



Registrar

National Electric Power Regulatory Authority Islamic Republic of Pakistan

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad
Ph: +92-51-9206500, Fax: +92-51-2600026
Web: www.nepa.org.pk, E-mail: registrar@nepa.org.pk

No. NEPRA/R/ADG(Trf)/TRF-100/13382-13384

March 10, 2021

Subject: Decision of the Authority in the matter of Change of Base Year 2007-2008 to Base Year 2015-16 for Consumer Price Index (CPI) for Indexation of Fixed and Variable O&M (Local) Components of Generation Tariff

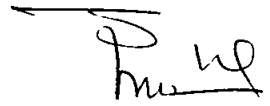
Dear Sir,

Please find enclosed herewith subject Decision of the Authority (05 Pages).

2. The Decision is being intimated to the Federal Government for the purpose of notification in the official Gazette pursuant to Section 31 (7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

3. The Order of the Authority's Decision is to be notified in the official Gazette.

Enclosure: As above


10 03 21
(Syed Safer Hussain)

Secretary
Ministry of Energy (Power Division)
'A' Block, Pak Secretariat
Islamabad

CC: 1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.



DECISION OF THE AUTHORITY IN THE MATTER OF CHANGE OF BASE YEAR 2007-08 TO BASE YEAR 2015-16 FOR CONSUMER PRICE INDEX (CPI) FOR INDEXATION OF FIXED AND VARIABLE O&M (LOCAL) COMPONENTS OF GENERATION TARIFF

1. BACKGROUND

- 1.1. The Local fixed and variable O&M components of generation tariff are subject to indexation / adjustment on the basis of change in Consumer Price Index (CPI)-General. Initially Local O&M components of tariff were subject to adjustment on the basis of change in WPI (Manufactures). Pakistan Bureau of Statistics (PBS) discontinued publication of WPI (Manufactures) with effect from August 2011. The Authority after a consultative process replaced WPI (Manufactures) with CPI (General) (Base Year 2007-2008) on December 20, 2012 in line with following proviso contained in Power Purchase Agreement (PPA)/Energy Purchase Agreement (EPA) of power generation projects:

“The parties shall request NEPRA to determine an alternative index. Such determination, when made available, shall be binding on the parties for the purpose of such index hereunder. Pending the determination by NEPRA, the last available value of such index shall be used for all relevant purposes hereunder. Upon the determination of such index by NEPRA, either party shall revise all payment made during the pendency of alternative index and shall be paid without any interest to the owing party.”

2. CHANGE OF BASE YEAR FROM 2007-08 TO BASE YEAR 2015-16 BY PBS

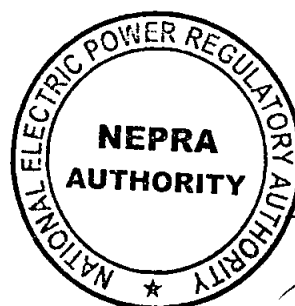
- 2.1. The Governing Council of PBS in its 5th meeting in 2014 issued a policy directive to rebase the National Accounts and Price Statistics after every ten years. Accordingly, the Governing Council of PBS in its 18th meeting held on August 30, 2019 approved the change of base of Price Statistics from 2007-08 to 2015-16. Resultantly, publication of CPI, Base Year 2007-08, has been discontinued from July, 2020 onwards and publication of National Consumer Price Index (N-CPI), Base Year 2015-16, has been commenced from August 2019, whereas, PBS also published N-CPI data from July 2017 to July 2019.

3. INITIATION OF PROCEEDINGS FOR REPLACING CPI BASE YEAR 2007-08 WITH NCPI BASE YEAR 2015-16

- 3.1. In light of the discontinuation of the publication of CPI Base Year 2007-08 and aforementioned proviso of the EPA/PPA, the matter was placed before the Authority. The Authority decided to initiate proceedings for requisite change in the index. Accordingly, public hearing in the matter was scheduled on November 4, 2020. Notice of hearing was published in the newspapers on October 23, 2020 and individual notices were issued on October 26, 2020. Stakeholders were asked to become parties to the proceedings through filing of intervention requests or comments in the matter within seven (07) days.

4. COMMENTS / INTERVENTION FROM STAKEHOLDERS

- 4.1. In response to the notice of hearing, following stakeholders submitted comments and intervention requests:



COMMENTS

- 4.2. Huaneng Shandong Ruyi (Pakistan) Energy Pvt. Ltd. (HSR), Port Qasim Electric Power Company Pvt. Ltd. (PQEPCL), China Power Hub Generation Company Ltd. (CPHGCL) recommended the adoption of approved Local O&M (Fixed & Variable) components for 3rd quarter of 2020 i.e. July-Sep 2020 which is based on CPI index value for the month of May 2020 under base year 2007-08 as reference components. HSR also recommended to use N-CPI index for the month of May 2020 under base year 2015-16 as reference value. According to HSR, since PBS has published price indices for May 2020 under both 2007-08 & 2015-16 base years, therefore, it allows for an accurate conversion to the new base year for the subsequent quarters.

INTERVENTION REQUESTS

- 4.3. Appolo Solar Development Pakistan Ltd., Best Green Energy Pakistan Ltd. and Crest Energy Pakistan Ltd. commented that if N-CPI base year 2015-16 is adopted then they will suffer loss of 35 million rupees on yearly basis. Therefore, these IPPs requested to continue the base year 2007-08 for local CPI for indexation of local O&M components of tariff instead of base year 2015-16.
- 4.4. Lucky Electric Power Company Ltd. stated that, June 2014 CPI shall be adjusted with the new indexation basis, last available indices of May 2020 have been taken to determine indices to be applicable w.e.f. July 1, 2020, by following the below methodology:

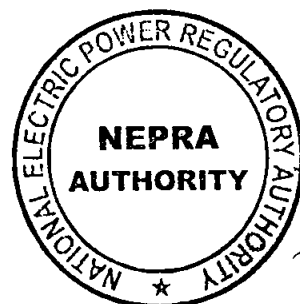
$$\text{June 2014 CPI} \times \frac{\text{May 2020 CPI based on 2015-16 indices}}{\text{May 2020 CPI based on 2007-08 indices}}$$

$$194.74 \times \frac{131.01}{268.25} = 95.11$$

- 4.5. K-Electric Ltd. (KE) requested the Authority to share the proposed methodology for change in base year of CPI for O&M indexation so that KE can analyze and put forward its point of view in the hearing accordingly. No further comments were submitted by KE during or post hearing.

5. HEARING

- 5.1. Hearing in the matter was held on November 4, 2020 at NEPRA Tower through Zoom wherein the representatives from HSR, PQEPCL, Fauji Power, Chanar Energy, National Power Parks Management Company Ltd. (Haveli Bahadar Shah & Balloki), Punjab Power Development Board (PPDB) and Foundation Energy participated and submitted the following comments:
- Fauji Power stated that, whatever base year for CPI is used the percentage change in Local O&M components in rupee terms should be same.
 - Chanar Energy commented the same as proposed by the Fauji Power.
 - National Power Parks Management Company Ltd. (NPPMCL) Haveli Bahadar Shah & Balloki commented that, a factor may be formulated on the basis of CPI base year 2007-08 & 2015-16 and that factor shall be used for future indexation.



- iv. During the hearing HSR & PQEPCL reiterated their comments and suggested that, Local O&M (Fixed & Variable) components of tariff determined by the Authority for July-Sep 2020 quarter shall be used as reference components and N-CPI value for the month of May 2020 base year 2015-16 shall be used as reference value for future indexations.

6. CONSIDERATION OF VIEWS OF THE STAKEHOLDERS, ANALYSIS, FINDINGS AND DECISION

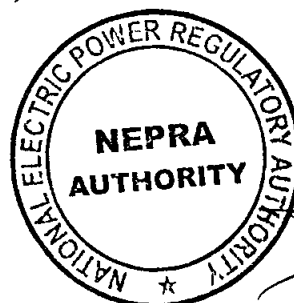
- 6.1. PBS used following basis for calculation of CPI under base years 2007-08 and 2015-16:

Description	Base Year 2015-16	Base Year 2007-08
Coverage		
Urban		
No. of Cities	35	40
No. of Markets	68	76
No. of Items	356	487
No. of Commodities	94	89
No. of Groups	12	12
Coverage		
Rural		
No. of Rural Areas	27	Nil
No. of Markets	27	Nil
No. of items	244	Nil

- 6.2. Since PBS is using different basis for calculation of CPI for the two base years, the percentage change in CPI under both base years cannot be the same. Therefore, the request of Fauji Power and Chanar Energy is not maintainable.
- 6.3. Since PBS has discontinued the publication of CPI base year 2007-08 from July 2020 onwards, the request of IPPs namely Crest Energy, Appolo Solar and Best Green Energy to continue the base year 2007-08 for local CPI instead of base year 2015-16 is not maintainable.
- 6.4. The mechanism proposed by Lucky Electric Power Company Ltd. also seems not justified as it will not result in same indexed Local O&M components as compared to existing CPI for base year 2007-08 or proposed CPI for base year 2015-16.
- 6.5. Representative of National Power Parks Management Company Ltd. (Haveli Bahadar Shah & Balloki) was asked by the Authority to share the formulated factor but no information was shared by the IPP.
- 6.6. Having considered the comments of the stakeholders, the Authority has decided to replace CPI Base Year 2007-08 with N-CPI Base Year 2015-16, as provided hereunder:

$$\text{Fixed O\&M}_{(\text{Rev})} = \frac{\text{Fixed O\&M}_{(\text{Ref})}}{\text{NCPI}_{(\text{Ref})}} \times \text{NCPI}_{(\text{Rev})}$$

$$\text{Variable O\&M}_{(\text{Rev})} = \frac{\text{Variable O\&M}_{(\text{Ref})}}{\text{NCPI}_{(\text{Ref})}} \times \text{NCPI}_{(\text{Rev})}$$





Where:

Fixed O&M _(Rev)	=	Revised Fixed O&M Component of Power Generation Plants
Fixed O&M _(Ref)	=	Fixed O&M Component of Power Generation Plants as approved in their respective quarterly/biannual decisions for the period July-Sep, 2020/July-Dec, 2020.
Variable O&M _(Rev)	=	Revised Variable O&M Component of Power Generation Plants
Variable O&M _(Ref)	=	Variable O&M Component of Power Generation Plants as approved in their respective quarterly/biannual decisions for the period July-Sep, 2020/July-Dec, 2020
NCPI _(Ref)	=	Reference NCPI index Base Year 2015-16 of 131.01 for May 2020.
NCPI _(Rev)	=	Revised applicable N-CPI index Base Year 2015-16 as published by PBS

- 6.7. Any other component of generation tariff subject to CPI indexation shall be realigned in the like manner.
- 6.8. Any component of dedicated transmission line tariff subject to CPI indexation shall be realigned in the like manner.
- 6.9. O&M component of captive power plants subject to CPI indexation shall be realigned in the like manner.

7. ORDER

- I. The Authority hereby approve the following revised index for the indexations of Local Fixed and Variable O&M components of tariff of power generation plants:

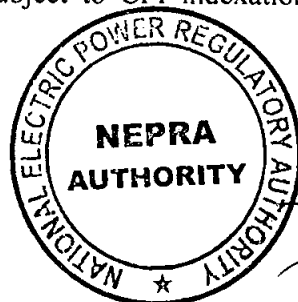
$$\text{Fixed O\&M}_{(Rev)} = \frac{\text{Fixed O\&M}_{(Ref)}}{\text{NCPI}_{(Ref)}} \times \text{NCPI}_{(Rev)}$$

$$\text{Variable O\&M}_{(Rev)} = \frac{\text{Variable O\&M}_{(Ref)}}{\text{NCPI}_{(Ref)}} \times \text{NCPI}_{(Rev)}$$

Where:

Fixed O&M _(Rev)	=	Revised Fixed O&M Component of Power Generation Plants
Fixed O&M _(Ref)	=	Fixed O&M Component of Power Generation Plants as approved in their respective quarterly/biannual decisions for the period July-Sep, 2020/July-Dec, 2020.
Variable O&M _(Rev)	=	Revised Variable O&M Component of Power Generation Plants
Variable O&M _(Ref)	=	Variable O&M Component of Power Generation Plants as approved in their respective quarterly/biannual decisions for the period July-Sep, 2020/July-Dec, 2020
NCPI _(Ref)	=	Reference NCPI index Base Year 2015-16 of 131.01 for May 2020.
NCPI _(Rev)	=	Revised applicable N-CPI index Base Year 2015-16 as published by PBS

- II. Any other component of generation tariff subject to CPI indexation shall be realigned in the like manner.
- III. Any component of dedicated transmission line tariff subject to CPI indexation shall be realigned in the like manner.





- IV. O&M Component of Captive Power Plants subject to CPI indexation shall be realigned in the like manner.
- V. The modified index shall be applicable for future indexations with effect from October 01, 2020.

8. NOTIFICATION

The above Order of the Authority is intimated to the Federal Government for notification in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

AUTHORITY



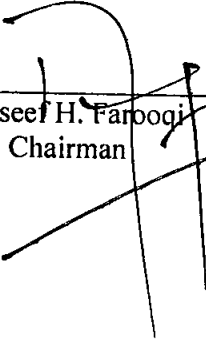
Saif Ullah Chattha
Member

5.3.2021

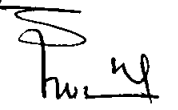


Engr. Rafique Ahmed Shaikh
Member

Rehmatullah Baloch
Member


Tauseef H. Farooqi
Chairman





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