

National Electric Power Regulatory Authority
(NEPRA)

Determination of the Authority
In the Matter of Generation Licence Application of
Thatta Power (Pvt.) Limited

December 07, 2011
Application No. LAG-189

(A). Background

(i). Thatta Power (Pvt.) Limited (TPPL) is planning to set up a Thermal Generation Facility under the PEPCO formulated "Policy Framework For New - Captive Power Producers" (the Policy).

(ii). Under the Policy new Captive Power Plants (N-CPPs) are proposed to be established with new investment on new machines in the jurisdiction of Ex-WAPDA DISCOs.

(iii). TPPL has decided to set up the N-CPP in the jurisdiction of Hyderabad Electric Supply Company Limited (HESCO).

(B). Filing of Generation Licence Application

(i). TPPL in accordance with Section 15 of the NEPRA Act filed an application on May 23, 2011 requesting for grant of a Generation Licence for its proposed N-CPP.

(ii). Initial scrutiny of the application revealed that TPPL had not submitted some of the required information/documents as stipulated in NEPRA Licensing (Application & Modification Procedure) Regulations, 1999 (hereinafter "the Regulations"). Accordingly, ~~TPPL~~ was advised to submit the missing information.



(iii). TPPL completed the submission of the missing information/documentation on July 05, 2011. Accordingly the case of TPPL was submitted for admission of the Authority. The Authority admitted the application for the consideration of the Generation Licence on July 15, 2011.

(iv). Further, according to Regulation 8 of the Regulations the Authority decided to publish a Notice of Admission (NoA) along with the brief of the prospectus and other salient features of application. The NoA was advertised on July 17, 2011 in one Urdu and one English newspaper, seeking comments from the general public and other interested/affected parties.

(v). Apart from the NoA in the press, separate notices were also sent to experts, Government Ministries and representative Organizations etc. inviting their views and comments in the matter.

(C). **Comments of Stakeholders**

(i). In reply to the above mentioned NoA in the press and separate notices sent to other stakeholders, NEPRA received comments from Ministry of Water and Power (MoW&P) and Department of Environment and Alternative Energy Government of Sindh (DoE&AEGoS).

(ii). The salient points of the comments offered by the above stakeholders are summarized in the following paragraphs:-

(a). MoW&P in its comments stated that keeping in view the firm long term availability of Natural Gas and higher thermal efficiency of the proposed plant, NEPRA may process the case of TPPL for the grant of Generation Licence in accordance with NEPRA Act/Rules and Regulations;

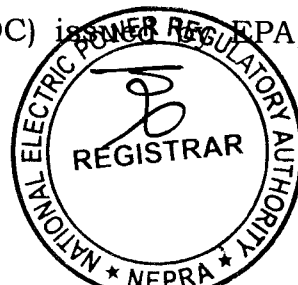


(b). DoE&AEGoS remarked that according to Section 12 of the Pakistan Environmental Protection Act 1997, the Environmental Impact Assessment (EIA) report of the project to be executed, is to be submitted to the Environmental Protection Agency (EPA), Government of Sindh for its consideration before the same are initiated. Accordingly, it may be confirmed whether the applicant firm has complied with this legal requirement or not? If the answer is in negative, then the Company may be advised to get the needful done before any further action is taken;

(iii). The perspective of TPPL on the aforesaid position of MoW&P and DoE&AEGoS was sought.

(iv). In its rejoinder on the observations of MoW&P, TPPL submitted that gas is available for the proposed plant on nine months basis. The Policy duly recognizes such gas availability arrangement. It was further submitted that comfort is drawn from the fact that despite the existence of about 688 Captive Power Plants in the service area SSGC, not a single such captive power plant was subjected to any gas load shedding in the past. With new and expansion of existing gas fields in the province of Sindh, the outlook of the availability of gas to the project is quite positive and it is expected that gas will be available for the life of the project. About the efficiency of the plant, TPPL submitted that the sponsors of the project are cognizant of the fact that gas is a precious resource and should be used as efficiently as possible. In view of this, the Power plant is designed to have a combined Cycle configuration thus achieving the best possible efficiency.

(v). Regarding the comments of DoE&AEGoS for having EIA report for the project approved by EPA, Sindh, TPPL submitted the required No Objection Certificate (NOC) issued by EPA, Government of



Sindh confirming that the project would comply with the required environmental standards.

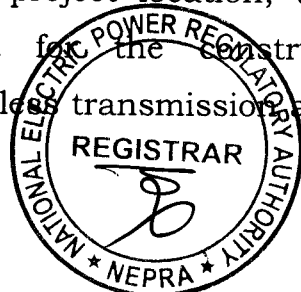
(vi). In view of the satisfactory explanation of TPPL and to encourage the sponsors to expeditiously set up N-CPP under the Policy, it was considered appropriate to process the application of TPPL without holding any Public Hearing.

(D). Grant of Generation Licence

(i). The Authority considers that availability of sufficient electricity at affordable prices with a reasonable mix of Hydel and Thermal is imperative for the development of the economy of the country. In view of the fact that country is facing a severe shortage of electricity, efforts should be made to develop all indigenous resources of energy including Gas, Coal and Hydel etc.

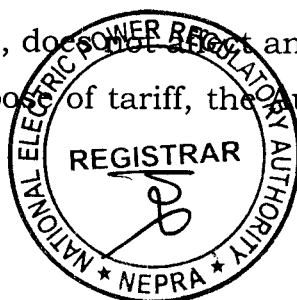
(ii). The initiative of induction of new power plants at the level of DISCO is considered important as such induction always results in better voltage regulation, better voltage profile and stability of the electric system around the area where such plants are installed. Further, being located close to the load center such projects normally involve relatively small length of Transmission and Interconnection facilities, resulting not only in less upfront expenditure pertaining to lying of the transmission lines and other related infrastructure but also in less Transmission Losses.

(iii). In the particular case of TPPL, the project has confirmed gas availability for a longer period of time and resultantly will generate cheaper electricity than other projects. Therefore, the project will be extremely beneficial as its tariff will be significantly lower than other upcoming projects. Being located close to the National Grid (which is about 10.00 KM) from the proposed project location, the project will involve relatively low upfront cost for the construction of the Interconnection facilities and will have less transmission and distribution



losses. Further, the Project will not have any environmental impacts as it will be using environmental friendly resource (i.e. Natural Gas) for generation of power. The project will help in enhancing energy security of the country as it will be using the locally available Natural Gas for power generation. Further, it will also help in reducing dependence on imported furnace oil. In consideration of this, the Authority considers that the efforts of TPPL for the setting up of the Natural Gas based Power Plant near Thatta in the province of Sindh as a positive step and is acceptable.

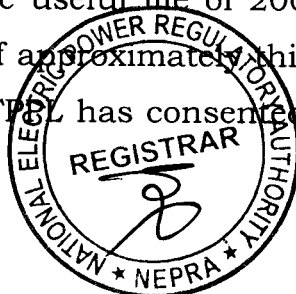
(iv). TPPL has informed that it will be selling about 18.80 MW of electric power to HESCO which will be subsequently enhanced to 25.60 MW. Apart from supplying power to HESCO, TPPL will also supply power to Thatta Cement Company Limited (TCCL), located within the same premises to the tune of 20.00 MW (maximum) at mutually agreed rates. About the supply to TCCL by TPPL, it has been confirmed that both entities are located within the same premises. TPPL will be supplied through two underground cable (measuring about 300 meters at 6.3 KV) not involving any public or third party. Further, the load level for TCCL is above the minimum level (1.00 MW) to qualify as a Bulk Power Consumer (BPC) under the Act. Pursuant to Section 22 of the Act, the Authority is allowed to permit a Generation Company to sell to BPC. Therefore, the Authority agrees to the proposed arrangement and allows TPPL to sell electricity to TCCL. Further, the Section 2(v) of the NEPRA Act, wherein the ownership, operation, management and control of distribution facilities located on private property and used solely to move or deliver electric power to the person owning, operating, managing and controlling those facilities or to tenants thereof has not been included in the definition of "distribution". Based on the considerations that the consumer (i.e. TCCL) is located within the same premises and no public area is involved, the supply of power to TCCL by TPPL does not constitute a distribution activity under the Act, and a distribution licence will not be required. The matter of rates, charges and terms and conditions of tariff between TPPL and its BPC (i.e. TCCL), does not affect any other consumer or third party. Therefore for the purpose of tariff, the Authority considers



it appropriate asking TPPL and TCCL to agree on a bilateral agreement and accordingly TPPL will be allowed to charge the agreed tariff subsequent to the grant of the Generation Licence.

(v). About the approval of tariff for supply of electric power to HESCO, neither HESCO nor TPPL has approached the Authority for the same. It is clarified that the determining of tariff, rate and charges etc. for supply of power to HESCO is the sole responsibility of the Authority as stipulated in Section 7(3)(a) of the NEPRA Act. Although, Section 9 of the Policy under which the proposed project is being set up stipulates an upfront tariff however, TPPL has not approached the Authority for its approval. TPPL has reported that Power Purchase Agreement (PPA) has been negotiated and a draft PPA in this regard with HESCO including the proposed tariff, rate and charges etc., has been signed. The Authority therefore directs HESCO to file the draft PPA signed with TPPL for approval as stipulated in the NEPRA Interim Power Procurement Regulations 2005.

(vi). The Term of the Generation Licence is fixed according to the NEPRA Generation Rules 2000 (the Rules). According to Rule 5 of the Rules, except where an applicant for a generation licence consents to a shorter term, the term of the Generation Licence is to be commensurate with maximum expected life of the units comprised in a generation facility. According to the information provided by TPPL the proposed Gas Engines will be brand new and will have a useful life of about 200,000 running hours which translates into 25 years if 8000 running hours is assume annually. TPPL requested that the term of the Generation License may be fixed for 25 years. The Authority considers that estimation of the useful life of the Gas Engines comprising the facility of TPPL is reasonable considering the fact that the plant on the basis of the nine (09) months allocation of Natural Gas will operate for 245 days per year which comes out to be 5880 hours. Based on the useful life of 200,000 hours, these Gas Engines may last for a period of approximately thirty four (34) years. However, considering the fact that TPPL has consented to a shorter term

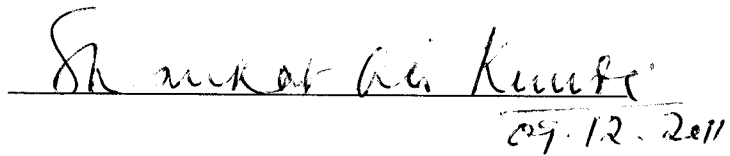


of twenty five (25) years, the Authority therefore fixes the term of the Generation Licence to twenty five (25) years from the Commercial Operation Date (i.e. April 30, 2012) of the project (i.e. uptill April 29, 2037).

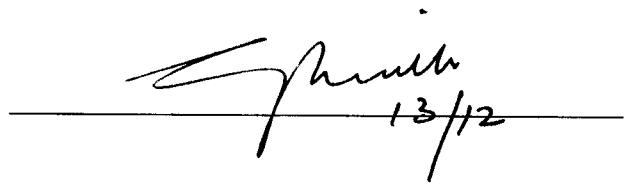
(vii). In consideration of the above, the Authority hereby decides to approve the grant of Generation Licence to TPPL for its proposed thermal generation facility in the terms set out in the attached Licence as annexed to this determination. The grant of such a licence will be subject to the provisions contained in the NEPRA Act and relevant Rules framed there under.

Authority

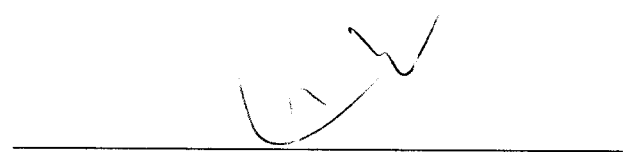
Shaukat Ali Kundi
Member (Licensing)


13/12/2011

Ghiasuddin Ahmed
Member (Tariff & CA)


13/12

Maqbool Ahmad Khawaja
Member (Standards &
Privatization)/Vice Chairman



Khalid Saeed
Chairman

