



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-544/CPA-G-2020/40505-40507
November 12, 2021

Subject: Decision of the Authority in the matter of Motion for Leave for Review filed by Central Power Purchasing Agency (Guarantee) Limited (CPA-G) against Determination of its Market Operation Fee for the FY 2020-21 (Case No. NEPRA/TRF-544/CPA-G-2020)

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (09 Pages) in Case No. NEPRA/TRF-544/CPA-G-2020.

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.

Enclosure: As above

(Syed Safeer Husasain)

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 MOTION FOR LEAVE FOR REVIEW
FILED BY CPPA-G AGAINST DETERMINATION OF ITS MARKET OPERATION FEE FOR THE
FY 2020-21**

1. **Background**

- 1.1 The Authority determined Market Operation Fee (MoF) of Central Power Purchasing Agency (Guarantee) Ltd., hereinafter called "the Petitioner or CPPA-G" for the FY 2020-21, vide decision dated 30.07.2021.
- 1.2 The Petitioner being aggrieved with the determination, filed a Motion for leave for Review dated August 09, 2021, against the said determination. The Motion was admitted by the Authority.

2. **Grounds in the MLR**

- 2.1 The Petitioner submitted that the Authority has allowed Market Operation Fee (MoF) of Rs.910 million for the FY 2020-21 against the actual requirement of Rs.978 million, thus reducing the Market Operation Fee (MoF) by Rs.68 million. The Petitioner submitted that although, the Authority has allowed to actualize salaries & wages cost, based on the Audited financial statements, however, for the remaining heads, only downward adjustment has been allowed. The Petitioner provided the following breakup in this regard;

Description	Mln. Rs.			
	FY 2020-21			
	Requested	Actual	Allowed	Variation
General Establishment Costs	695	641	613	28
Administrative Costs	184	163	146	18
Office Operations, Services & Maintenance	69	49	27	22
Insurance & Finance Charges	6	0.4	1	(1)
Total O&M	954	854	787	67
Capex	61	57	57	1
Total	1,015	911	843	104
Requirement for MO	157	67	67	-
Market Operation Fee	1,172	978	910	68

2.2 **General Establishment Cost**

- 2.2.1 Regarding General Establishment expenses, the Petitioner submitted that it consists of costs associated with pay & allowances, employee benefits, Bonus, New Hiring Cost, Training & Capacity Building and Consultancy Services. The Petitioner stated that the Authority has allowed an amount of Rs.613 million against the actual expenditure of Rs.641 million, thus, deducting Rs.28 million in the head. The reduction mainly includes Rs.18 million in pay & allowances, Rs.2 million Training & Capacity Building and Rs.9 million under the head of Consultancy Services. Regarding, training & capacity building and consultancy services, it has been submitted that these expenses have already been incurred to cater necessary business needs of the company. Based on the above, CPPA-G requested to allow differential of Rs.28 million in the head of General Establishment Cost.



Moh

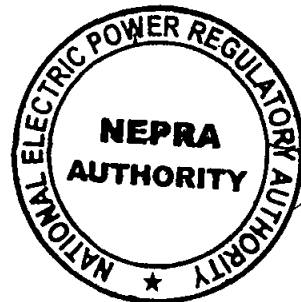


2.3 Administrative Costs

- 2.3.1 Regarding administrative costs, the Petitioner submitted that it mainly includes rent, rate & taxes, power light & water, telephone internet fax & Postage, office supplies and other expenses, subscription of periodicals, presentation & entertainment, travelling expenses, BOD and Auditor fees, Office running expenses (outsourced services) advertisement & publication expenses.
- 2.3.2 The Petitioner further submitted that the Authority has allowed an amount Rs.146 million against actual expenditure of Rs.163 million, thus, deducting around Rs.18 million in the head. The reduction mainly includes Rs.5 million on account of BoD and Auditor fee, Rs.2 million under Communication/ office supplies and Rs.11 million for the General Misc. Expenses. Regarding BoD meeting fees, the Petitioner submitted that it depend on the frequency of meetings held during the year, which have increased due to Market Operator function. Further, a top rated firm has been appointed as Auditor, resulting in increase in Auditor remuneration from Rs.0.8 million to Rs.3 million. For the General Misc. expenses the Petitioner submitted that it comprises of Advertisement, Presentation/Entertainment and Outsource servicing etc. As per the Petitioner, the advertisement expenses have increased primarily due to campaign of "Use more Pay less" in Print & Electronic media. Further, the entertainment expenses have increased as CPPA-G hosted and carried out negotiations with the IPPs regarding MoUs for reduction in RoEs.
- 2.3.3 Based on the above CPPA-G has requested to allow actual expenditure of Rs.163 million in the head of Administrative cost, thus requesting a difference of Rs.18 million.

2.4 Office Operation, Services & Maintenance

- 2.4.1 The Petitioner regarding the office operations, services & maintenance expenses, submitted that it consist of repair and maintenance of furniture, office equipment, vehicle, repair and maintenance of IT equipment's, I.T services, software's and running cost of vehicle inclusive of fuel oil, oil and lubricants and annual fee and token taxes. The Petitioner further submitted that the Authority has allowed an amount Rs.12 million in the head of I.T R&M, Software & Services and R&M General against actual expenditure of Rs.38 million, thus, deducting around Rs.26 million in the head. The Petitioner provided the following details of the expenditure incurred during the year;





Decision of the Authority in the matter of Review Motion filed by CPPA-G against determination of Market Operation Fee for the FY 2020-21

Sr. No	Project Description	Amount Paid	Description	Recurrence
1	Datacentre Active Equipment SLA and Antivirus	8,500,000	The Maintenance & Renewal of Support Services and Service Level Agreement (SLA) For Servers, Storage Software and Network Equipment (with parts)-agreement has been signed between CPPA-G and M/s CNS-E signed after Expiry of OEM Warranties of Hardware Equipment as well as VMWare Software	First Time
2	DarkTrace (Machine Learning Base Enterprise Immune System)	2,400,000	Licensing Fee - To provide Darktrace's Enterprise Immune System in CPPA network which determines what data is collected and what information Darktrace is able to use for analysis. Using machine learning and AI algorithms, Darktrace creates a unique behavioural model that defines this 'pattern of life' for each device, user and the network as a whole. Since the State of Covid-19 Epidemic, required working from home. All working systems have been converted to digital form and these digital assets need to be safeguarded against internet-based attacks, vulnerabilities, and hacks so to ensure information securities this system was inevitable.	First Time
3	Office 356 E3, Azure Account	7,200,000	This is the licensing Fee Paid To TMRC for Office 356 E3 and Azure License for Two Apps and Two DBs Usage of The licenses are for (CDXP Development, Organization vide ECM, and Making Organization Capable for Organization wise as well as external stakeholders through MS Team)	Recurring
4	Support Agreement of ERP Phase-I	6,800,000	ERP Phase-I Support Fee	Recurring
5	SDDP Licensing Fee	3,600,000	Software used for Market Development, Previously Licensing fee was ADB Funded but this year this fee is being paid by CPPA-G	First Time
6	Infoblox for DNS Security	1,200,000	Licensing Fee - To protect corporate users and roaming users of CPPA from DNS based Threat Vectors and to provide the visibility what is going on DNS protocol.	First Time
7	Licensing Fee for Data Institutionalization	2,000,000	Oracle Licensing Fee for Data Institutionalization Project approved in Market Operation	Recurring
8	Other IT Expenditure	2,300,000	Routine IT service expenditure	Recurring
9	General Office R&M	4,622,309	Routine office repair & Maintenance services	Recurring

2.4.2 In view of the above, the Petitioner submitted that expenditure in this head is essential for smooth operation of the entity, and it may be allowed the same.

3 Proceedings

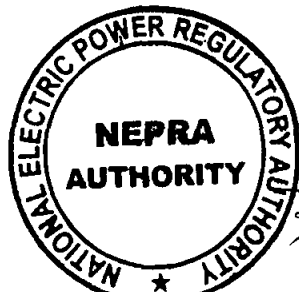
3.1 To proceed further in the matter, the Authority decided to conduct a hearing in the matter. The hearing was held on 27.09.2021 through ZOOM. Notices of Admission and hearing was issued to CPPA-G on September 21, 2021. CPPA-G during the hearing was represented by its CFO along-with its Legal and HR professionals.

3.2 Point wise discussion on the submissions of CPPA-G is as under;

4 General Establishment Cost

4.1 Regarding General establishment cost, the Petitioner submitted that the Authority allowed an amount Rs.613 million against actual expenditure of Rs.641 million, thus deducting an amount of Rs.28 million under the head, which mainly includes Rs.18 million in Pay & allowances, Rs.9 million on Consultancy Services and Rs.2 million on Training & Capacity Building.

4.2 The Authority observed that under the head of Pay & Allowances, the Petitioner has been allowed an amount of Rs.590.26 million for the FY 2020-21, as mentioned under para 13.2.5 to 13.2.8 and para 21.2 of the decision dated 30.07.2021;





Para 13.2.5 to 13.2.8

"While reviewing the data provided by the Petitioner, it was observed that the requested amount of Pay & Allowances claimed by the Petitioner, also included cost for such employees, who have either resigned from CPPA-G or have been deputed back to NTDC i.e. their parent entity. As considerable time of the FY 2020-21 has already lapsed the Petitioner was also directed to provide its actual expenditure incurred during the FY 2020-21. In view thereof, while working out the cost of pay & allowances, the cost for employees who have resigned or deputed back from CPPA-G has been excluded and requested increases have been applied thereon for the remaining employees.

Accordingly, the amount of Pay & Allowances for the FY 2020-21 works out as Rs.472.58 million as against the requested amount of Rs.484 million. Regarding new hiring cost, CPPA-G also provided list of employees hired during the period and the cost of new hiring has been works out as Rs.14.72 million instead of requested amount of Rs.43 million. The same is accordingly been allowed to CPPA-G for the FY 2020-21.

For any additional hiring, the Petitioner is directed to apprise the Authority regarding its plans for such recruitments, along-with their proposed JDs etc., before making any such hiring.

Similarly, the amount of employees benefits and bonus, after excluding the benefits of employees who have either resigned or deputed back from CPPA-G, works out as Rs.81.65 million and Bonus of Rs.21.31 million respectively for the FY 2020-21, against requested amount of Rs.88 million and Rs.23 million respectively. The same is hereby allowed."

Para 21.2

Although, the Petitioner has requested to actualize all of its administrative costs, however, the Authority has decided to consider actualization of costs only to the extent of Pay & Allowances part, CAPEX, Tax payments and other income, once the Audited Financial Statements of the Petitioner for the FY 2020-21 are available. For the remaining heads, the amount allowed in aggregate, shall be considered as the maximum cap, subject to its downward revision only, if the actual expenditure of the Petitioner in total, remains lower than the amount allowed.

- 4.3 Thus, the Authority has already allowed actualization of costs to the extent of Pay & Allowances part, once the Audited Accounts of the Petitioner for the FY 2020-21 are available. In view thereof, the request of the Petitioner to allow Rs.18 million under Pay & Allowances at this point in time without even availability of its Audited accounts for the FY 2020-21 is not justified. The same would therefore, be actualized as part of PYA in the next market operation fee of CPPA-G, once the Petitioner provides its Audited Financial statements for the FY 2020-21.
- 4.4 For Consultancy charges, the Authority noted that under para 13.4.1 to 13.4.4 of its decision dated 30.07.2021, it had allowed an amount of Rs.20.7 million to the Petitioner, based on the following rationale;





Para 13.4.1 to 13.4.4

"The Petitioner under the head of Consultancy Charges requested an amount of Rs.32.10 for the FY 2020-21. The Petitioner while justifying its cost submitted that it includes costs relevant to the various HR consultancy services, which are proposed to be outsourced in the FY 2020-21. These services mostly include outsourcing of Demand Forecast Consultant, Consultant Generation and Expansion Planning, Consultant System Operator Strengthening, Recruitment Firm, Consultant for Implementation of CUBIT Framework (Phase-I Preparation) & Tax Consultants.

The Petitioner also provided the following detail of consultants working on different assignments;

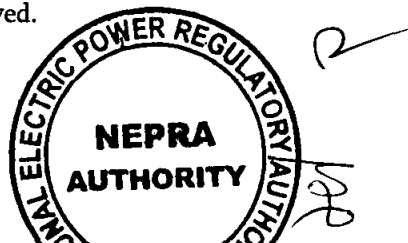
Sr. No.	Name	Designation	Hire Date
1	Mr. Muhammad Shahid Rahim	Consultant Grid Code	2/03/2020
2	Mr. Abdul Razzaq Khan	Consultant Market Simulation	31/01/2020
3	Mr. Bilal Ahmed	Consultant for Energy & Demand Forecasting	14/11/2019

The Petitioner was also directed to provide the time lines for which these consultants have been hired and the nature of their consultancies. Based on the information provided by the Petitioner, the Authority has worked the cost of Outsourced Consultancies as Rs.20.7 million for the FY 2020-21 as detailed below instead of Rs.32.10 million requested by the Petitioner.

Sr.	Name of Consultant	Purpose of Assignment	Hiring Date	Contract Period	Monthly Remuneration	FY 2020-21
						Annual
1	Shahid Raheem	Revision of Regulatory Codes and facilitation in the matters related to SO	Mar 1, 2020	18 months	600,000	7,200,000
2	Bilal Ahmed	Facilitating in Demand Forecasting	Nov 14, 2019	18 months	600,000	6,300,000
3	Abdul Razzaq	Facilitating in GEP (Generation Expansion Planning)	Jan 1, 2020	18 months	600,000	7,200,000
Total						20,700,000

The Authority also observed that CPPA-G, in the MoF determination for the FY 2019-20, was directed to submit detailed Reports for the assignments being carried out by these Consultants upon completion of their contract period. However, no such reports have been shared with the Authority. Accordingly, the cost of Rs20.7 million under the head of Consultancy Charges, as worked out above for the FY 2020-21, is being allowed to CPPA-G on provisional basis, with the direction to submit detailed Reports for the assignments carried out by the Consultants along-with its next MoF Petition.

- 4.5 As evident from above, the cost for Consultancy services was allowed to the Petitioner, as per the detail of Consultants submitted by CPPA-G and their tenure of engagement. No further detail/ justifications regarding increase in the cost of Consultancy services has been provided by the Petitioner except that its actual expenditure for the FY 2020-21, as per the provisional accounts, is Rs.29 million.
- 4.6 In view thereof, the request of the Petitioner to allow Rs.9 million for Consultancy Services is not justified, hence not allowed.





- 4.7 Regarding, shortfall of Training & Capacity Charges by Rs.2 million, the Authority in its decision dated 30.07.2021, allowed an amount of Rs.2.4 million to the Petitioner as mentioned hereunder;

Para 13.3.2 & 13.3.3

"Considering the fact that the FY 2020-21 has already lapsed, therefore, in order to have a fair assessment of the Petitioner's Training & Capacity Building cost, its actual expenditure in this regard during the FY 2019-20 and also for the current year has been analyzed. The Petitioner's actual cost under the head Training & Capacity Building remained around Rs.15.4 million for the FY 2019-20, whereas for the F'Y 2020-21, its cost till March 2021 as per the provisional information provided by CPPA-G has been around Rs.2.4 million; thus showing a significant reduction. The major reason in this regard could be non-completion of various training programs such as Electricity Market Professional (EMP) Program, organized at LUIMS, Lahore involving participants from all key stakeholders i.e. DISCOS, NTDC, NPCC, NEPRA and CPPA-G, to move from single buyer market to competitive trading market, due to COVID-19 situation.

Considering the significant reduction in cost in FY 2020-21, as compared to the allowed amount in the FY 2019-20 and the fact that CPPA-G is a non-profit organization, owned by the Federal Government, the Authority has decided to allow the amount of Rs.2.4 million under the head of Training & Capacity Building keeping in view the for the F'Y 2020-2 1 to the Petitioner, against its requested amount of Rs.24.98 million."

- 4.8 The Petitioner in the MLR has submitted that its actual expenditure till June 2021, as per the provisional accounts for the FY 2020-21, is around Rs.4.25 million, against the allowed amount of Rs.2.4 million, hence, the shortfall of around Rs.2 million may be allowed. The Authority observed that cost already allowed to the Petitioner under Training & Capacity Building, vide decision dated 30.07.2021, was based on the expenditure incurred by the Petitioner till March 2021, as per the information submitted by the Petitioner. Since now the Petitioner has provided its provisional expenditure till June 2021, which is around Rs.4.25 million, therefore, the Authority has decided to allow the differential of Rs.1.8 million to the Petitioner under Training & Capacity Charges for the FY 2020-21.

5 Administrative Costs

- 5.1 Regarding Administrative costs, the Petitioner submitted that the Authority has allowed an amount Rs.146 million in various administrative heads against actual expenditure of Rs.163 million, thus, the Authority has deducted an amount of around Rs.18 million. As per the Petitioner, the reduction mainly includes BoD Fees and the Auditor fees of Rs.5 million, Communication office supplies Rs.2 million and General Misc. expenses of Rs.11 million.
- 5.2 The Authority observed that the Petitioner was allowed BoD fees and Auditor fees of Rs.17.06 million vide decision dated 31.07.2021, by extrapolating the expenditure incurred till March 2021. The Authority understands that the BoD meeting Fee and the Auditors' Fee, are dependent on the number of BoD meetings and actual fee agreed with the Auditor. The Petitioner has explained that frequency of its BoD meetings increased owing to its Market Operator function and the Auditor's remuneration increased due to appointment of





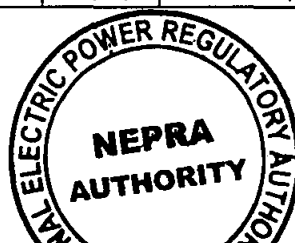
top-rated firm Chartered Accountant Firm. The Authority keeping in view the submissions of the Petitioner and the provisional expenditure till June 2021, as provided by the Petitioner, has decided to allow the differential of Rs.4.63 million under the head of BoD meeting Fee and the Auditors' Fee for the FY 2020-21.

- 5.3 Regarding increase in the cost of Advertisement owing to the Campaign of "Use more Pay less" in Print & Electronic media, the Authority is of the considered view that such costs does not come under the ambit of CPPA-G, rather it shall be borne by DISCOs, as DISCOs need to advertise the same for awareness of their consumers. In view thereof, the Authority has decided not to accede with the request of the Petitioner to allow Rs.11 million for Advertisement charges.
- 5.4 Similarly, for the communication charges, no proper justification / details for the expenditure has been provided except that actual expenditure as per the provisional accounts for the FY 2020-21 has increased to around Rs.9.09 million. The Authority has already allowed an amount of Rs.7.85 million to the Petitioner under this head for the FY 2020-21 based on CPI indexation over its last year actual expenditure. In view thereof, the Authority does not see any rationale to allow this differential of Rs.1.24 million to the Petitioner, hence the request of the Petitioner is declined.

6 Office Operation, Services & Maintenance

- 6.1 Regarding request of the Petitioner to allow additional amount of Rs.22 million under the head of R&M and IT Services, the Petitioner has submitted the following details of its expenditure under the IT Services;

Sr. No	Project Description	Amount Paid	Description	Recurrence
1	Datacentre Active Equipment SLA and Antivirus	8,500,000	The Maintenance & Renewal of Support Services and Service Level Agreement (SLA) For Servers, Storage Software and Network Equipment (with parts)-agreement has been signed between CPPA-G and M/s CNS-E signed after Expiry of OEM Warranties of Hardware Equipment as well as VMWare Software	First Time
2	DarkTrace (Machine Learning Base Enterprise Immune System)	2,400,000	Licensing Fee - To provide Darktrace's Enterprise Immune System in CPPA network which determines what data is collected and what information Darktrace is able to use for analysis. Using machine learning and AI algorithms, Darktrace creates a unique behavioural model that defines this 'pattern of life' for each device, user and the network as a whole. Since the State of Covid-19 Epidemic, required working from home. All working systems have been converted to digital form and these digital assets need to be safeguarded against internet-based attacks, vulnerabilities, and hacks so to ensure information securities this system was inevitable.	First Time
3	Office 356 E3, Azure Account	7,200,000	This is the licensing Fee Paid To TMRC for Office 356 E3 and Azure License for Two Apps and Two DBs Usage of The licenses are for (CDXP Development, Organization vide ECM, and Making Organization Capable for Organization wise as well as external stakeholders through MS Team)	Recurring
4	Support Agreement of ERP Phase-I	6,800,000	ERP Phase-I Support Fee	Recurring
5	SDDP Licensing Fee	3,600,000	Software used for Market Development, Previously Licensing fee was ADB Funded but this year this fee is being paid by CPPA-G	First Time
6	Infoblox for DNS Security	1,200,000	Licensing Fee - To protect corporate users and roaming users of CPPA from DNS based Threat Vectors and to provide the visibility what is going on DNS protocol.	First Time
7	Licensing Fee for Data Institutionalization	2,000,000	Oracle Licensing Fee for Data Institutionalization Project approved in Market Operation	Recurring
8	Other IT Expenditure	2,300,000	Routine IT service expenditure	Recurring
9	General Office R&M	4,622,309	Routine office repair & Maintenance services	Recurring





6.2 The Authority observed that the Petitioner has been allowed cost under R&M and IT Services for the FY 2020-21, based on CPI indexation on its last year actual expenditure. However, as evident from the aforementioned submissions of the Petitioner, several IT related costs, have been incurred during the FY 2020-21 for the first time. Therefore, considering the above details provided by the Petitioner, and the fact that these costs are essential for smooth operation of the entity as claimed by the Petitioner, the Authority has decided to allow an additional amount of Rs.22 million under the head of R&M and IT Services. The Authority has also decided that the allowed amount would be the upper cap, subject to downward adjustment only, once the Petitioner submits its Audited Financial statements for the FY 2020-21. In addition, the Finance cost has been revised to Rs.0.4 million for the FY 2020-21, as per request of the Petitioner.

6.3 Based on the assessments made in the preceding paragraphs, the Market Operation fee of the Petitioner for the FY 2020-21 has been worked out as per the following details;

Description	FY-2020-21
Revenue Requirement (Mln. Rs.)	486
Avg. Monthly MDI (MW)	23,693
Market Operation Fee (Rs. /kW/M)	1.71

Description	Rs. Min
	FY 2020-21
General Establishment Costs	
Pay & Allowances	590.26
Salaries & Wages	472.58
Employee Benefits	81.65
Bonus	21.31
New Hiring	14.72
Trainings and Capacity Building	4.25
Outsources consultancy Expenses	20.70
Total	615.21
Administrative Costs	
Rent Rate & Taxes	90.05
Power Light etc.	8.77
Communication	7.85
Office Supplies & Other Expenses	9.97
Travelling Expenses	5.00
Professional Fee & BOD Fee	21.69
General Misc. Expenses	7.12
Total	150.45
Repair & Maintenance	
R&M General & IT Services	34.00
Vehicle Expenses Repair	7.70
Vehicle Expenses-Fuel & Oil	6.64
Total	48.34
Insurance & Financial Charges	0.40
CAPEX	123.42
Other Income	(334.09)
Prior Year Adjustment (PYA)	(117.67)
Total Revenue Requirement	486.07

7 Central Power Purchasing Agency Guarantee (CPPA-G), for provision of Market Operator and allied services, is allowed to recover its assessed fees for the FY 2020-21 on the following rates, based on average monthly MDI of 23,693 MW for the FY 2020-21.

Market Operator Fee (MOF) = Rs. 1.71/kW/month



2
Mali



- 8 The decision of the Authority is intimated to the Federal Government for notification in the official gazette under Section 31(7) of the NEPRA Act.

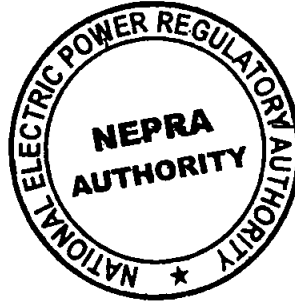
AUTHORITY

Rehmatullah Baloch
Member

Engr. Maqsood Anwar Khan
Member

Rafique Ahmed Shaikh
Member

Tauseef H. Farooqi
Chairman



12 11 21.