

National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-156/FFCEL-2010/19240-19242
April 9, 2021

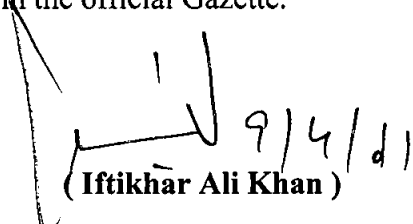
Subject: Decision of the Authority in the matter of Application filed by Central Power Purchasing Agency Guarantee Ltd. (CPPA-G) for Adjustment in Components of Tariff pursuant to Signing of Master Agreement with FFC Energy Ltd. (FFCEL) (Case No. NEPRA/TRF-156/FFCEL-2010)

Dear Sir,

Please find enclosed herewith the subject decision of the Authority (05 Pages) in Case No. NEPRA/TRF-156/FFCEL-2010.

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.
3. The Order Part of the Authority's Decision is to be notified in the official Gazette.

Enclosure: As above


(Iftikhar Ali Khan)

Secretary,
Ministry of Energy (Power Division),
Government of Pakistan
'A' Block, Pak Secretariat,
Islamabad.

CC:

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



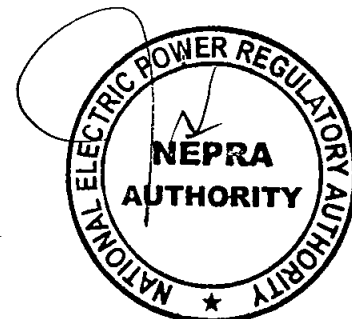
**DECISION OF THE AUTHORITY IN THE MATTER OF APPLICATION FILED BY CENTRAL POWER
PURCHASING AGENCY GUARANTEE LIMITED (CPPAGL) FOR ADJUSTMENT OF TARIFF
COMPONENTS PURSUANT TO THE SIGNING OF THE MASTER AGREEMENT WITH FFC ENERGY
LIMITED**

1. Introduction

- 1.1. The Committee for Negotiations, notified by the Government of Pakistan through notification number F.No.IPPs- 1(12)/2019-20 dated 3rd June 2020, following successive rounds of discussions with the Independent Power Producers (IPPs) and other power sector stakeholders signed Memorandum of Understanding (MOUs) with 47 IPPs.
- 1.2. Government of Pakistan through notification number F.No.IPPs-1(12)/2020 (Vol-II) dated October 07, 2020 constituted the Implementation Committee *inter-alia*, to convert the MOUs into a binding agreement between the Parties.
- 1.3. The report of the Implementation Committee along with the payment mechanism and initialed agreements was considered by Economic Coordination Committee of the Cabinet in case No. ECC 45/05/2021 dated February 08, 2021 and approved the same.
- 1.4. Central Power Purchasing Agency (Guarantee) Limited (CPPAGL) and FFC Energy Limited (FFCEL) signed Master Agreement on February 11, 2021. As per clause 2.1 of the agreement, the parties have jointly developed a tariff adjustment application to be submitted to NEPRA as a necessary condition for bringing into effect the agreed contractual amendments.
- 1.5. FFCEL is a 49.5 MW wind power project. The tariff determination of FFCEL was issued by the Authority on August 10, 2010. Clarifications on the said determination and amended order of the Authority was issued on November 03, 2010. Upon achievement of Commercial Operations Date (COD) on May 16, 2013, FFCEL's tariff was adjusted vide decision of the Authority dated November 10, 2014 which was reviewed on July 31, 2015 (COD tariff decision).

2. Filing of Application

- 2.1. Pursuant to the Master Agreement, CPPAGL vide letter No. CPPA/CEO/2021/8201 dated February 17, 2021 filed application for adjustment in components of tariff of FFCEL, approved vide COD tariff decision.



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- 2.2. The application was filed by CPPAGL as motion for leave for review, pursuant to rule 16(6) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, read together with Regulation 3(2) of the NEPRA (Review Procedure) Regulations, 2009 and Section 31 of the NEPRA Act, while requesting for the following:
- Reduce Return on Equity (ROE) and Return on Equity during Construction (ROEDC) components to 13% per annum.
 - Reduce cap for insurance during operations amount to 0.7% of the EPC cost.
 - Approval of Tariff Adjustment to become effective as provided in clause 2.2, clause 2.3 and Annex-B of the Master Agreement and notified accordingly.

3. **Admission of Application**

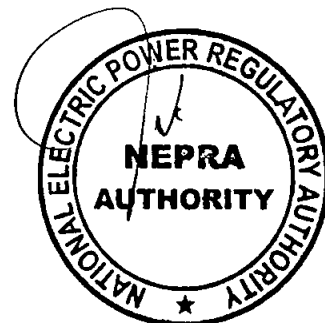
- 3.1. The Authority admitted the subject application on February 25, 2021 and decided to hold hearing in the matter on March 03, 2021. Accordingly, Notice of Admission/Hearing was published in the national newspapers on February 26, 2021 inviting comments from the stakeholders. Individual notices were issued on February 26, 2021. Hearing was held on March 03, 2021 through video link on Zoom and was attended by representatives of CPPA-G and IPPs.
- 3.2. Post hearing, CPPAGL vide letter dated March 16, 2021 submitted, inter alia, to also include following clause in the "Grounds of Tariff Adjustment" of FFCEL:

Pursuant to Master Agreement, CPPAGL and FFCEL have agreed to coordinate with its lenders and make all efforts in order to give effect to (i) the debt tenor shall be extended by a period of 5 years, (ii) the existing spread shall be reduced by 75 basis points over the LIBOR, as applicable, and by 125 basis points over KIBOR, as applicable; provided that the entire savings arising out of debt negotiations shall be passed on to the consumers.

4. **Analysis and Decision of the Authority**

- 4.1. The discussion with respect to each parameter/component of tariff, as requested by CPPAGL for revision and of the decision of the Authority is as follows:
- Return on Equity & Return on Equity during Construction:**

The Authority in the COD tariff decision approved reference ROE and ROEDC components of Rs. 3.0932/kWh and Rs. 0.6404/kWh respectively. The said components were worked out on the basis of rate of return of 17% (USD based). CPPAGL has requested to revise the





equity return downward to 13%. During the proceedings of the subject Application, CPPAGL through letter dated March 16, 2021 clarified that the mechanics used to compute the ROEDC component in the tariff application of thermal power projects be used for FFCEL. Accordingly, with the negotiated rate of 13%, the revised ROE and ROEDC components of FFCEL works out to be Rs. 2.3654/kWh and Rs. 0.5416/kWh, respectively, which are hereby approved.

ii. Insurance during Operations

The Authority in the COD tariff decision of FFCEL approved the maximum limit of 1% of EPC cost, subject to actual, in respect of annual insurance cost. In the subject Application, CPPAGL has requested to revise the said limit of 1% to 0.7% of the EPC cost approved for FFCEL. The Authority has considered this request and decided to change the cap of annual insurance to 0.7% of the EPC cost of FFCEL.

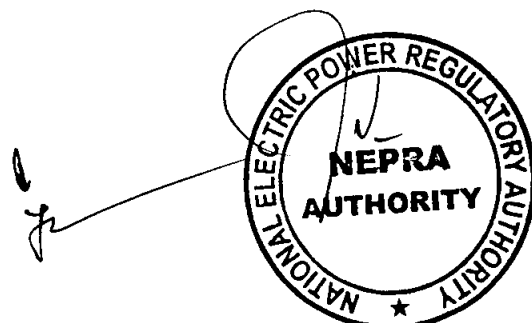
iii. Effective Date

The Authority noted that Clause 2.2 of the Master Agreement signed with FFCEL provides that the revised tariff shall be effective on the date when the last instalment under the Payment Mechanism has been paid to the Company. Further, Clause 2.3 of the Master Agreement provides that, subject to the terms of this Agreement, after the determination of the revised tariff in line with the Tariff Adjustment Application and payment of the first instalment under the Payment Mechanism, and till Revised Tariff Effective Date, the Parties agree that the Company shall commence giving discount in invoices consistent with the notified tariff and this Agreement. From and after the Revised Tariff Effective Date, billing and invoicing shall be as per the revised tariff. The Authority has considered the said clauses and decided to approve the same through this Decision.

iv. Debt Renegotiations

The Authority in the COD tariff decision of FFCEL worked out the approved tariff based on debt to equity ratio of 80:20. The project is 100% financed on local debt which was approved at KIBOR + 2.97%, to be serviced in 10 years from COD, on equal annuity basis. Later, after 4.5 years of debt servicing, the financing cost was approved at renegotiated rate of KIBOR plus spread of 2.1% for the remaining tenor. The Authority noted that following has been decided in Master Agreement:

FFCEL shall coordinate with its lenders and make all efforts in order to give effect in letter and spirit to (i) the debt tenor shall be extended by a period of five (5) years, (ii) the





existing spread shall be reduced by 75 basis points over LIBOR, as applicable, and by 125 basis points over KIBOR, as applicable; provided that the entire savings arising out of debt renegotiations shall be passed on to the Purchaser.

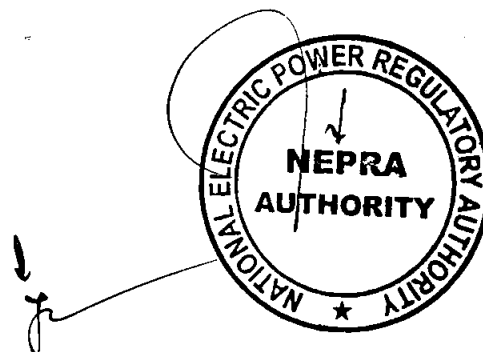
CPPAGL vide letter dated March 16, 2021 requested the Authority to include the above referred provision. Subsequently, vide letter dated March 30, 2021, CPPAGL submitted that no final decision has yet been taken regarding extension of debt tenor of FFCEL and requested the Authority to include the said debt tenor extension clause in tariff decision so that in case there is a final decision in favor of extension, necessary provisions should be in place.

The Authority considered the said request of CPPAGL and decided to include the provision of debt renegotiation in this Decision. The Authority also directs CPPAGL to continuously pursue with FFCEL on this matter.

5. **ORDER**

The Authority hereby reviews the COD tariff decision of FFC Energy Limited issued on July 31, 2015, to the extent of following:

- ROE Component of Rs. 3.0932/kWh has been revised to Rs. 2.3654/kWh.
- ROEDC Component of Rs. 0.6404/kWh has been revised to Rs. 0.5416/kWh.
- The cap of 1% in respect of annual insurance has been revised to 0.7% of the EPC cost of FFCEL.
- FFCEL is directed to make all efforts for debt renegotiations on the terms, as agreed in the Master Agreement. Once achieved, the tariff of FFCEL shall be adjusted to reflect the negotiated terms. CPPAGL is directed to continuously pursue with FFCEL on this matter.
- All the revised tariff components of this Decision shall be adjusted as per the mechanism prescribed in the COD tariff decision of FFCEL.
- This above revision, in the COD tariff decision, shall apply in accordance with timelines as agreed in the Master Agreement.



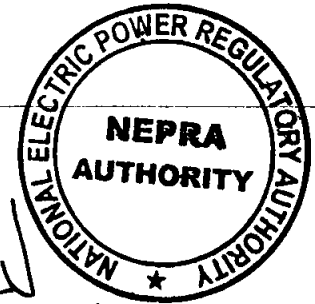


6. The Order of the Authority is intimated to the Federal Government for notification in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

AUTHORITY

Rehmatullah Baloch
Member

Engr. Rafique Ahmed Shaikh
Member

Tauseef H. Farooqi
Chairman
- 9/4/21