National Electric Power Regulatory Authority
Islamic Republic of Pakistan

Registrar

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No. NEPRA/R/LAG-11/ 7639-44

March 09, 2020

Mr. Mustafa Lakdawala,
Chief Financial Officer,
Tapal Energy (Private) Limited,
F-25, Block 5, Rojhan Street Kehkashan, Clifton,
Karachi-75600.
Contact No. 021-35876994-7

Subject: **Modification-II in Generation Licence No. IPGL/010/2003**
Licence Application No. LAG-11
<u>Tapal Energy (Private) Limited (TEPL)</u>

Reference: TEPL's LPM submitted vide letter No. TEL/NEPRA/009/19 dated November 29, 2018 (received on November 30, 2018)

The Authority has approved Modification in Generation Licence No. IPGL/010/2003 dated August 26, 2003 in respect of Tapal Energy (Private) Limited (TEPL), pursuant to Section-26 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

2. Enclosed please find herewith determination of the Authority in the matter of Licensee Proposed Modification in the Generation Licence of TEPL along with Modification-II in the Generation Licence No. IPGL/010/2003 dated August 26, 2003 as approved by the Authority.

<u>Encl: As above</u>

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(Syed Safeer Hussain)

Copy to:

1. Secretary, Power Division, Ministry of Energy, A-Block, Pak Secretariat, Islamabad.
2. Managing Director, NTDC, 414-WAPDA House, Lahore.
3. Chief Executive Officer, CPPA-G, ENERCON Building, Sector G-5/2, Islamabad.
4. Chief Executive Officer, K-Electric Ltd, KE House, 39-B, Sunset Boulevard, Phase-II, DHA, Karachi.
5. Director General, Environmental Protection Department, Government of Balochistan, Zarghoon Road, Quetta.

National Electric Power Regulatory Authority
(NEPRA)

Determination of the Authority
in the Matter of Licensee Proposed Modification of
Tapal Energy (Private) Limited

March 09
~~February~~ ,2020
Case No. LAG-11

(A). Background

(i). Tapal Energy (Private) Limited (TEPL) holds a generation licence (No. IPGL/010/2003, dated August 26, 2003, and Modification-I dated November 20, 2018) in terms of Section-15 (now Section-14B) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 ("the NEPRA Act").

(ii). The Authority granted the above generation licence to TEPL for its 126.00 MW Residual Furnace Oil (RFO) based generation facility/thermal power plant located at Deh Gondpass, Tapo Gabopat, Hub River Road, Taluka & District Karachi, province of Sindh.

(B). Communication of Modification

(i). TEPL in accordance with Regulation-10(2) of the NEPRA Licensing (Application & Modification Procedure) Regulations, 1999 (the "Licensing Regulations") communicated a Licensee Proposed Modification (LPM) in its above-mentioned generation licence on November 30, 2018.

(ii). In the "Text of the Proposed Modification", TEPL has proposed to extend the term of its generation licence till June 19, 2029, in terms of Rule-5 of the NEPRA Licensing (Generation) Rules, 2000 (the "Generation Rules"). Regarding the "Statement of the Reasons in Support of the Modification", TEPL, *inter-alia*, submitted that the proposed modification aims to ensure that the term of the generation licence caters to the remaining useful life of the facility. Further, the

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proposed modification is also essential for effective utilization of the facility, including implementation of the Power Purchase Agreement (PPA) term extension, as the Licensee and K-Electric Limited (KEL) are in discussions for extension in the term of the PPA pursuant to Clause-4.1(c) of the same, which are at advanced stage and are expected to be finalized prior to the expiry of the current PPA.

(iii). About the statement of "the Impact on Tariff", "Quality of Service (QoS)" and "the Performance by the Licensee of its Obligations under the Licence", TEPL stated that it has also submitted a separate Tariff Petition before the Authority for determination of its Tariff for the extension in the term of its PPA. Further, TEPL also confirmed that QoS and the performance under the existing generation licence would not be affected by the proposed modification.

(C). Processing of LPM

(i). After completion of all the required information as stipulated under the Regulation-10(2) and 10(3) of the Licensing Regulations by the Licensee, the Registrar published the communicated LPM in one (01) English and one (01) Urdu daily newspaper on December 15, 2018, informing the general public, interested/affected parties, and relevant stakeholders about the said LPM as required under the Regulation-10(4) of the Licensing Regulations.

(ii). The Registrar invited comments of the above stakeholders in favor of or against the communicated LPM. Apart from the said notices in the press, separate letters were also sent to individual experts, Government ministries/attached departments and other representative organizations, etc. on December 17, 2018, inviting their views and comments for assistance of the Authority as stipulated in Regulation-10(9) of the Licensing Regulations.

(D). Comments of Stakeholders

(i). In response to the above, comments were received from four (04) stakeholders including Mr. M. Arif Bilvani, Pakistan State Oil Company Limited (PSO), K-Electric Consumers Forum (KECF) and KEL. The salient points of the

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comments offered by the above-mentioned stakeholders are summarized in the following paragraphs: -

(a). Mr. M. Arif Bilvani opposed the LPM on the premise that the licensee is operating its Residual Furnace Oil (RFO) based single cycle power plant comprising of twelve (12) generating sets of 10.50 MW capacity each totaling 126.00 MW gross and 119.5 MW net capacity. The plant was established under the 1994 power policy and is operating since 1995 and has already completed twenty-three (23) years of operation. Although the generation licence of the applicant was to expire on August 25, 2018, it was extended by the Authority till June 19, 2019, enabling the licensee to run the plant for a total period of twenty-four (24) years. Now the licensee has again requested the Authority to further extend its generation license for a period of ten (10) years i.e. up to June 19, 2029, on the pretext that "renowned independent engineering consultant" appointed by the licensee itself has opined that the remaining useful life of the plant is more than ten (10) years. Mr. Bilvani submitted that he does not agree at all with the request of TEPL for the reasons that the power plant is based on RFO fuel, one of the dirtiest fuels which have been already banned by the Government of Pakistan (GoP) in new power plants and is also discouraging its use in existing power plants by curtailing their operation to the bare minimum thereby incurring capacity charges. Since the power plant is single cycle comprising of small inefficient generators, the efficiency of the plant is very low even when compared to other bigger size RFO based power plants. Auxiliary consumption and maintenance cost of the plant is much higher compared to RLNG/Gas based power plants due to the aging factor. RFO based power plants are the worst polluters of the environment. The generation cost of this

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plant is much higher, although it's a fully depreciated and debt-free plant, because of the costly fuel compared to the RLNG/Gas based power plants resulting in higher tariff for the consumers and increased subsidy on part of the GoP. KEL may make an arrangement with CPPA-G/ NTDC from which it is already procuring 650 MW and this quantity can be enhanced from the newly commissioned coal-fired power plant in the vicinity of Karachi which will result not only in the utilization of surplus power available with CPPA-G but also result in better tariff for consumers of Karachi. If the Authority considers it inevitable to extend the arrangement of supply from TEPL, the new tariff must be based on the Take & Pay basis;

(b). PSO submitted that it has been making fuel oil supplies to TEPL under a valid Fuel Supply Agreement (FSA) under the Energy Policy of 1994. However, TEPL is in breach of the provisions of the FSA as it has failed to uplift fuel oil from PSO on a continuous basis. TEPL is bound by the FSA under Clause-3.1 to purchase all of its requirements of "Fuel, Diesel Oil, Greases, Lubricants and Additives" for its power plant from PSO being the sole supplier during the term of the FSA. PSO has already communicated its reservations regarding the purchase of fuel by TEPL from other sources which defies the provisions of FSA between PSO and TEPL diluting the overall security package, which essentially comprises of the FSA, along with the Implementation Agreement (IA) and PPA. TEPL continues to meet its fuel oil requirements from other sources with partial supplies to a very low proportion of their actual consumption from PSO. You are therefore requested to direct TEPL that it should discontinue the purchase of fuel oil from sources other than PSO in line with FSA and the generation

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licence should be contingent upon the extension of the FSA corresponding to the same time period;

(c). KECF requested the Authority to conduct/hold a public hearing in the matter in Karachi because all the three parties namely the power producer, the immediate buyer/KEL and the consumers/affected persons reside in Karachi. The license was issued for fifteen (15) years, i.e. from August 26, 2003, to August 25, 2018, although the plant became operational on September 26, 1995, therefore, to operate for 23 years. The aforesaid license was modified on November 20, 2018, and the expiry date was extended from August 25, 2018, to June 19, 2019, on the plea that the PPA with KEL will expire on the same date. KECF opposed the extension on the premise that it is an RFO based power plant and the production of power from RFO fuel is much costlier than from LNG/Gas. Further, it is also consistent with the policy of GoP, which has banned setting up of new RFO based power plants. Moreover, it is a single cycle power plant which further adds to the cost of electricity because of its inefficiency. RFO based power plants are inefficient because of their higher auxiliary consumption, are much costlier to operate because of their higher maintenance cost and are detrimental to the environment as compared to LNG/Gas based plants. Even in the merit order of operation, the TEPL plant does not find any favor as the bigger and more efficient RFO plants are much ahead of this small, highly inefficient and more expensive to operate on per MW basis plant. If the operators of this plant still intend to run it, then they may do so on their own by selling the power to industrial and other consumers located in the adjoining area by availing the transmission and distribution network of KEL which is now legally allowable after the recent amendments in the

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NEPRA Act and also under the NEPRA Wheeling of Electric Power Regulations, 2016. KECF opposed the LPM of TEPL stating that the same is detrimental to the interest of consumers as well as the GoP because its costlier power is a burden on the consumers in their tariff and on the GoP in its subsidy to the power distributor; and

(d). KEL in its comments submitted that the existing generation license of TEPL and the PPA shall expire on June 19, 2019. Keeping in view the current shortfall and to cater for future growth in power demand, in addition to the expected pipeline of planned projects which shall come online in next few years, the continuity of existing sources of power supply in the next five years is an essential part of the strategy of KEL to fulfill the increasing power demand. In this regard, KEL vide its letter dated December 04, 2018, has already submitted Power Acquisition Request based on the Power Sale Proposal received from TEPL, requesting for power acquisition for another five (05) years for which TEPL is required extension in the validity of its generation licence. In view of the above, KEL requested the Authority to consider the request of TEPL for proposed extension in its generation license which would also enable KEL to continue to procure power from TEPL and ensure an adequate supply of power.

(ii). The above comments of stakeholders were examined and in view of the observations of Mr. Bilvani, PSO and KECF, the Authority considered it the appropriate seeking perspective of the licensee. Regarding the observations of Mr. Bilvani and KECF, it was submitted that the rationale for the continued operation of the generation facility has been extensively explained in the submitted petition for determination of reference tariff dated December 7, 2018, in respect of additional five (05) years term extension in the PPA with KEL; however, the same is reiterated again. It is widely acknowledged that thermal plants are an integral part of the

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energy mix, in order to meet load variations in peak and off-peak hours. Given the prevalent policies in respect of thermal power generation, any new thermal power generation facility shall need to operate using an alternative fuel (other than RFO). Therefore, this raises the question of evaluating alternative fuel sources for thermal power generation.

(iii). It is established that reliance on local gas is not a viable long-term solution for thermal power generation. In this regard, it is emphasized that during the winter months of 2018-19 there was an extreme shortage of gas and even in this lean period the generation facility was operating at around 65% despatch level, with reliance on local RFO. Moreover, an over-dependence of thermal power generation on gas is a poor allocation of resources given that indigenous gas is scarce and essential raw material for certain industrial uses. Therefore, the only remaining viable option for power generation is either RLNG or pipeline gas from neighboring countries. At present, there are only two LNG terminals of 600 MMCFD each which are meeting the requirements of Haveli Bhadur Shah (1230 MW), QATPL (1180 MW) and Baloki (1320 MW) power plants. The surplus is supplied to certain Independent Power Producers (IPPs), such as Saif Power Limited, Halmore Power Generation Company Limited, Orient Power Company, Rousch (Pakistan) Power Limited on availability basis. Although two or three more LNG terminals being pursued for development of the same are at very initial stages and not likely to commence operations in the next three (3) to five (5) years.

(iv). As regards to the pipeline for import of gas from neighboring countries, even if all feasibilities and approvals are completed, it would require more than five (5) years for its construction and commissioning. It may be noted that the facility is currently operating on local RFO procured from local refineries which are competitively priced when compared with other fuel sources used in thermal power plants (i.e. imported RFO and imported LNG) and the facility has adequate storage capacities to store RFO for up to thirty (30) days at full load. Moreover, whilst Mr. Bilvani and KECF have made references to a dwindling RFO market in Pakistan, currently, there is a surplus production of local RFO. It is noted that the recent actions of the GoP seek to export RFO in order to promote export of

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surplus RFO resulting from limitation of storage facilities, while the import of RFO has been put on hold. Moreover, local refineries are being encouraged to invest in improved hydrocracking and build additional storage facilities, however, this will require significant time and investment. Given the relatively low export opportunities and limited storage capacity for such fuel, the local RFO market is constrained by the lack of readily available off-takers of the product. The facility, therefore, is directly benefiting local refineries by purchasing local RFO and reducing the outflow of foreign exchange by utilizing a local fuel source.

(v). About the breach of the policy of GoP, it was stated that the company understands that the prevalent GoP policy does not permit the establishment of new RFO based power plants, nor the import of RFO, however, it is widely acknowledged that in order to meet load variations in peak and off-peak hours thermal power plants are an integral part of the energy mix. It is highlighted that the Company is not in breach of the GoP's policy (i.e. to not establish new RFO plants) as the policy refers to new RFO plants being developed whereas the Company is only continuing operations of its existing facility. The continued operation of the facility is essential in order to cater for the growing population of Karachi and the continued demand for electricity of KEL until new projects are successfully established and commissioned. On the question of efficiency of Single Cycle Plant, it is highlighted that the efficiency of a "Combined Cycle Gas Turbine' (CCGT) plant is highest in baseload operations. However, considering the operational scenario of the facility, the efficiency of a CCGT plant would drastically reduce due to various limitations such as size of the plant, high ambient temperatures, load variations, number of start-ups and ramp rate, unavailability of water around the plant site, unavailability of gas, etc. Therefore, it is not prudent to design and decide on the technology without giving due considerations to the ground realities. Moreover, the Authority may consider and appreciate that the company seeks extension of the Generation Licence granted to the facility, which was commissioned under the policy for the generation of power 1994 and the technology of the facility was well in line with the requirements at that time. The conversion to Combined Cycle, at this stage, makes no economic sense as the capital cost of conversion will increase the

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tariff and will unnecessarily burden the end consumers.

(vi). On the issue of auxiliary consumption, it was stated that the technical norm for the auxiliary consumption of small plants of CCGT in combined cycle mode is about two percent (2%) whereas the auxiliary consumption of our facility, despite being a small simple-cycle plant, is one point ninety-eight percent (1.98%). Regarding the competitive O&M, it was clarified that under the Tariff Petition, the O&M component has been claimed on the assumption that the operation and maintenance of the facility shall be carried out utilizing own resources of the Company, instead of a turnkey O&M service provider. In the absence of a "turnkey" third party contractor being hired for the O&M; the claim being made by the Company is resulting in lower costs as compared to other similar generation facilities. Generally, the engine-based plants have relatively higher operation & maintenance cost as compared to gas turbine-based plants. However, the overall cost of the facility to produce power would remain relatively low (as compared to other thermal power generation facilities) as the plant is debt-free, readily available, and already connected to the system of KEL and fit for operation for another ten (10) years.

(vii). About the effect on the environment, it was submitted that compliance of the facility with environmental standards is demonstrated by the fact that the facility has the requisite approval of the Sindh Environmental Protection Agency (SEPA) in place. In accordance with the terms of the approval of SEPA, "Environmental Performance Monitoring" of the facility is being carried out by independent consultants on a regular basis. About the multiple generating units, the facility consists of several generating units and therefore the fuel efficiency can be maintained across a wide range of load variations and also at part load operations, Therefore, the facility can be operated at all loads with the same efficiency.

(viii). About the suggestion of wheeling to industrial consumers instead of supplying to KEL, it is highlighted that KEL in its "Power Acquisition Consent (dated October 22, 2018)" submitted that "...the continued availability of the facility is an integral part of our strategy to meet our future demand and its contribution to

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the system stability of the 132- kV network due to its strategic location in North-West zone of Karachi. Additionally, KEL has also submitted a power acquisition request to the Authority vide its letter No. SBD/AR/NEPRA-0312/2018-0412, dated December 4, 2018 (the "Power Acquisition Request") for permission to KEL to acquire power from the Company for the PPA Term Extension. KEL stated in the Power Acquisition Request "...to ensure adequate supply of power to meet the growing power demand of the city, in addition to the expected pipeline of planned projects which shall come online in next few years, the continuity of the existing sources of power supply in the next five year is an essential part of K-Electric's strategy to fulfill the increasing power demand...".

(ix). Further, TEPL submitted that the stakeholders may be aware that KEL has added new power generation facilities of more than 1000 MW since 2009 to its distribution system. KEL is also procuring power from Fauji Fertilizer Bin Qasim Limited, Sindh Nooriabad Power Company (Private) Limited-Phase-1 & Sindh Nooriabad Power Company (Private) Limited–Phase-2 but despite all these additions the shortfall in the year 2017-18 was around 500 MW. Many of the planned investments in generation projects of KEL have been delayed and KEL anticipates a power shortfall of 600 MW in the summer of 2019. Therefore, the suggestion that the Company should enter into wheeling arrangements in order to provide electricity to consumers in other service territories undermines the energy security of consumers in the service territory of KEL.

(x). It has been suggested that KEL should procure electricity from CPPA-G/NTDC. In this regard, it is highlighted that out of the two projects mentioned, Port Qasim Coal project is already connected to the national grid and selling power to the CPPA-G/NTDC while Hubco Coal project is yet to be commissioned, however, it would also be connected to the national grid. As the Authority may be aware. the Cabinet Committee on Energy (CCE) was recently briefed by the Power Division that there will be load shedding in 2019 peak seasons. The National Power Control Centre (NPCC) data showed that the generation deficit was at 7,000 MW, on some occasions in May 2017. According to the Energy Access Outlook 2017 of International Energy Agency (IEA), twenty-five percent (25%) of Pakistani

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households are not connected to the national grid. In other words, over 50 million Pakistanis may be living without access to electricity. Considering all these facts, it is considered that CPPA-G does not have surplus power to cater to the additional demand for electricity. KEL has also highlighted that it is critical for the facility to continue to generate electricity, in order to provide uninterrupted supply to its critical industrial consumers.

(xi). It has been suggested that the power purchase agreement between KEL and the Company must be on take & pay basis and that the fuel cost of the same should a pass through. It is submitted that the project is an IPP (as opposed to being a captive power plant) and will exclusively supply power to KEL. All IPPs are developed on "take or pay" basis as a large investment is required by the project company. This is essential as providing certainty of income to sellers is a crucial feature for projects with very large initial capital investment. Therefore, a "take & pay" arrangement as opposed to the "take or pay" will make the project unviable for the sponsors. This risk allocation provides the Company with the certainty of regular project revenues and a predictable cash-flow stream, a necessary criterion for the Company to continue operations of the facility. The stakeholders have failed to understand the prevailing contractual/tariff regime, commercial realities and the fact that the "take & pay" arrangement works for facilities that meet their fixed cost/expenses by in house consumption and sell surplus power on "as & when" available basis. This arrangement does not provide the requisite comfort to ensure recovery of mandatory payments associated with capacity charge and guaranteed off-take. Moreover, the Company will sell its output to KEL on commercial terms without allocating risk obligations on the GoP. The Company will assume the commercial risk, without having the necessary comfort which is typically available with grid-based power projects under the relevant government policies, including an Implementation Agreement and sovereign guarantee of GoP. Therefore, a "take & pay" arrangement as opposed to the "take or pay" will make the project questionable and in the absence of assured revenue, the project will not be viable.

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(xii). It is pertinent to highlight that unlike the complexities and long gestation periods involved in the development of a new power generation facility, the Project, being operational now for over two (2) decades, has all requisite contractual arrangements and other infrastructure requirements in place to continue power generation for servicing the consumers of the largest city of Pakistan. It is noted that implementation of the PPA Term Extension will neither require a financial close from lenders nor construction of any new transmission lines. Moreover, an offtake arrangement is already in place and KEL itself is a strong supporter of the PPA Term Extension. Given the combination of a well-maintained and 'debt-free' facility with no major capital expenditures required for the continued use of the facility, KEL's consumers will directly benefit from the low cost of electricity supplied by the Company during the requested extension period.

(xiii). On the comments of PSO, it was submitted that the matter of purchase of fuel from PSO has extensively been discussed between the parties. The Company has not disputed its obligation under the FSA to purchase its requirements for "Fuel, Diesel Oil, Greases, Lubricants and Additives" for the facility from PSO. However, the reservation of the company in respect of the purchase of fuel under the FSA relates to the fact that the quality of fuel supplied by PSO under the FSA is not in conformity with the required standards for such fuel under the terms of the FSA. Nonetheless, the contentions raised by PSO in respect of the alleged breach of the FSA are being discussed between TEPL and PSO bilaterally. The same does not impact the matter before the consideration of the Authority i.e., granting the Company a necessary regulatory consent in order to continue the activity of power generation and meets its obligations under the PPA with KEL. The comment of PSO that the Generation Licence of the Company should be contingent upon the extension of the FSA corresponding to the same time period is unfounded given that the FSA formed part of the 'security structure' that was available to the Company at the inception of the Project which is no longer continuing on an 'as-is basis'. At such time, the Company also had the benefit of the Implementation Agreement and GoP Guarantee, which shall also no longer be part of the security structure in the PPA Term Extension.

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(xiv). The Authority considered the above submissions and considered it appropriate to proceed further with the communicated LPM as stipulated in the Licensing Regulations and the Generation Rules.

(E). Analysis of the Authority

(i). The Authority has examined the entire case in detail including the already granted generation licence, communicated LPM, comments of the stakeholder, provisions of PPA, and relevant rules & regulations.

(ii). In this regard, it is observed that in terms of Regulation-10(5) of the Licensing Regulations, the Authority is entitled to modify a licence subject to and in accordance with such further changes as the Authority may deem fit if, in the opinion of the Authority such modification (a). does not adversely affect the performance by the licensee of its obligations; (b). does not cause the Authority to act or acquiesce in any act or omission of the licensee in a manner contrary to the provisions of the NEPRA Act or the rules or regulations made pursuant to it; (c). is or is likely to be beneficial to the consumers; (d). is reasonably necessary for the licensee to effectively and efficiently perform its obligations under the licence; and (e). is reasonably necessary to ensure the continuous, safe and reliable supply of electric power to the consumers keeping in view the financial and technical viability of the licensee.

(iii). The Authority has observed that the LPM envisages extension in the term of the generation licence. In this regard, Rule-5 (2) of the Generation Rules stipulates that on the expiry of the term of a generation licence, the Authority may renew a generation licence for such further term as it may deem appropriate. However, in consideration of the said, the Authority will consider (a). the remaining maximum expected useful life of the units comprised in the generation facility; (b). the performance of the licensee during the then expiring term; and (c). the interests of the consumers and the electric power industry as a whole.

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(iv). The Authority has examined the submitted LPM in terms of the criteria given in the relevant regulations and it is found that the average running of each Diesel Engine of the generation facility is around 127560 hours with the operation of the lowest used engine at 118837 hours and that of the engine having maximum use at 141826 hours. In view of the said, the average usage of the generation facility in terms of the years comes out to be around fifteen (15) years. If the benchmark followed by the Authority for similar power plants is considered, then the remaining useful life of the TEPL is at-least ten (10) years. The said assessment is also corroborated by the plant assessment report prepared by an Independent Malaysian Consultant namely Continental Marine Energy which has concluded that the expected useful of the generation facility is ten (10) years.

(v). The Authority observes that the performance of the licensee during the previous term has been very satisfactory as has also been confirmed by the Power Purchaser i.e. KEL and the same can be gauged from the fact that a new PAR has already been submitted for consideration of the Authority. In this regard, it is pertinent to mention that due to current supply-demand situation in the service area of KEL, allowing extension in the term of licence is vital as it will maintain a steady supply to the area which cannot be supplied by any suitable alternate source and accordingly it is in the interests of the consumers and the electric power industry as a whole to allow an extension in the term of the licence of TEPL. It is important to highlight that KEL had submitted its consent for Purchase of Power from the generation facility for another five (5) years subject to Regulatory approvals.

(vi). The Authority has also considered the comments of the stakeholders and observed that all the stakeholders except KEL opposed the requested extension in the term of the Licence of TEPL, *inter-alia*, on the ground that plant is low in efficiency and producing costly energy. The stakeholders submitted that many new efficient plants have been added in the national grid which are currently underutilized, therefore, in the overall interest of the country, the equivalent power can easily be provided to KEL by the national grid. In addition, PSO has also raised concerns regarding its FSA with the TEPL.

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(vii). Regarding the comments of PSO, the Authority observes that since RFO is an unregulated commodity, therefore, it cannot direct TEPL to purchase the same from a specific supplier. In this regard, TEPL should have the option to purchase the fuel from any supplier given market-based price competitiveness and required quality standards. Further, the Authority is of the considered opinion that the matter related to FSA is a bilateral issue between PSO and TEPL and does not come under its regulatory domain and therefore the same may be resolved bilaterally or through other available avenues. However, the Authority considers it appropriate to direct TEPL to maintain adequate storage of fuel supplies during the term of its licence to meet its obligations towards the Power Purchaser as agreed in the PPA.

(viii). In view of the comments of the stakeholders regarding supply of additional power from the national grid to KEL, the Authority vide letter No. NEPRA/SAT-II/TRF-460/10495-10496 dated June 18, 2019, through the Ministry of Energy, directed CPPA-G to look into the matter of supply of equivalent power to KEL as this will reduce the burden of capacity charges and will be beneficial for all the electricity consumers in the country. CPPA-G in its response vide letter No. CPPA-G/2019/CEO/7307-11 dated June 19, 2019, committed that the analysis and recommendation in this regard will be submitted to the Authority after consultation with NTDC and KEL. Till that time, CPPA-G suggested that procurement of power from TEPL may be allowed on the take & pay basis and shall be dispatched on the basis of KEL's merit order without any sovereign guarantee's commitment by the GoP. The Authority vide its letter No. NEPRA/SAT-II/TRF-460/TEPL-2018/18005 dated September 30, 2019, again directed to submit its analysis and recommendations on the additional supply of power to KEL to replace power supply by TEPL. Further, the Authority vide its letter No. NEPRA/SAT-II/TRF-450/NTDC-2018/1 8593 dated October 4, 2019, also directed NTDC to provide information whether equivalent power can be made available to KEL from national grid to replace the power supplied by TEPL without any transmission constraints and in case NTDC system allows uninterrupted transmission of additional power, how much time will it take to make necessary arrangements? In this regard, NTDC vide

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its letter No. GMT/NTDC/T-90/1875-78 dated November 1, 2019, informed that the existing NTDC and KEL 220 kV transmission interface cannot support 250 MW export in addition to the existing 650 MW export to KEL in a reliable manner, especially, under N-1 contingency conditions. NTDC further submitted that in the current scenario to cater the demand and maintain the smooth running of system, KEL may operate the two IPPs ("Tapal and Gul Ahmad") as Marchant IPPs on Take & Pay basis for 2-3 years till the up-gradation of KEL network, to take additional power through existing NTDC system interface.

(ix). In consideration of the above, the Authority considers that the supply of additional power to KEL from the national grid will not be possible at least in the short term. Therefore, keeping in view the demand-supply situation in the service area of KEL and the remaining useful life of the generation facility, the Authority considers it appropriate to extend the term of the generation licence of TEPL to ten (10) years, i.e., till June 19, 2029. However, TEPL will be required to strictly follow the directions given by the Authority in the tariff determination regarding supply of power to KEL. Further, the Authority considers that in order to promote competition in the market, TEPL may opt to supply to Bulk Power Consumers in its vicinity during or after the expiry of the extended term of the PPA subject to regulatory approvals.

(x). Further to the above, the Authority considers that the LPM in the generation licence of TEPL regarding extension in the useful life of the generation facility will not be affecting adversely the performance by the Licensee of its obligations but will enable the Licensee to supply to the utility. Further, the Authority also observes that the LPM has not caused the Authority to act or acquiesce in any act or omission of the licensee in a manner contrary to the provisions of the NEPRA Act or the rules or regulations made pursuant to it. The proposed LPM will be beneficial to the consumers of KEL which will face severe power supply and reliability issues if extension in the term of the licence is denied. It is observed that LPM is reasonably necessary for the licensee to effectively and efficiently perform its obligations under the licence. Further, it is reasonably necessary for the

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Licensee to have this LPM to ensure continuous, safe and reliable supply of electric power to the utility/consumers keeping in view its financial and technical viability.

(F). Approval of LPM

(i). In consideration of the above, the Authority hereby approves the communicated LPM of TEPL in terms of Regulation-10(11)(a) of the Licensing Regulations and extends the term of the generation licence (No. IPGL/010/2003, dated August 26, 2003) of TEPL till June 19, 2029.

(ii). Accordingly, the generation licence (No. IPGL/010/2003, dated August 26, 2003) in the name of TEPL is hereby modified. The changes in "Face Sheet", of the generation licence are attached as an annexure to this determination. The approval of LPM will be subject to the provisions contained in the NEPRA Act, relevant Rules & Regulations framed thereunder, terms & conditions of the generation licence and other applicable documents.

Authority:

Engr. Rafique Ahmed Shaikh
(Member)

21/2/20

Engr. Rehmatullah Baloch
(Member)

21/02/2020

Saif Ullah Chattha
(Member)

25.2.2020

Engr. Bahadur Shah
(Member/Vice-Chairman)

Engr. Tauseef H. Farooqi
(Chairman)

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National Electric Power Regulatory Authority (NEPRA)

Islamabad – Pakistan

Generation Licence

IPGL/010/2003

In exercise of the Powers conferred upon the National Electric Power Regulatory Authority (NEPRA) under Section-26 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, (XL of 1997), as amended or replaced from time to time, the Authority hereby modifies the term of the Generation Licence (No. IPGL/010/2003, dated August 26, 2003 and Modification-I dated November 20, 2018) granted to Tapal Energy (Private) Limited. The changes made in the Generation Licence are described in the attached Annexure-A.

This **Modification-II** is given under my hand on 09th of ~~**February**~~ March **Two Thousand** & **Twenty**

09.03.20

Registrar

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Annexure-A

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Modification-II in the Generation Licence (No. IPGL/010/2003, dated August 26, 2003) of Tapal Energy (Private) Limited

(A). Face Sheet

(i). On the Face Sheet (i.e. the first page of the generation licence read with Modification-I dated November 20, 2018), in the last line the phrase "expires on 19th day of June, Two Thousand & Nineteen" is deleted and is replaced by the phrase "expires on 19th day of June, Two Thousand & Twenty Nine."

(B). Article-4

(i). Article-4(1) of the generation licence is rephrased as "the term of this Licence is valid upto June 19, 2029."

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