



# National Electric Power Regulatory Authority

## Islamic Republic of Pakistan

Registrar

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No. NEPRA/PAR-111/15903-15905  
December 4, 2014

**Subject: Decision of the Authority in the matter of Suo Moto Review Proceedings initiated by NEPRA for Revision/Modification of Fuel Cost Component Indexation Mechanism Provided in its Decision dated 07.02.2014 regarding Approval of Power Acquisition Request filed by HESCO for Purchase of Electricity from Bandhi Sugar Mills (Pvt.) Limited (BSML) [Case # PAR-111]**


Dear Sir,

In continuation to NEPRA's Approval regarding Power Acquisition Request filed by Hyderabad Electric Supply Company Ltd. (HESCO) for purchase of 10 MW from Bandhi Sugar Mills (Pvt.) Limited (BSML) under NEPRA Interim Power Procurement (Procedure and Standards) Regulations, 2005 communicated to the Federal Government vide letter No. NEPRA/PAR-111/1276-1278 dated February 7, 2014 for notification in the official Gazette.

2. Enclosed please find herewith Decision of the Authority (03 pages) in the matter of Suo Moto Review Proceedings initiated by NEPRA for Revision/Modification of Fuel Cost Component Indexation Mechanism Provided in its Decision dated 07.02.2014 regarding Approval of Power Acquisition Request filed by HESCO for Purchase of Electricity from Bandhi Sugar Mills (Pvt.) Limited.

3. The Decision is being intimated to the Federal Government for the purpose of notification in the official gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997).

Enclosure: As above

  
( Syed Safeer Hussain )

Secretary  
Ministry of Water & Power  
'A' Block, Pak Secretariat  
Islamabad

CC:

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



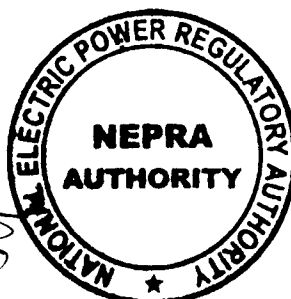
**DECISION OF THE AUTHORITY IN THE MATTER OF SUO MOTO REVIEW PROCEEDINGS  
INITIATED BY NEPRA FOR REVISION/MODIFICATION OF FUEL COST COMPONENT  
INDEXATION MECHANISM PROVIDED IN ITS DECISION DATED 07.02.2014 REGARDING  
APPROVAL OF POWER ACQUISITION REQUEST FILED BY HESCO FOR PURCHASE OF  
ELECTRICITY FROM BANDHI SUGAR MILLS (PVT.) LIMITED (BSMPL)**

The National Electric Power Regulatory Authority (hereinafter referred to as the "Authority") while approving the cases for procurement of electric power by the Distribution Companies (DISCOs) under NEPRA Interim Power Procurement (Procedure & Standards) Regulations 2005 from bagasse based captive generation power plants allowed the indexation of the fuel cost component with gas price. The Authority while determining the Upfront Tariff for new bagasse based generation power plants vide its determination dated 29<sup>th</sup> May 2013 and subsequent corrigendum dated 28<sup>th</sup> August 2013 prescribed the mechanism for indexation / adjustment of the fuel cost component which was linked with the imported coal price. The two different indexation mechanism (i) on gas and (ii) the other on coal created anomaly, which was required to be removed to bring consistency in the fuel cost component adjustment mechanism provided for captive as well as new bagasse based power generation plants.

2. Keeping in view the above, the Authority decided to initiate Suo Moto proceedings under section 7(2)(g) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 read with Regulation 3(1) of the NEPRA (Review Procedure) Regulations 2009. Since the Power Purchase Agreement (PPA) of HESCO & Bandhi Sugar Mills (Pvt.) Limited (BSMPL) was also approved by NEPRA vide a decision dated 07.02.2014, wherein the indexation in fuel cost was linked with gas, therefore, in order to change the reference for gas to imported coal, said decision is required to be reviewed / modified. Accordingly the Authority initiated suo moto proceedings and an advertisement in this regard was published in daily "Dawn" and daily "Jang" on 17<sup>th</sup> May 2014 and 25<sup>th</sup> May 2014 respectively for information of parties. Individual letters were also communicated to the relevant stakeholders including BSMPL.

3. Hearing in the matter was held on 18<sup>th</sup> June 2014 which was attended by the representatives of the Distribution Companies, bagasse based power plants and media etc. The Authority directed the participants during the hearing to submit their written comments within 10 days for consideration of the Authority. BSMPL have not filed any comments with respect to the subject matter. During the proceedings, HESCO supported the initiative of NEPRA.

4. The comments submitted by the stakeholders have been examined. The Authority considers that where no regulatory framework for fuel pricing is established as in the case of bagasse then the fuel cost component should had been linked with the cheapest fuel. The Authority considers that in the instant case the alternate appropriate fuel for indexation of fuel cost component of bagasse based power generation plant should be coal and not gas as has been determined in upfront tariff, therefore, review/modification of already given mechanism in the subject case is required as indicated in the Para 5.3 of the decision dated 07.02.2014. After considering all comments of the stakeholders and





relevant record, the Authority is of the view that that in order to bring the efficiency in the power sector which is in line with the provision of NEPRA Act and as a matter of equity and justice, its earlier decision dated 07.02.2014 regarding approval of PPA executed between HESCO and BSMPL has to be modified to the extent of linking of gas indexation mechanism with coal indexation mechanism prescribed by the Authority in bagasse based Co-generation power plant.

5. Accordingly in pursuance of section 7(2)(g) and section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 read with Regulation 3 (1) of the National Electric Power Regulatory Authority (Review Procedure) Regulations, 2009, the decision dated 07.02.2014 regarding approval of PPA between HESCO & BSMPL for purchase of electricity has been modified to extent that the fuel cost component adjustment mechanism linked with gas shall now be linked with imported coal. Accordingly paras 5.3, 7.1 & 7.2 of the decision dated 07.02.2014 is hereby modified. As a matter of consistency, the CIF coal price of US\$ 100.67/ton on which the bagasse price of Rs. 28,61/M.Ton has been calculated in the Upfront Tariff of Co-generation power plants shall be considered as floor / minimum price for the purpose of the Fuel Cost Component. The Authority may review the fuel pricing mechanism stipulated below in accordance with NEPRA Rules and after consultation with the affected parties if it is deemed that there is exorbitant/unreasonable increase in international coal prices. HESCO is directed to incorporate the same in PPA accordingly.

#### 6. Order.

6.1 Pursuant to section 31(4) of the NEPRA Act, the above decision is to be intimated to the Federal Government for notification in the official gazette whereby the adjustment / indexation mechanism for adjustment / indexation of the fuel cost component already provided in the decision dated 07.02.2014 shall be substituted as under:-

Fuel cost component of tariff will be adjusted on account of variation in price of fuel (bagasse) on yearly basis in advance (w.e.f. 1st of October of each applicable year) as per the formula given hereunder.

$$FCC_{(Rev)} = FCC_{(RRef)} \times BFP_{(Rev)} / BFP_{(Ref)}$$

Where;

$FCC_{(Rev)}$  = Revised fuel cost component of tariff for the applicable year.

$FCC_{(RRef)}$  = Revised Reference fuel cost component of tariff of Rs. 6.29/kWh.

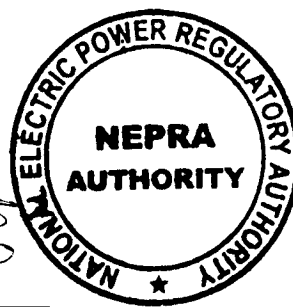
$BFP_{(Rev)}$  = Revised price of bagasse in Rs/ton as determined in accordance with mechanism set out below.

$BFP_{(Ref)}$  = Reference price of bagasse for the relevant year. Current reference price is Rs. 2861.12/ton

$BFP_{(Rev)}$  =  $CPCIF_{(Rev)} \times 6905/23810$

Where;

$$CPCIF_{(Rev)} = \{CPFOB_{(Rev)} + MF_{(Rev)} + MI_{(Rev)}\} \times ER_{(Rev)}$$





*Decision of the Authority in the matter of Suo Moto Review Proceedings  
regarding Revision / Modification of Fuel Cost Component Indexation Mechanism of  
PAR approved for HESCO with respect to BSMPL (No. NEPRA/PAR-111)*

Where:

CPCIF<sub>(Rev)</sub> = Revised CIF price of coal in Rs/ton for the applicable year.  
CPFOB<sub>(Rev)</sub> = Revised FOB price of coal expressed in US\$/ton based on monthly average of prices published in the Argus McCloskey's API4 index for the relevant year.  
MF<sub>(Rev)</sub> = Revised marine freight of coal per ton as worked out below.  
MF<sub>(Rev)</sub> =  $US\$ 19.19 \times BIX_{(Rev)} / BIX_{(Ref)}$

Where:

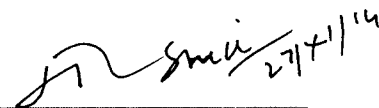
BIX<sub>(Rev)</sub> = Revised monthly average of the daily Bunker Index price for 380-CST published by the Bunker Index for the relevant year.  
BIX<sub>(Ref)</sub> = Reference monthly average of the daily Bunker Index price of 380-CST published by the Bunker Index. Current reference for the month of April 2013 is US\$ 641.8219/ton.  
MI<sub>(Rev)</sub> = CPFOB<sub>(Rev)</sub> x 0.1%  
ER<sub>(Rev)</sub> = Revised monthly average PKR/US\$ exchange rate for the relevant month.

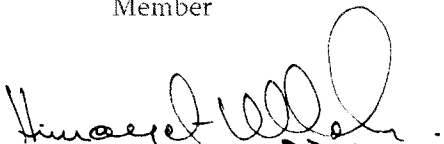
The constants such as 6905, 23810 and US\$ 19.19 are fixed values representing LHV value of bagasse in btu/kg, LHV value of coal in btu/kg and fixed value of marine freight charges per ton of coal respectively.

**AUTHORITY**

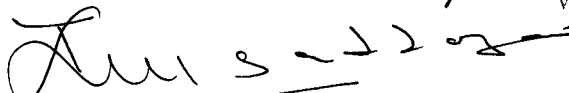
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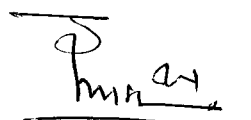
(Khawaja Muhammad Naeem)  
Member

  
(Maj. Rtd. Haroon Rashid)  
Member

  
(Himayat Ullah Khan)  
Member

  
(Habibullah Khilji)  
Vice Chairman

  
Brig. (R) Tariq Mahmood Khan Sadozai  
Chairman

  
04.12.14

