



Registrar

National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/PAR-105/5709-5711
June 11, 2013

Subject: **Approval of the Authority in the matter of Power Acquisition Request filed by Sukkur Electric Power Company Ltd. (SEPCO) for Purchase of 8 MW from Al-Noor Sugar Mills Limited (ANSML) under NEPRA Interim Power Procurement (Procedures and Standards) Regulations, 2005 [Case # PAR-105]**

Dear Sir,

Please find enclosed herewith the subject Approval of the Authority (07 pages) in Case No. NEPRA/PAR-105.

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 at para 9 of the Approval relating to the reference tariff & adjustments etc. needs to be notified in the official Gazette.

Enclosure: As above

(Syed Safer Hussain)

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

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, Islamabad.



**National Electric Power Regulatory Authority
(NEPRA)**

Approval of

Power Acquisition Request filed by

Sukkur Electric Power Company (SEPCO)

For Purchase of 8 MW from Al-Noor Sugar Mills Ltd.

Under

Interim Power Procurement (Procedures & Standards) Regulations 2005

(NO: NEPRA/PAR-105)

Islamabad

June 13th, 2012



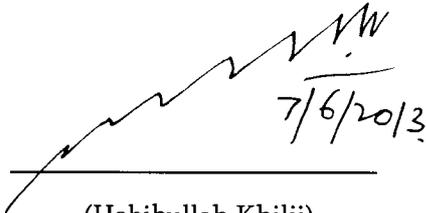
Approval of the Authority in the Matter of Power Acquisition Request filed by Sukkur Electric Power Company (SEPCO) for Purchase of 8 MW from Al-Noor Sugar Mills Ltd. (ANSML) under Interim Power Procurement (Procedures & Standards) Regulations 2005

(NO: NEPRA/PAR - 105)

FILED BY

Sukkur Electric Power Company (SEPCO)

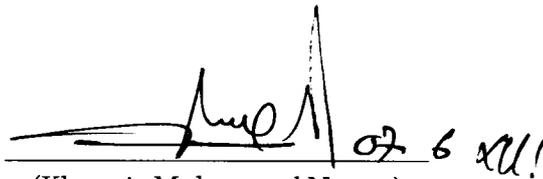
AUTHORITY


7/6/2013

(Habibullah Khilji)
Member

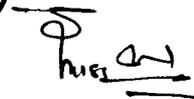

10/6/13

(Major Rtd. Haroon Rashid)
Member


07 6 2013

(Khawaja Muhammad Naeem)
Vice Chairman





11.06.13



1. Filing of Power Acquisition Requests

1.1 Vice a request filed vide letter No. CEO/SEPCO/Suk/CTO/7327-30 dated 14.12.2012, Sukkur Electric Supply Company (hereinafter "SEPCO") submitted that it is purchasing 8 MW (bagasse based) power from M/s Al-Noor Sugar Mills Limited (hereinafter "ANSML") on take and pay basis and it intends to regularize the power purchase as per NEPRA Rules. SEPCO has also submitted a PPA dated 27.05.2009 executed between SEPCO and Al-Noor Sugar Mills Limited located at Shahpur Jehania, Taluka Dulatpur, District Nawabshah Sindh. SEPCO has requested as below:

"SEPCO is of the view that Tariff determination is the prerogative of NEPRA in this case, however if NEPRA has no objection on the tariff, approved by CPPA for CPPs/SPPs (Small Power Producers) as mentioned above. SEPCO can adopt and own the Tariff. SEPCO will appreciate if permission for power acquisition is allowed along with endorsement of Tariff adopted by CPPA under SPP policy or Tariff determination be made by NEPRA as the case may be."

1.2 Pursuant to regulation 5(1) of the IPPRs, before executing a power acquisition contract, a DISCO is required to file its proposed contract for its approval by the Authority. SEPCO, along with the PAR also submitted the executed Power Purchase Agreement (PPA) for the approval of the Authority. Salient features are as under;

- i. ANSML shall provide 8 MW Bagasse based redundant/ surplus power to SEPCO and SEPCO has agreed to purchase this power from ANSML.
- ii. The interconnectivity setup of 11kV voltage will be the sole discretion and responsibility of the power purchaser at its own cost and risk. Cost of synchronization arrangement will be born by the Power Producer.

2. Requested Tariff:

2.1 As per details provided by SEPCO, the agreed tariff is Rs. 5.15 /kWh on energy delivered basis comprising of Fuel Cost Component of Rs.3.62/kWh, based upon Reference Gas Price of Rs. 238.38/MMBTU and Fixed Cost Component of Rs.1.53/kWh excluding General Sales Tax (GST). As per the mechanism provided in the PPA, the Fuel cost component is adjustable as per the following formula:

$$FCC_{(Rev)} = GP_{(Rev)} / GP_{(Ref)} * FCC_{(Ref)}$$

Where:

FCC (Rev)	=	Fuel Cost Component applicable for the Billing Cycle
GP (Rev)	=	Revised Gas Price, excluding GST for the Billing Cycle as notified by OGRA for WAPDA power stations
GP (Ref)	=	Reference Gas Price i.e Rs. 238.38 / MMBTU (HHV)
FCC (Ref)	=	Rs. 3.62/ kWh





2.2 According to the PPA submitted by SEPCO, the Power Purchaser will pay the company the Fuel Cost Component and Fixed Cost Component against the delivered kWh on Take-and-Pay basis.

3. **Powers to Determine Tariff**

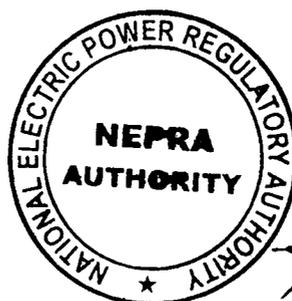
3.1 The Authority has considered the PAR and is of the view that under Section 7(3)(a) of the NEPRA Act, determination of tariff, rates and charges for supply of electric power is the sole responsibility of the Authority. Under NEPRA Act, the powers to determine tariff, rates and charges for supply of electric power to any other agency / person cannot be delegated. Although the DISCOs were allowed to purchase power from CPPs on mutually agreed rates, its prior approval from the Authority was mandatory under the IPPRs which was not sought by SEPCO before entering into the power purchase agreement with ANSML. The Authority also noted that the power purchaser, SEPCO in the instant case, did not know the underlying assumptions / basis of the agreed tariff.

3.2 As per procedure provided in NEPRA Interim Power Procurement Regulations 2005 (IPPR-2005), prior to executing any agreement, SEPCO was required to obtain a permission to negotiate a power purchase agreement then on the basis of said permission, a draft PPA is to be filed with NEPRA for its approval. However, admittedly, SEPCO failed to observe such procedure and now it intends to get the purchase of electricity from M/s ANSML regularized in terms of IPPR-2005. Considering the fact that SEPCO failed to observe the due process provided in IPPR, the request in hand could have been declined by NEPRA, however, it is also a fact that the country is currently facing acute power shortage, therefore, non-observance of procedure is hereby condoned, however, due diligence as to the prudence of the terms and conditions in the already executed PPA have been gone through as per the following details:

4. **Proceedings:**

4.1 SEPCO request under Regulation 4(1) & 5(1) was considered by the Authority and it was noted that certain documents required for further processing of the case was not submitted. Accordingly SEPCO was directed to provide the same. In response SEPCO submitted the requisite information. The Authority on 28.3.2013 admitted the PAR for further processing.

4.2 Although the IPPRs do not require for giving public Notice of Admission / public hearing of PAR seeking comments/replies but in order to meet with the ends of natural justice the Authority in baggase based power projects published the notice of admission/public hearing with the title and brief description of the PAR submitted by other DISCOs in the leading newspapers. Comments/replies were desired from any interested/affected person/parties within 7 days of the publication. In response thereof, no comments were received. Hearing was also conducted the NEPRA main office which was attended by the stakeholders. Having





considered all aspects of the case and after carrying due diligence the Authority grant permission to the DISCOs or acquiring power and also approved the PPA executed between the DISCOs and each Sugar Mills under Rule 5(1) of IPPR-2005. Since the due diligence was carried out in the aforementioned cases therefore the Authority decided to approve the instant PPA executed between the power producer and power purchaser on similar parameters, without conducting yet another hearing.

5. Prudency of Requested Tariff:

- 5.1 In order to examine the prudency of the power acquisition and the agreed terms and conditions as per the Section 7(3)(a) of NEPRA Act read with the provisions of IPPRs a detailed exercise was carried out by the Authority. In this regard the tariffs of the regional countries were also compared in addition to the benchmarks established by the Authority in similar technology.
- 5.2 The findings, analysis and decisions of the authority on different aspects / ingredients of the tariff, negotiated and agreed between SEPCO and ANSML is provided in the succeeding paragraphs.

6. Fuel Cost Component

- 6.1 In order to analyze the prudency of the tariff requested by SEPCO, the fuel cost component as approved by CPPA and agreed in the PPA, (At Reference Gas Price of Rs. 238.38 /MMBtu = Rs.3.62/kWh and at current gas price of Rs. 488.23/MMBtu worked out as Rs. 7.4142/kWh) was analyzed to assess the efficiency at which this component was calculated. Accordingly, a detailed study of the cogeneration bagasse-based power plants based on the available information in the neighboring countries was carried out. Based on the detailed study the fuel cost component being reasonable was allowed to the bagasse based power projects i.e. Shakarganj, RYK Mills, Ashraf Sugar Mills, Kamalia etc. The Authority has decided to allow the same in the instant case. The fuel cost component shall be adjusted according to the following formula:

$$FCC_{(Rev)} = GP_{(Rev)} / GP_{(Ref)} * FCC_{(Ref)}$$

Where:

FCC (Rev) = Fuel Cost Component applicable for the Billing Cycle

GP (Rev) = Revised HHV Gas Price per MMBtu excluding Gas Development Infrastructure Cess (GDIC) net of GST for the Billing Cycle as notified by OGRA for Captive power stations

GP (Ref) = Reference Gas Price i.e Rs. 238.38 / MMBTU (HHV)

FCC (Ref) = Rs. 3.62/ kWh





6.2 SEPCO is directed to incorporate modification in its PPA in accordance with above fuel cost component adjustment mechanism.

7. **Fixed Cost Component**

7.1 According to SEPCO, Rs. 1.53/kWh as fixed cost component have been agreed. In order to assess the reasonability of the fixed charges requested by the SEPCO the agreed fixed cost component has been compared with the fixed cost component allowed/determined by the Authority in comparable projects. While comparing the fixed cost component, the Authority noted that in the case of baggase based CPPs, the crushing season is about four months. Since the operating time for baggase based Co-generation plant is less than the normal generation projects, therefore, the fixed cost component has to be recovered from lesser units generated due to which the per unit fixed cost component would be on higher side. The Authority further considers that being renewable energy the baggase based projects needs to be encouraged in order to mitigate the demand supply gap. Keeping in view the aforesaid reason, the Authority after consideration of fixed cost component in comparable cases, is of the opinion that the agreed fixed cost component of Rs.1.53/kWh is reasonable therefore has decided to allow as such.

7.2 While going through the PPA submitted by the Company, it was observed that under Fixed Cost Component, the validity of this component is fixed till 31-12-2008 which is incorrect and needs to be corrected. Therefore, the Company is directed to make following amendment in the proposed PPA under Fixed Cost Component clause:

“Fixed Cost Component” – The tariff component payable @ Rupees 1.53 per kWh delivered, by the Company which included but not limited to O&M cost, tax on income of the Company, insurance cost, return on investment, duties etc. This component will remain fixed till the expiry of this contract.”

8. In light of the above discussion, the Authority has decided to approve the Power Acquisition request filed by SEPCO for purchase of 8 MW baggase based power from ANSML.

9. **ORDER**

9.1 In pursuance of Regulation 5 of the Regulation of NEPRA Interim Power Procurement (Procedure & Standards) Regulations 2005 read with Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, the power acquisition contract between Sukkur Electric Power Company (SEPCO) and Al-Noor Sugar Mills (ANSML) for acquisition of power of 8 MW on take and pay basis as per the following tariff:





Reference Tariff

Description	Rs. / kWh
Fuel Cost Component (Gas Price Rs. 238.38/MMBTU)	3.62
Fixed Cost Component	1.53
Total Generation Cost of delivered unit	5.15

9.2 The fuel cost component shall be adjusted according to the following formula:

$$FCC_{(Rev)} = GP_{(Rev)} / GP_{(Ref)} * FCC_{(Ref)}$$

Where:

- FCC (Rev) = Fuel Cost Component applicable for the Billing Cycle
GP (Rev) = Revised HHV Gas Price per MMBtu excluding Gas Development Infrastructure Cess (GDIC) net of GST for the Billing Cycle as notified by OGRA for Captive power stations
GP (Ref) = Reference Gas Price i.e Rs. 238.38 / MMBTU (HHV)
FCC (Ref) = Rs. 3.62/ kWh

9.3 SEPCO is directed incorporate the above terms and conditions in its draft PPA before executing the same. 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.

