



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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No. NEPRA/R/SA(Tariff)/TRF-299/PQEPCPL-2015/18890-18892
July 23, 2020

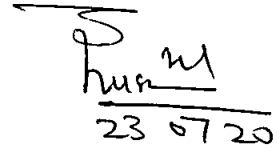
Subject: Decision of the Authority in the matter of Indexation/Adjustment of Sinosure Component of Capacity Charge Part of Tariff of Port Qasim Electric Power Company (Private) Ltd. [CASE NO. NEPRA/TRF-299/PQEPCPL-2015]

Dear Sir,

Please find enclosed herewith the decision of the Authority (05 pages) in the matter of Indexation/Adjustment of Sinosure Component of Capacity Charge Part of Tariff of Port Qasim Electric Power Company (Private) Ltd. for the period November 24, 2018 to November 23, 2019 and November 24, 2019 to November 23, 2020 in Case No. NEPRA/TRF-299/PQEPCPL-2015.

2. The decision is being intimated to the Federal Government for the purpose of notification of adjustment in the approved tariff through the official Gazette pursuant to Section 31 (7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

Enclosure: As above



(Syed Safeer Hussain)

Secretary
Ministry of Energy, Power Division
(Power Division)
'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 INDEXATION/ADJUSTMENT OF
SINOSURE COMPONENT OF CAPACITY CHARGE PART OF TARIFF OF PORT QASIM
ELECTRIC POWER COMPANY (PRIVATE) LIMITED**

1. Background

- 1.1. Port Qasim Electric Power Company Limited (hereafter "PQEPCL") setup a coal based power plant at Port Qasim, Karachi. The Authority approved upfront coal tariff to PQEPCL vide its decision dated February 13, 2015. PQEPCL has achieved Commercial Operation Date (COD) on April 25, 2018. The decision in the matter of tariff adjustment at COD was issued on September 27, 2019 which was notified in the official Gazette vide S.R.O. No. 1383(I)/2019 dated November 15, 2019.

2. Sinosure Fee Adjustment Mechanism

- 2.1. As per para 15.9 of the decision of the Authority dated 27th September 2019, the sinosure fee during operation period is being indicated as separate component in the tariff table and to be adjusted on annual basis due to interest rates fluctuations (i.e. LIBOR, interest rate notified by Export Import Bank of China).
- 2.2. As per Para III of Order part of the abovementioned decision, during the term of the loan agreement, sinosure fee component of tariff will be adjusted on the basis of actual annual sinosure fee with a maximum rate of 0.6% per annum based on annual outstanding principal debt amount along with annual interest payable. Sinosure component will further be adjusted for exchange rate variation for Rs.-US\$ parity prevailing at the date of payment and based on documentary evidence.

3. PQEPCL's Request for Adjustment of Sinosure Fee Component

- 3.1. PQEPCL requested to adjust the sinosure fee component on the basis of actual payment of sinosure fees. The details of requested sinosure fees are hereunder:

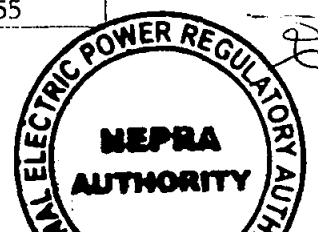
| Sr | Period | Sinosure Fee (US\$) | WHT (Rs.) | Exchange Rate |
|----|--------------------------------|---------------------|------------|---------------|
| 1 | 1 st Agreement Year | 9,954,913 | 70,155,936 | 132.20 |
| 2 | 2 nd Agreement Year | 9,903,438 | 81,981,853 | 155.80 |

- 3.2. PQEPCL submitted its request for adjustment of sinosure premiums on the basis of following:

Outstanding Principal

- i. PQEPCL calculated sinosure premium on the basis of following outstanding principal amount:

| Sr | Period | Outstanding Principal (US\$ Millions) |
|----|----------------------------|---------------------------------------|
| 1 | 24 Nov 2018 to 23 Nov 2019 | 1,555 |
| 2 | 24 Nov 2019 to 23 Nov 2020 | 1,555 |



LIBOR

- ii. PQEPCL used following LIBORs after incorporating 20% increase in calculation of sinosure premiums:

| Sr | Period | Base LIBOR | Increment | Adjusted LIBOR | Remarks |
|----|----------------------------|------------|-----------|----------------|-------------------------------------|
| 1 | 24 Nov 2018 to 23 Nov 2019 | 2.629% | 20% | 3.1548% | 6M LIBOR as on Oct 9, 2018 |
| 2 | 24 Nov 2019 to 23 Nov 2020 | 2.492% | 20% | 2.9904% | Average 6M LIBOR up to Sept 6, 2019 |

- 3.3. PQEPCL used LIBOR of 2.4968% and 2.2980% for calculation of interest of first 27 days of both 1st and 2nd agreement years respectively. The said LIBORs were used without 20% increase and were published on June 18, 2018 and June 19, 2019 respectively.

- 3.4. PQEPCL was directed to submit following information/clarification vide letter No. NEPRA/SA(T)/TRF-299/0760 dated April 21, 2020 :

- i. As per Para 15.9 of the decision of the Authority dated September 27, 2019 in the matter of Tariff Adjustment at Commercial Operation Date (COD), sinosure fee during operations is subject to adjustment as per LIBOR (interest rate) as notified by the Export Import Bank of China which has not been provided along with subject request. You are required to provide the same supported by documentary evidence.

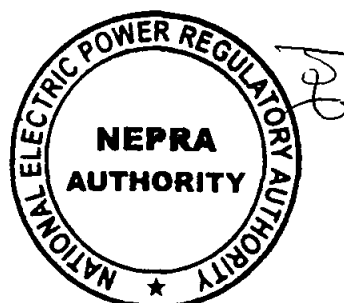
- ii. It has also been observed from your calculation sheet that the outstanding principal of US\$ 1,555 Million was used for calculation of sinosure premium for both the first and second year while as per the adjustment mechanism outstanding principle amount for the second year should be used for calculation of sinosure component for year 2.

- 3.5. PQEPCL submitted its response vide its letter No. PQEPC/NEPRA/2020-17 dated April 27, 2020 which is summarized hereunder:

- i. PQEPCL submitted email from Exim Bank dated September 6, 2019 notifying LIBOR of 2.492% + 20% increase for the period 24 November 2019 to 23 November 2020. The LIBOR of 2.492% is based on average actual LIBOR from January 02, 2019 to September 06, 2019.
- ii. Regarding notified rate for the Period 24 November 2018 to 23 November 2019, Exim Bank in its email dated October 11, 2018 mentioned that the rate applicable on the day before October 10, 2018 + 20% increase shall be used. The LIBOR for October 09, 2018 was 2.629%
- iii. PQEPCL further submitted that as per its Sinosure Policy, Insured Amount is defined as *"the sum of the outstanding principal of the Insured Loan in the beginning of the current policy period and its outstanding interest payable during the effective period of the Policy."*

- 3.6. PQEPCL further submitted following information vide email dated May 13, 2020:

- i. Sinosure Policy



- ii. Translated emails of EXIM bank for confirmation of LIBOR for the 1st and 2nd agreement year
- iii. Historical data of 6 Months LIBOR for the years 2018 & 2019 along with its source.

4. Analysis and Findings

- 4.1. As per the Debt Service Schedule approved by the Authority in its decision dated September 2019, outstanding loan amounts of PQEPCL are presented hereunder:

| Sr | Period | Outstanding Principal | |
|----|----------------------------|-------------------------|--------------------------------|
| | | As per PQEPCL's Request | As per Debt Servicing Schedule |
| | | (US\$ Millions) | (US\$ Millions) |
| 1 | 24 Nov 2018 to 23 Nov 2019 | 1,555 | 1,498.04 |
| 2 | 24 Nov 2019 to 23 Nov 2020 | 1,555 | 1,378.66 |



- 4.2. As per the loan agreement, negotiated between lender and PQEPCL, the first repayment of principal falls in November 2019, therefore, PQEPCL calculated sinosure premium on the basis of outstanding loan of US\$ 1.555 billion in both years instead of outstanding loan as per approved debt service schedule in the tariff determination. The impact of increased premium on this account is US\$ 1.4 million.
- 4.3. Average LIBORs as per the source (www.global-rates.com) provided by PQEPCL over the last six years are presented hereunder:

| Year | LIBOR Used by PQEPCL | | | Annual Average LIBOR |
|---|----------------------|-----------|----------------|----------------------|
| | Base LIBOR | Increment | Adjusted LIBOR | |
| 2015 | - | - | - | 0.485% |
| 2016 | - | - | - | 1.058% |
| 2017 | - | - | - | 1.475% |
| 2018 | 2.629% | 20% | 3.1548% | 2.489% |
| 2019 | 2.492% | 20% | 2.9904% | 2.318% |
| 2020* | - | - | - | 1.357% |
| *Average LIBOR for the Year 2020 is up to May 8, 2020 | | | | |

- 4.4. It can be seen from the above table that the average LIBOR had increasing trend uptill 2018 and thereafter the trend has been declining. However, despite the declining trend, PQEPCL has increased LIBOR by 20% in both years to calculate sinosure premium, which is not reflective of actual situation.
- 4.5. Moreover, PQEPCL adopted inconsistent approach in selection of LIBOR for calculation of sinosure premium. For the first period, LIBOR as on October 9, 2018 was used while for the second period, average of eight months of LIBOR (up to Sept 6, 2019) was used. However, LIBOR for both years was notified by EXIM bank which conforms to the decision of the Authority dated September 27, 2019.
- 4.6. In accordance with the declining LIBOR trend, the 20% increase is not justified and has not been considered while calculating the outstanding interest amount for calculation of revised

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sinosure component. The total impact on sinosure fee of revised interest calculation is approximately US\$ 185,050 out of which approximately US\$ 85,680 attributes to 20% increased LIBOR.

- 4.7. Comparison of sinosure premiums requested by PQEPCL and assessed sinosure premiums calculated on the basis of outstanding principal as per the approved Debt Servicing schedule and notified LIBOR (without increase of 20%) is presented below:

| Sr | Period | Sinosure Premium Excluding WHT | | |
|--------------|----------------------------|--------------------------------|------------------------|--------------------------|
| | | Requested (US\$ Mil) | Assessed (US\$ Mil) | Difference (US\$ Mil) |
| 1 | 24 Nov 2018 to 23 Nov 2019 | 9,954,913 | 9,522,878 | (432,035) |
| 2 | 24 Nov 2019 to 23 Nov 2020 | 9,903,438 | 8,750,623 | (1,152,815) |
| Total | | 19,858,351 | 18,273,501 | (1,584,850) |

- 4.8. PQEPCL requested to allow withholding tax paid on sinosure premium amounting to Rs. 70,155,936 for the 1st year and Rs. 81,981,853 for the second year. The Authority vide its decision dated September 27, 2019 did not allow withholding tax on sinosure premium, therefore, the same has not be considered in calculation of assessed sinosure component of tariff.

- 4.9. Comparison of requested and approved sinosure fee component is presented hereunder:

| Period | Requested Sinosure Fee Component (Rs./kW/h) | Approved Sinosure Fee Component (Rs./kW/h) | Difference (Rs./kW/h) |
|----------------------------|---|--|--------------------------|
| 24 Nov 2018 to 23 Nov 2019 | 0.1273 | 0.1156 | (0.0117) |
| 24 Nov 2019 to 23 Nov 2020 | 0.1492 | 0.1249 | (0.0244) |

- 4.10. The sinosure fee components have been worked out on the basis of prevailing exchange rates of Rs. 132.2/US\$ and Rs. 155.8/US\$ on 29th October 2018 and 21st November 2019 (the dates for applying permission from SBP) for 1st and 2nd years respectively. The payments were made on 27th November 2018 and 28th November 2019 when the exchange rates were Rs. 133.9/US\$ and Rs. 155.7/US\$. The requested rates have been approved.

- 4.11. PQEPCL vide its application also requested quarterly indexation of sinosure fee component on account of exchange rate on the basis of reference exchange rate of Rs. 105.73/US\$. The request of PQEPCL is not in line with the decision of the Authority dated 27 September, 2019 and has not been considered.

- 4.12. The Authority expresses its displeasure on the submissions made by PQEPCL on the basis other than that of the approved debt service schedule. The repayment of outstanding principal amount has been started since April 2018 by CPPA-G. Even if payments are delayed, CPPA-G will pay late payment penalty @ KIBOR + 2%. Therefore, there is no justification, whatsoever, to assume outstanding principal amount other than the outstanding as per the approved debt service schedule. PQEPCL is directed to calculate and request sinosure fee in future on the basis of approved debt service schedule and difference, if any, due to the difference in repayment schedule shall be borne by itself.

5. Order

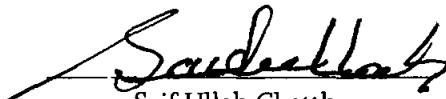
5.1. The revised sinosure fee components of capacity charge part of tariff for the respective periods are indicated hereunder:


| Period | Sinosure Component (Rs./kW/h) |
|----------------------------|----------------------------------|
| 24 Nov 2018 to 23 Nov 2019 | 0.1156 |
| 24 Nov 2019 to 23 Nov 2020 | 0.1249 |

5.2. In accordance with the period covered, there shall be no payment on account of Sinosure fee to PQEPCL by CPPA(G) for the period April 24, 2018 to November 23, 2018.


5.3. CPPA(G) to ensure that all payments are consistent with the tariff determination(s).

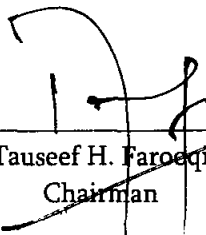
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