



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

Registrar

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No. NEPRA/PAR-106/15295-15297
November 24, 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 28.02.2014 regarding Approval of Power Acquisition Request filed by SEPCO for Purchase of Electricity from Deharki Sugar Mills (Pvt.) Limited (DSML) [Case # PAR-106]

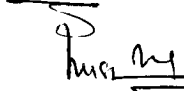
Dear Sir,

In continuation to NEPRA's Approval regarding Power Acquisition Request filed by Sukkur Electric Power Company Ltd. (SEPCO) for purchase of 4 MW from Deharki Sugar Mills (Pvt.) Limited (DSML) under NEPRA Interim Power Procurement (Procedure and Standards) Regulations, 2005 communicated to the Federal Government vide letter No. NEPRA/PAR-106/1998-2000 dated February 28, 2014 and notified by the Federal Government vide SRO 420(I)/2014 dated 20.05.2014.

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 28.02.2014 regarding Approval of Power Acquisition Request filed by SEPCO for Purchase of Electricity from Deharki 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


24.11.14
(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, 'Q' Block, Pak Secretariat, Islamabad.



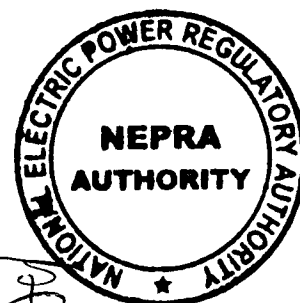
**DECISION OF THE AUTHORITY IN THE MATTER OF SUO MOTO REVIEW PROCEEDINGS
INITIATED BY NEPRA FOR REVISION/MODIFICATION OF FUEL COST COMPONENT
INDEXATION MECHANISM PROVIDED IN ITS DECISION DATED 28.02.2014 REGARDING
APPROVAL OF POWER ACQUISITION REQUEST FILED BY SEPCO FOR PURCHASE OF
ELECTRICITY FROM DEHARKI SUGAR MILLS (PVT.) LIMITED (DSML)**

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 29th May 2013 and subsequent corrigendum dated 28th 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 SEPCO & Deharki Sugar Mills (Pvt.) Limited (DSML) was also approved by NEPRA vide a decision dated 28.02.2014, 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 17th May 2014 and 25th May 2014 respectively for information of parties. Individual letters were also communicated to the relevant stakeholders including DSML.

3. Hearing in the matter was held on 18th 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. DSML have not filed any comments with respect to the subject matter.

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 which is in line with the Para 7.3 of the Authority's decision dated 28.02.2014. 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 28.02.2014 regarding approval of PPA executed between SEPCO and DSML notified in the official gazette vide No. S.R.O 420(I)/2014 dated 20th May 2014 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 28.02.2014 regarding approval of PPA between SEPCO & DSML for purchase of electricity and duly notified in the official gazette vide notification vide No. S.R.O 420(I)/2014 dated 20th May 2014 has been modified to extent that the fuel cost component adjustment mechanism linked with gas shall now be linked with imported coal. Accordingly Paras 7.3, 9.1 & 9.2 of the decision dated 28.02.2014 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. SEPCO is directed to incorporate the same in PPA accordingly.

6. Order

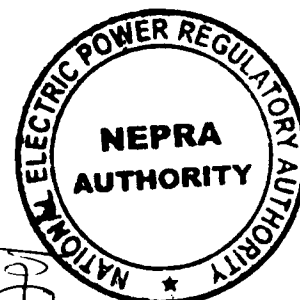
6.1 Pursuant to section 31(4) of the NEPRA Act, the above decision is to be intimated to the Federal Government for notification in the official gazette whereby the adjustment / indexation mechanism for adjustment / indexation of the fuel cost component already provided in the decision dated 28.02.2014 notified vide No. S.R.O 420(I)/2014 dated 20th May 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;

$$\text{CPCIF(Rev)} = \{\text{CPFOB(Rev)} + \text{MF(Rev)} + \text{MI(Rev)}\} \times \text{ER (Rev)}$$

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 x 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) x 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.

AUTHORITY

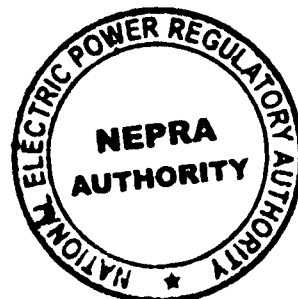
(Khawaja Muhammad Naeem)
Member

(Himayat Ullah Khan)
Member

(Maj. Rtd. Haroon Rashid)
Member

21/11/2014

(Habibullah Khilji)
Vice Chairman



24.11.14