



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

Registrar

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No. NEPRA/PAC-119/3192-3194
March 12, 2015

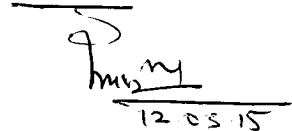
Subject: Approval of the Authority in the matter of Power Acquisition Contract filed by Hyderabad Electric Supply Company Ltd. (HESCO) for Purchase of 1.5 MW from Chamber Sugar Mills Limited (CSML) under NEPRA Interim Power Procurement (Procedures and Standards) Regulations, 2005 [Case # PAC-119]

Dear Sir,

Please find enclosed herewith the subject Approval of the Authority (06 pages) in Case No. NEPRA/PAC-119.

2. The Approval is being intimated to the Federal Government for the purpose of notification in the official gazette in accordance with the provisions of Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997).
3. Please note that Order of the Authority's Approval needs to be notified in the official Gazette.

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.



National Electric Power Regulatory Authority
(NEPRA)

Approval of

Power Acquisition Contract filed by

Hyderabad Electric Supply Company (HESCO)

For Purchase of 1.5 MW from Chamber Sugar Mills Limited (CSML)

Under

Interim Power Procurement (Procedures & Standards) Regulations 2005

(NO: NEPRA/PAC-119)

Islamabad

March 12, 2015



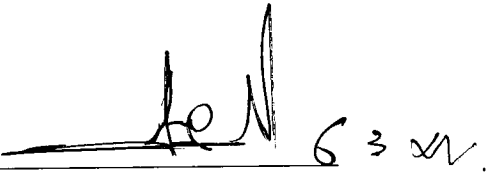
Approval of the Authority in the Matter of Power Acquisition Contract filed by Hyderabad Electric Supply Company (HESCO) for Purchase 1.5 MW from Chamber Sugar Mills Limited (CSML) under Interim Power Procurement (Procedures & Standards) Regulations 2005

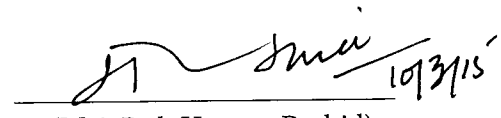
(NO: NEPRA/PAC-119)


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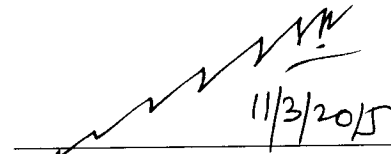
Hyderabad Electric Supply Company (HESCO), WAPDA Offices Complex, Hussainabad, Hyderabad

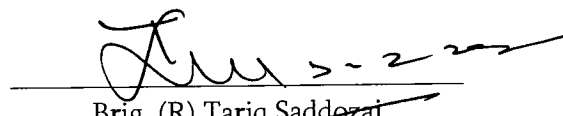
AUTHORITY


(Khawaja Muhammad Naeem)
Member

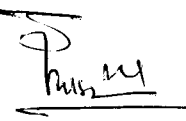

(Maj. Rtd. Haroon Rashid)
Member


(Himayat Ullah Khan)
Member


(Habibullah Khilji)
Vice Chairman


Brig. (R) Tariq Saddozai
Chairman




12.03.15

1. Based on the Power Acquisition Request of the Hyderabad Electric Supply Company Limited (HESCO) NEPRA in accordance with the Regulation 4(1) of the Interim Power Procurement (Procedure & Standards) Regulations – 2005 (hereinafter “IPPR-2005”), granted permission to HESCO on 2.7.2014 for negotiating Power Acquisition Contract for procurement of 1.5 MW with the Chamber Sugar Mills Limited (hereinafter “CSML”).
2. HESCO vide letter dated 5-12-2014 in accordance with the provision of Regulation 5(1) of the IPPR-2005 submitted the Power Acquisition Contract (PAC) for approval of the Authority. HESCO was directed to provide information in accordance with the provision of Regulation 5(3) of the IPPR-2005. Accordingly HESCO vide letter dated 11.12.2014 submitted that “..... HESCO is of the view that tariff / rate determination is the prerogative of NEPRA, and both the parties Power Producer (M/s Chambar Sugar Mills Limited) & Power Purchaser (HESCO) has no objection on the tariff / rate approved by the NEPRA as NEPRA Authority has also approved the rate for similar bagasse based power producer i.e. M/s Tando Allahyar Sugar Mill and M/s Bandhi Sugar Mill by revising the PAR.”

3. Proceedings:

The submission of Power Acquisition Contract (PAC) is follow up of approval of Power Acquisition Request (PAR) by the Authority for grant of power acquisition permission to a DISCO / TRANSCO under Regulation 4(1) of IPPR-2005. The information required under Regulation 3(3) & (4) was already submitted by HESCO earlier with its PAR and now HESCO has submitted mutually agreed draft PAC under Regulation 5(1) of IPPR-2005 for approval of NEPRA. The subject request for approval of PAC was considered by the Authority on 19.12.2014 and it was admitted for consideration.

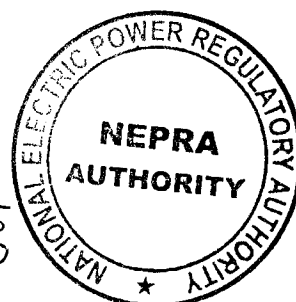
4. Prudency of Tariff:

- 4.1 In order to examine the prudency of rates being proposed in the PAC and the agreed terms and conditions a detailed exercise was carried out by the Authority.
- 4.2 The findings, analysis and decisions of the Authority on other aspects / ingredients of the tariff, negotiated and agreed between HESCO & CSML is provided in the succeeding paragraphs.

5. Fuel Cost Component

- 5.1 Under Regulation 5 with its sub-regulations, dealing with the submission and approval of PAC, the only explicitly mentioned requirement of information to be submitted with PAC is a statement to be submitted under Regulation 5(3) of IPPR providing justification of the rates, terms and conditions proposed to be agreed with the sponsor under the proposed power acquisition contract.
- 5.2 It was noted that no information is provided with respect to Regulation 5(3) of the IPPR-2005. Accordingly HESCO was directed vide letter dated 27-11-2014 to provide the same. HESCO vide letter dated 11-12-2014 has stated as below:

[Handwritten signature]



“..... HESCO view that tariff / rate determination is the prerogative of NEPRA, and both the parties Power Producer (M/s Chambar Sugar Mills Limited) & Power Purchaser (HESCO) has no objection on the tariff / rate approved by the NEPRA as NEPRA Authority has also approved the rate for similar bagasse based power producer i.e. M/s Tando Allahyar Sugar Mill and M/s Bandhi Sugar Mill by revising the PAR.”

5.3 The Authority in similar cases of bagasse based Captive Power Plants allowed the fuel cost component of Rs. 6.29/kWh subject to indexation mechanism prescribed for the co-generation power plants which is 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.

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

Where;

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

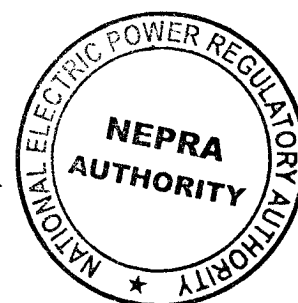
$$CPCIF_{(Rev)} = \{CPFOB_{(Rev)} + MF_{(Rev)} + MI_{(Rev)}\} \times ER_{(Rev)}$$

Where;

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

Where;

$BIX_{(Rev)}$	=	Revised monthly average of the daily Bunker Index price for 380-CST published by the Bunker Index for the relevant year.
$BIX_{(Ref)}$	=	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.
$MI_{(Rev)}$	=	$CPFOB_{(Rev)} \times 0.1\%$
$ER_{(Rev)}$	=	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.

5.4 The CIF coal price of US\$ 100.67/ton on which the bagasse price of Rs. 28,61/M.Ton has been calculated, 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.

5.5 The same is allowed in the instant case. HESCO is directed to incorporate the same in the draft PAC. The sale purchase has to be made in accordance with the Authority's approved draft PAC.

6. **Fixed Cost Component**

The Authority in other similar cases allowed fixed cost component of Rs. 1.53/kWh. The same is allowed in the instant case for the contractual term.

7. **ORDER**

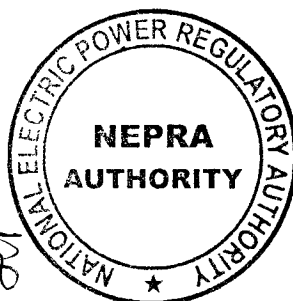
7.1 For the foregoing reasons, the draft Power Acquisition Contract (PAC) submitted by Hyderabad Electric Supply Company (HESCO) for procurement of 1.5 MW power from Chamber Sugar Mills Limited (CSML) is hereby approved under Regulation 5 of NEPRA Interim Power Procurement (Procedure & Standards) Regulations 2005 with the following modifications and terms and conditions. The procurement of power shall be on take and pay basis.

Reference Tariff

Description	Rs. / kWh
Fuel Cost Component	6.29
Fixed Cost Component	1.53
Total Generation Cost of delivered unit	7.82

7.2 The CIF coal price of US\$ 100.67/ton on which the bagasse price of Rs. 28,61/M.Ton has been calculated 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. The fuel cost component adjustment mechanism is given hereunder:

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.



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

Where;

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

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

Where;

- $CPCIF_{(Rev)}$ = Revised CIF price of coal in Rs/ton for the applicable year.
 $CPFOB_{(Rev)}$ = 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.
 $MF_{(Rev)}$ = Revised marine freight of coal per ton as worked out below.
 $MF_{(Rev)}$ = $US\$ 19.19 \times BIX_{(Rev)} / BIX_{(Ref)}$

Where;

- $BIX_{(Rev)}$ = Revised monthly average of the daily Bunker Index price for 380-CST published by the Bunker Index for the relevant year.
 $BIX_{(Ref)}$ = 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.
 $MI_{(Rev)}$ = $CPFOB_{(Rev)} \times 0.1\%$
 $ER_{(Rev)}$ = 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.

7.3 The above Order is to be notified in the official gazette in accordance with the provisions of Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act 1997.

