



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad  
Ph: +92-51-9206500, Fax: +92-51-2600026  
Web: www.nepra.org.pk, E-mail: registrar@nepra.org.pk

No. NEPRA/R/ADG(Trf)/TRF-522/UHPCO-2020/14588-14590

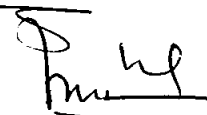
July 29, 2021

Subject: **Decision of the Authority in the matter of Motion for Leave for Review filed by Uzghor Hydropower (Pvt.) Ltd. (UHPCO) for 82.25 MW Turtonas - Uzghor Hydropower Project (Case No. NEPRA/TRF-522/UHPCO-2020)**

Dear Sir,

Please find enclosed herewith the subject decision of the Authority (03 Pages) in the matter of Motion for Leave for Review filed by Uzghor Hydropower (Pvt.) Ltd. (UHPCO) for 82.25 MW Turtonas - Uzghor Hydropower Project in Case No. NEPRA/TRF-522/UHPCO-2020 for information and necessary action.

Enclosure: As above

  
29 07 22  
( Syed Safer Hussain )

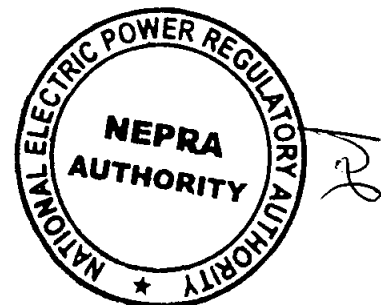
Secretary,  
Ministry of Energy (Power Division),  
Government of Pakistan  
'A' Block, Pak Secretariat,  
Islamabad.

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 MOTION FOR LEAVE FOR  
REVIEW FILED BY UZGHOR HYDROPOWER PVT. LTD FOR 82.25 MW TURTONAS-  
UZGHOR HYDROPOWER PROJECT.**

- 1 Uzghor Hydropower Pvt. Ltd. (hereinafter referred to as the "**Company**" or "**UHPCO**" or "**Petitioner**") vide letter dated April 29, 2021, filed a motion for leave for review (hereinafter referred to as "**Review Motion**") seeking review of the determination dated April 19, 2021 (hereinafter referred as "**impugned decision**") of the National Electric Power Regulatory Authority (hereinafter referred as "**the Authority**") regarding the tariff proposal for 82.25 MW Turtonas-Uzghor hydropower project.
- 2 The Review Motion was considered and admitted on May 25, 2021, for further proceedings. It was also decided to provide an opportunity of hearing to the parties to the proceedings; accordingly, the hearing in this regard was held on July 14, 2021, for which letters were also sent to the stakeholders. The hearing was attended by the Petitioner, Central Power Purchasing Agency Guarantee Limited (CPPA-G), Private Power Infrastructure Board (PPIB) and other stakeholders.
- 3 **Grounds of Review Motion:** The Petitioner submitted the following grounds for revision of the impugned decision.
  - a. **Clarification sought on Hydrological Risk and Power Offtake Mechanism:** The Petitioner submitted that the impugned decision is silent about Hydrological Risk and Power Offtake Mechanism (Take or Pay OR Take and Pay). The Petitioner further stated that as per the "Govt. of Pakistan Power Generation Policy 2015 approved by CCI", the hydrological risk shall be borne by the power purchaser. Moreover, the Petitioner vide a post-hearing letter dated July 26, 2021, stated that around USD 120 million of debt is involved in the Project and multiple securities and guarantees are mandatory for the financing of any project. In the absence of these securities and guaranteed cash flow, project development will be very difficult. The Petitioner requested the Authority to confirm their understanding and issue a clarification regarding hydrological risk to be borne by the Power Purchaser and also revise the tariff structure in two parts instead of a determined single-part tariff.
  - b. **Adjustment on account of return on equity and return on equity during construction:** The Petitioner submitted that the Authority in its impugned decision has allowed an IRR of 13% with the assumption that the sponsors of the Project are 100% foreigners and at the time of COD, the origin of equity invested whether local or foreign shall be reconsidered and the indexation shall be prescribed accordingly. In the case of local equity, a revised IRR shall be prescribed beyond which no indexation on return shall be allowed. The Petitioner opined that a clear divide and discrimination between local & foreign investors is evident by discouraging the local investors. Moreover, the Authority's decision is ambiguous regarding the application of incentives for the foreign and local equity sponsors. Since the local equity has more benefits as compared to foreign, therefore, the local investors should be treated at par with foreign sponsors. The Petitioner stated that given the fact that every hydropower project takes 8/10 years from feasibility studies to commercial operation and throughout the world, the hydropower projects are provided 2% additional IRR as compared to solar/wind technologies, therefore 13% is unreasonable and requested the Authority to allow 15% return with taking or pay condition and in case of a local investor, the dollar indexation should be allowed.



c. **Adjustment on account of special return on equity (SROE):** The Petitioner stated that the sponsors invest their hard-earned money in these hydropower projects for at least five to six years without any ROE and prolonged delays occur due to many other factors. The SROE incentive is in compliance with the ECC decision which is still effective and not revoked by the GOP, therefore the Authority should not take any decision in violation of the aforesaid ECC decision. Therefore, SROE be allowed for this Project in accordance with the ECC decision dated July 2009.

d. **Adjustment on account of one-time adjustment of EPC Civil works costs:** The Petitioner stated that the approved formula by the Authority for civil works escalation wherein 49% of civil works will be subject to escalation and 51% will be fixed is agreed. However, the breakup of the 49% needs to be rationalized in accordance with the ratio inputs required for the civil works of hydropower projects. Cement, Steel & Fuel are the major inputs in the construction of hydropower civil works, wherein the impact of fuel is the highest if the project is constructed in far-flung areas such as Chitral where all material is transported either from Peshawar or Rawalpindi, therefore the following is proposed and the same may be reconsidered.

Approved Formula:  $P_n = 0.51 + 0.10*(C_n/Co) + 0.09*(S_n/So) + 0.15(F_n/Fo) + 0.15(L_n/Lo)$

Proposed Formula:  $P_n = 0.51 + 0.12*(C_n/Co) + 0.13*(S_n/So) + 0.15(F_n/Fo) + 0.09(L_n/Lo)$

e. **Adjustment on account of Engineering, Procurement and Construction (EPC) Cost:** The Petitioner submitted that the 15% variation in the base cost of civil works as a maximum ceiling allowed by the Authority in the impugned decision is agreed upon, however, the Authority shall direct the PPIB, NTDC, and CPPA-G to execute the Power Purchase Agreement (PPA) by April 2023, however, in case of any delay then the variation beyond 15% shall be included in the Project cost. Subsequently the Petitioner vide letter dated June 16, 2021, also submitted that the approved EPC cost is also lower as compared to a similar hydropower project. Therefore the proposed EPC cost of USD 148.93 million is reasonable and shall be allowed.

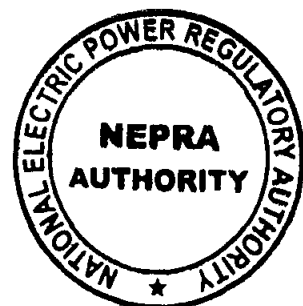
f. **Adjustment on account of Project Development Cost (PDC):** The Petitioner submitted that the Authority has approved an amount of USD 9.87 million against the claimed amount of USD 20.4 million for PDC and E&S costs. The Petitioner requested the Authority that an additional cost of USD 0.50 million on account of legal charges which are allowed for other hydropower projects may also be allowed for this Project.

4 **Prayer:** The Petitioner stated that it is hereby most respectfully submitted that the Authority may kindly review and reconsider the impugned decision with regards to the submissions made.

5 **Comments of the stakeholders:** CPPA-G vide letter dated July 13, 2021, also submitted written comments which are summarized below:

6 **CPPA-G:** The Authority has rightly determined the annual energy of 380.3911 GWh with the incentive of a 10% bonus over and above the benchmark energy and from the annex reference table with the impugned decision, it can be inferred that the stance of the Authority is based on Take & Pay concept. The Authority's decision regarding the hydrological risk, which is in line with the CPPA-G stance to safeguard the interest of consumers is endorsed. Further, the ROE and ROEDC may be

*Handwritten signatures and initials*



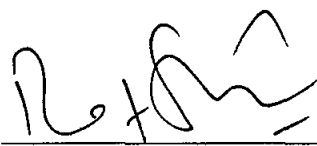
rationalized and a clawback mechanism may be added to the decision, and capping of the Project Development Cost and its downward adjustment is also supported.

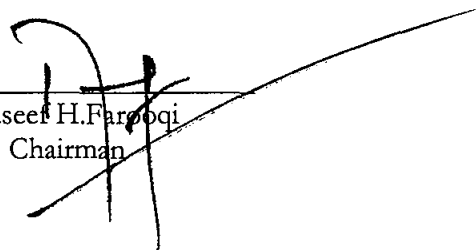
- 7 Arguments were heard and records perused.
- 8 It was noted that the Review Motion was admitted on May 25, 2021. Subsequently, the Indicative Generation Capacity Expansion Plan 2021-30 (IGCEP-2021) was approved by the Authority on September 24, 2021, wherein UHPCO was not optimized. This means that CPPA-G would not be able to procure power from the Project as there is no procurement under IGCEP, therefore, there may not be a need for a regulated tariff for UHPCO.
- 9 The Authority however noted that given the liberalization of the power market, the projects which are not optimized in the IGCEP should now be encouraged to enter the market as Merchant Plants as per the applicable documents. Under this regime, the Petitioner may consider setting up a power plant to sell electricity either under a bilateral contract or through a merchant plant, in the competitive trading bilateral contract market. CPPA-G however shall purchase, power from such merchant plant provided the bid of such plant, falls under the Economic Merit order as per applicable Grid & Market Commercial Code.
- 10 In view of the above, the Review Motion is accordingly disposed of and the earlier determination dated April 19, 2021 is hereby withdrawn.

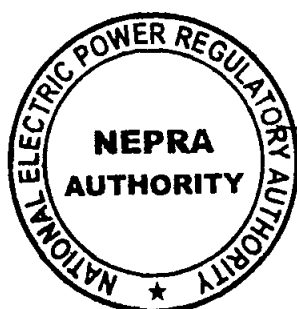
---

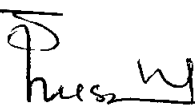
**AUTHORITY**

  
Engr. Maqsood Anwar Khan  
Member

  
Engr. Rafique Ahmed Shaikh  
Member

  
Tauseef H. Farooqi  
Chairman



  
29 07 22