strata / aquifer of Lahore is not being recharged adequately due to less infiltration of rainwater and lack of flood / flow in the River Ravi since the dam has been built in the upper stream (in India) of river Ravi there is a dire need to conserve the ground water resources.

The indiscriminate and unplanned exploitation of water resources may result in severe water shortages in future. Furthermore, the International

Water Management Institute has predicted severe water shortage in the country by



the year 2025, that will even threaten the sustainability of agriculture.

Excessive withdrawal of ground water has localized or area-wide degradation impacts on the quality of groundwater in addition to intrusion of wastes or chemicals. *(Falling water tables increase the cost of pumping, as more energy is required to pump deep water. This led to the wastage of additional resources and revenue.)*

WASA Lahore is facing severe problems regarding Non-Revenue Water (NRW). According to a study conducted by JICA in 2010 it was estimated that more than 50% of water produced is not contributing to any revenue generation. The current water supply system of WASA is based on the over exploration of ground water and unmetered water supply due to which water losses are enormous. In the absence of water meters, it is impossible to estimate the supply and demand of the water resources. This results in the over abstraction of ground water as abstracted amount of ground water and supplied amount of water cannot be assessed without metering. In order to conserve water resources and to reduce the declining rate of Ground Water Table it is necessary to reduce the

water losses. This can be done by water metering as reduction in the water losses will reduce the stress on the aquifer and may avoid excessive pumping / extraction of water.

Currently only 40,000 meters are installed in Water Supply System of WASA Lahore. The Current billing system of WASA mainly relies on the fixed tariff slabs based on the plot size of the residential and commercial buildings.

WASA has kept tariffs well below the cost recovery level, relying on heavy loans and subsidies. This arrangement is now becoming increasingly unsustainable, because the environmental cost of extracting water is increasing as well as WASA is facing severe financial constraints which may led to poor service and



underinvestment.

Also, the water is underpriced and under-valued due to which People tend to use the water extravagantly rather than to use it cautiously. This leads to more demand of water quantity than actual requirement. Due to unmetered water supply and low Tariff, the per capita consumption of water is very high as it would be in the case of water metering.

This higher consumption of water puts an extra burden on the water aquifer. So, in order to discourage the excessive water usage, it is necessary to meter the water connection so the consumer will use the appropriate amount of water and shall avoid the wastage of water resources. Hence in order to have an estimate and to get an idea regarding amount of water produced and consumed by different end users there is a dire need to have metered water supply.

Due to above factors there is no other option than to take necessary steps to promote judicious use of water, which can only be inculcated through water metering practices.

### **3.4 Project Objective**

- Water Conservation-Rationalizing water usage through metering connections leading to curtailing water wastage
- Minimizing Water Production Cost- Expected lower electricity costs a consequence of less water extraction required.
- Increasing WASA Revenues -Minimizing Non-Revenue Water, help understand the actual Consumption and consequently increasing water revenue
- Rationalizing water pricing – Based on actual water usage and cost of water supplied



- Reducing WASA reliance on Government subsidies-with higher revenues and lower costs
- The project has a high VfM in favor of the PPP mode
- The Project EIRR is high

### **3.5 Legal and Policy Due Diligence**

At present, it is contemplated that WASA will be the concession granting authority under the terms of the draft concession agreement.

WASA is a statutory agency established under Section 10(2) of the Lahore Development Authority Act 1975 (the “LDA Act”). The following section of the LDA Act sets out the terms of establishment of WASA (Relevant part of Section 10 of the LDA Act):

*“10. Delegation. –*

*(1) The Authority may, by general or special order, delegate to the Director-General, a committee constituted under section 12, an Agency, a member or an officer of the Authority, any of its powers, duties or functions under this Act or the rules made thereunder subject to such conditions as it may deem fit to impose.*

*(2) The Authority shall establish, by special order, an Agency, hereinafter called the Water and Sanitation Agency.”*

Section 6 (3) of the LDA Act further sets out powers of the Lahore Development Authority (LDA). Similar powers are exercisable by WASA. WASA as per provisions of the foregoing Section 10 (3) of the LDA Act. Section 6 (3) expressly allows the LDA to enter into contracts and grant any concessions. Likewise, by virtue of Section 10 (3) WASA is also allowed to enter into contracts.

The Managing Director of WASA may exercise such powers as are prescribed by the Government of Punjab.



Provision of public services and infrastructure has traditionally been the exclusive domain of the government. However, with increasing population pressure, urbanization, and other developmental trends, the government's ability to adequately address public needs through traditional means has been severely stretched. This has led governments across the world to increasingly look to the private sector to provide supplementary infrastructure investments and public services through public-private partnerships (PPPs). The water metering project is fully in compliance with the Punjab Public Private Partnership Act 2019.

### 3.6 Social and Environment Safeguard Analysis

The Due Diligence of Environmental Sensitivity is carried out for the project on the basis of anticipated baseline through secondary information and understanding project scope based on information and documents provided.

Pakistan Environmental Protection Act (PEPA), 1997 (amended 2012), is the key act in the environmental arena. Under this Act, it requires that no industry or project can be set up in the country without the clearance from Environment Protection Department, Punjab.

According to Review of IEE and EIA Regulations, 2000, EPD Punjab, water meter installation project fall under the “Schedule I: Category J”. According to it, any other project for which filing of an IEE is required by the Federal Agency under sub regulation (2) of Regulation 5.

The environmental sensitivity of water meter installation project has been assessed based on secondary information being provided.

It has been assessed that:

- By installation of water meters people will use water in a better and conscious way because they have to pay for it. In this way, it will reduce



the water demand. It will result in lower production of water which is directly related to power consumption. It will also save groundwater resources.

- By installing water meters, people will use minimum water which will result in low wastewater production. This will eventually result in low water pollution and low cost will be required for its treatment.
- The project is expected to open additional sources of occupation and income to local residents during supply, Installation, operation and maintenance of water meters.
- The air quality of the project area will not be affected during project activities, as minimal or temporary dust will be created during excavation (if any).
- There will be no ecological impact, as disturbance to native flora and fauna during the installation of water meters will be avoided.
- The project will not generate wastewater. However, little amount of water will be used and consumed in the clay preparation for flooring.
- Occupation health and safety problems during project activities will be anticipated.
- Currently, fixed water bill system in correspondence to specific area of built structure is operating. Social impact may arise due to equitable system of charging customers, by paying for what they use. It will be anticipated by raising awareness among public regarding exploitation of water resources and lowering of Lahore's water table.

Environmental Management Plan will be formulated at execution stage but it is foreseen that water meter installation project will not cause as such adverse environmental impacts but anticipated impacts are assessed. So, the compliance regarding some environmental aspects will be enforced during installation of water meters.



### 3.7 Technical Requirements

WASA Lahore provides the technical specification of Water Meters duly approved by the Housing, Urban Development and Public Health Engineering Department (HUD & PHED). The management of WASA Lahore states during the technical due diligence that the water meters specifications of HUD & PHED will prevail but the Smart meters shall be proposed for this transaction. The specifications are generic and same were used for the feasibility study and transaction structuring.


#### A) Mechanical Water Meters

- I. **Technology:** Multi Jet Dry Type /Volumetric Rotary Piston/Notating disc with remote Automatic Meter Reading (AMR) capability through GSM/GPRS/Radio Frequency (RF) or any other mode of communication compatible to WASA system.
- II. **Certifications:**  
ISO:4064 (International Organization Standardization Compliant) or OIML: R49(2013) (International Organization of Legal Metrology) or MID/2004/22/EEC
- III. **General Features:**
  - + Shall have possibility for both visual and automatic meter reading outputs;
  - + Tamper proof
  - + Provided with non-return wall
  - + Un-affected by grit and particulates
  - + Provided with wire and lead seal
  - + Not affected by magnetic field
- iv. **Detailed metrological specifications**
  - + **Size:** 15 mm, 20 mm and 25mm
  - + **Accuracy:** Class II
  - + **Material:** Brass/Non-ferrous metal
  - + **Protection Class:** IP-68
  - + **Ambient Temperature:** +5° to 55° C
  - + **Liquid Temperature:** Upto 50° C
  - + **Pressure:** 16 Bar
  - + **Flow rate:** Q3/Q1 = 160
  - + **Maximum flow rate:** m<sup>3</sup>/h: Q<sub>3</sub>

|      |      |      |
|------|------|------|
| 15mm | 20mm | 25mm |
|------|------|------|



|     |     |     |
|-----|-----|-----|
| 2.5 | 4.0 | 6.3 |
|-----|-----|-----|

 **Installation:** Any direction.





**B. Static Water Meters**

**I. Technology:** Static Smart Water Meters (ultrasonic technology, electromagnetic, fluidic oscillation with remote Automatic Meter Reading (AMR) capability through GSM/GPRS/Radio Frequency (RF) or any other mode of communication compatible to WASA system.

**II. Certifications:**  
ISO:4064 (International Organization Standardization Compliant) or OIML: R49(2013) (International Organization of Legal Metrology) or MID/2004/22/EEC

**III. General Features:**

- + Shall have possibility for both visual and automatic meter reading outputs;
- + No moving parts
- + Both visual (LCD) with remote Automated Meter Reading outputs.
- + As per class 2 of OIML/ ISO specifications (Current)
- + Tamper proof
- + Provided with non-return valve
- + Un-affected by grit and particulates
- + No reverse flow measurement
- + Provided with wire and lead seal

**iv. Detailed metrological specifications**

- + **Size:** 15 mm, 20 mm and 25mm
- + **Accuracy:** Class II
- + **Material:** Brass/Non-ferrous metal
- + **Protection Class:** IP-68
- + **Ambient Temperature:** +5° to 55° C
- + **Liquid Temperature:** Upto 50° C
- + **Maximum Working Pressure:** 16 Bar
- + **Flow rate:** Q3/Q1 = 160
  - o **Maximum flow rate:** m<sup>3</sup>/h: Q<sub>3</sub>

| 15mm | 20mm | 25mm |
|------|------|------|
| 2.5  | 4.0  | 6.3  |

- + **Battery Life:** Minimum 10-years
- + **Installation:** Any direction.



### **3.8 Transaction Structure:**

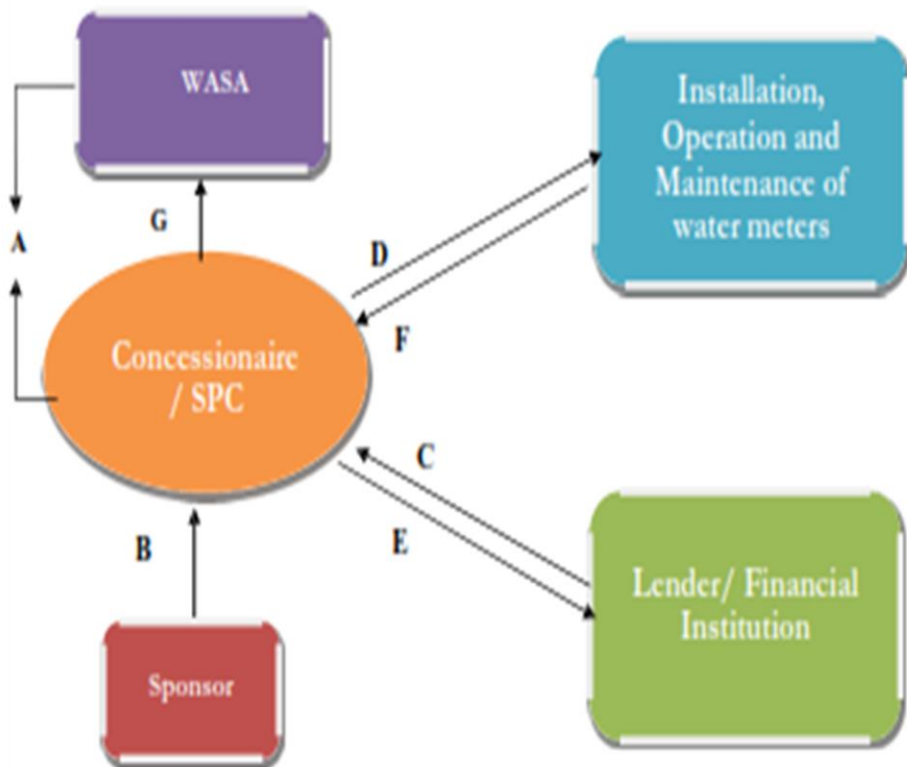
The Project is to be implemented on Build Operate Transfer (BOT) under Public Private Partnership Act 2019. As per BOT the private party will undertake the financing, procurement, installation/construction of the project in addition to its operation and maintenance responsibilities. The private party will operate the facility over a 10-years concession period with 2 years installation time. The Private Party shall be paid on monthly basis by WASA based on the concessionaire invoice submitted and concessionaire invoice confirmed. WASA will be responsible to collect all revenues from the project users/consumers. WASA will pay to private party the agreed charge per operating meter to enable the private party to recover its investment, repay debt and meet all operating and maintenance costs.

The private party transfers Water Meters rights to the WASA/Government Agency at the conclusion of the concession contract. Under this project 711,265 meters will be installed.



## Transaction Structure

The structure of the transaction for execution of the Project is illustrated below.



### KEY FEATURES

- a) **A:** WASA will provide the rights/concession to private party to install the water meters on concession to the private party for the development of lab and office.
- b) **B:** SPC (Special Purpose Company) shall be formed by the private party.
- c) **C:** SPC shall arrange for lender to provide finance to SPC for execution of the Project.
- d) **D & F:** SPC shall install the water meters in twenty four months by utilizing its equity and debt financing and shall operate and maintain the water meters for the remainder period of concession to recover its investment and earn return thereon.
- e) **E & F:** SPC shall repay the principle and interest to the lender and shall earn return on equity injected by its sponsors.



### **3.9 Risks and Responsibilities of Each Party**

The Project is to be implemented on Build Operate Transfer (BOT) under Public Private Partnership Act 2019. As per BOT the private party will undertake the financing and installation/construction of the project in addition to its operation and maintenance responsibilities. The private party will operate the facility over a 10-year concession period. The Private Party shall be paid on monthly basis to WASA based on the concessionaire invoice submitted and concessionaire invoice confirmed, at WASA discretion, by Independent expert appointed by WASA. WASA will be responsible to collect all revenues from the project users/consumers. WASA will pay to private party the agreed charge per operating meter to enable the private party to recover its investment, repay debt and meet all operating and maintenance costs. The private party transfers Water Meters rights to the WASA/Government Agency at the on the conclusion of the concession contract.



| <b>Key Risks and Responsibilities of the Private Party and the WASA/Government Agency</b> |                   |                      |                               |  |
|---|-------------------|----------------------|-------------------------------|--|
| <b>Sr No</b>  | <b>Risks</b>      | <b>Private Party</b> | <b>WASA/Government Agency</b> | <b>Mitigation Measures</b>   |
| 1)  | Commencement risk | No                   | Yes                           | The WASA will be responsible for transferring existing asset/concession rights to private party (Rights to install meters). WASA/Government will provide necessary support and facilitate any Government consents/licenses required to successfully implement the project                        |
| 2)  | Operations risk   | Yes                  | No                            | The Operation and Maintenance of the Water Meters shall be done by private party. All the costs for same shall be reimbursed by the WASA as per Concession Agreement. The concessionaire is paid on the basis of operating meters. It is therefore expected the Private party shall ensure fully |



|    |                |     |    |  |
|----|----------------|-----|----|--|
|    |                |     |    | operational meters at all times  |
| 3) | Financial risk | Yes | No | The financial arrangement for the project is the responsibility of Private Party. Any delays in achieving Project Financial close can result in project completion delays, project cost increase and default of the concessionaire. This will be mitigated by the private party satisfying in the bid process commitments from lenders and equity funding available to achieve financial close on concession agreement signing |



|    |                    |     |     |   |
|----|--------------------|-----|-----|---|
| 4) | Payment risk       | No  | Yes | The risk of collecting revenues of meter Charges/installment from users reside with WASA.   |
| 5) | Performance risk   | Yes | No  | <p>The risk that the water meters perform at required efficiency levels to meet service delivery standard shall reside with private party.</p> <p>Private party shall be paid on the basis of numbers of meters performing at agreed standard levels. It is therefore expected that the private party will ensure required standards of performance at all times.</p> |
| 6) | Change in law risk | No  | Yes | <p>Any additional cost incurred by the private party due to change in law shall be reimbursed by WASA. The private party is insulated against this</p>  |



|    |                    |     |     |  |
|----|--------------------|-----|-----|--|
|    |                    |     |     | risk   |
| 7) | Force majeure risk | Yes | Yes | The risks and compensation for any additional costs or losses due to various types of Force Majeure events are agreed to be shared between the parties based on the type of event. Private party may be able to minimize losses where events are insurable. However, in events where occurrence is beyond control of either party as in the case of political and indirect political force majeure events the private party is covered with compensation by Government. Insurance is also available for loss of profit. Cost of insurance coverage could be high for such events |
| 8) | Litigation Risk    | No  | Yes | Any cost increase and losses incurred due to delays as a consequence   |





|    |   |    |     |   |
|----|---|----|-----|---|
|    |   |    |     | <p>of legal injunctions for Government actions shall be compensated by the Government to the private party.</p> <p>The meter project has been directed for implementation by the Supreme Court. This mitigates the risk of legal action substantially</p>   |
| 9) | Non-Payment of upfront meter charge by consumer | No | Yes | <p>There is risk of inability of WASA to collect the upfront meter charge from consumers. In the event of this happening project cost will need to be covered by the Government as the private party may not be able to raise additional funding. The project may not be implemented if funding is not arranged. This is however mitigated by WASA determination to implement meter project and collect meter charge by enforcing its</p> |



|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  | authority of water disconnection. Further Government can cover for any shortfalls and request private party to raise additional financing to reimburse Government. |
|--|--|--|--|--|



### **3.10 Key Performance Indicators**

The Key Performance Indicators is better tool for monitoring in PPP execution.

Performance indicators are also helpful in the monitoring and regulation of the operational aspects of water meters. Use of performance indicators would provide incentives (such as success bonus) and/or disincentives (penalties) to bring in efficiency of the water meters operations.

Performance indicators include monitoring of water meters (financial parameters with provisions for price adjustment) and penalty in cases of non-compliance being twice the monthly installment/charge.

The private party shall make sure the meters are successfully working and providing the reading with fully accuracy and efficiency. In case of any in-accuracy that will be reviewed by the Independent Expert, the private party shall be penalized with twice the billed amount. The private party will only be eligible to invoice for the meters which are functioning and giving the reading as per agreed parameters in the concession agreement.



### 3.11 Procurement Strategy

The procurement strategy will determine that how the private sector partner will be selected, and it focuses on developing an approach to procurement that helps obtain the best VfM. The Transaction Advisors have developed a strategy capable of creating the correct incentives for all the players involved.

Procurement documents comprising of prequalification criteria, technical and financial evaluation criteria and corresponding bidding document (Expression of Interest and Request for Proposal developed as per PPRA Rules, Punjab PPP Act, 2019 and the established practices to ensure maximum participation of the investors ensuring level playing field and transparency.

The private party will be selected by adopting International Competitive Bidding Process and shall be published in the print media, websites of PPRA, PPP Authority, WASA and other possible mediums to reach out to all the potential investors in accordance with applicable laws.

Some of the salient features of the Punjab Procurement Law / Rules are:

- ✚ Issuance and Solicitation of RFP Documents to Interested Parties
- ✚ Evaluation of Pre-Qualification Documents
- ✚ Evaluation of Technical and Financial Proposals
- ✚ Award of Contract
- ✚ Finalization of Concession Agreement
- ✚ Signing of Concession Agreement with Private Party



### **3.12 Bid Evaluation and Award Criteria**

The bidding in case of this Project more likely to be carried out in accordance with The Punjab Public Private Partnership Act, 2019 i.e. Single Stage Three Envelope Bidding as provided under Section 16 of The Punjab PPP Act 2019.

After the pre-qualification, technical bids of prequalified bidders will be opened and evaluated, then financial bids of technically responsive bidders will be opened and evaluated.

The qualifying score in the technical bid would be 65%. All the bidders who will be able to secure 65%, the financial bids of those will be opened and evaluated on following 3 parameters;

- 1. Viability Gap Fund (VGF)**
- 2. Meter Installment Per Month**
- 3. Total Capital Cost of the Project**

The bid will be awarded to lowest qualified bidder based on least cost method.