



Registrar

National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-90/FPCDL-2007/18185-18187
April 2, 2021

Subject: Decision of the Authority in the matter of Application filed by Central Power Purchasing Agency Guarantee Ltd. (CPPA-G) for Adjustment of ROE and ROEDC Components of Tariff pursuant to the Agreement dated February 11, 2021 with Foundation Power Company Daharki Ltd. (FPCDL) (Case No. NEPRA/TRF-90/FPCDL-2007)

Dear Sir,

Please find enclosed herewith the subject decision of the Authority (04 Pages) in Case No. No. NEPRA/TRF-90/FPCDL-2007.

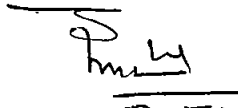
2. The decision is being intimated to the Federal Government for the purpose of notification of adjustment in the approved tariff through the official Gazette pursuant to Section 31 (7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.
3. The Order of the Authority's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

Enclosure: As above

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.


02 04 21.
(Syed Safer Hussain)



DECISION OF THE AUTHORITY IN THE MATTER OF APPLICATION FILED BY CENTRAL POWER PURCHASING AGENCY (CPPA-G) FOR ADJUSTMENT OF ROE AND ROEDC COMPONENTS OF TARIFF PURSUANT TO THE AGREEMENT DATED FEBRUARY 11, 2021 WITH FOUNDATION POWER COMPANY DAHARKI LIMITED

1. INTRODUCTION

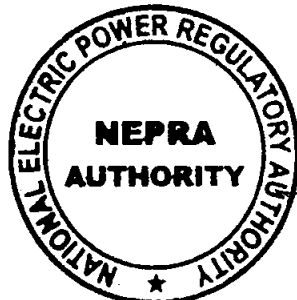
- 1.1. The Committee for Negotiations, notified by the Government of Pakistan through notification number F.No.IPPs- 1(12)/2019-20 dated 3rd June 2020, following successive rounds of discussions with the Independent Power Producers (IPPs) and other power sector stakeholders, signed Memorandum of Understanding (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 payment mechanism and initialed agreements was considered by Economic Coordination Committee of the Cabinet in case No. ECC 45/05/2021 dated 8th February 2021 and approved the same.
- 1.4. Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) and Foundation Power Company Daharki Limited (FPCDL) 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 to bringing into effect the agreed contractual amendments.

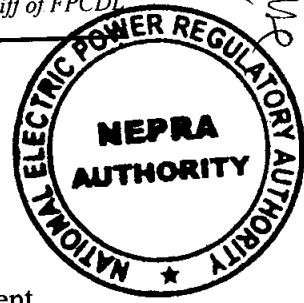
2. FILING OF APPLICATION

- 2.1. CPPA-G vide letter No. CPPA/CEO/2021/8201 dated February 17, 2021 filed application for adjustment in Return on Equity (ROE) and Return on Equity During Construction (ROEDC) components of tariff of FPCDL pursuant to Master Agreement dated February 11, 2021.
- 2.2. According to CPPA-G the application is filed 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.
- 2.3. The requested ROE and ROEDC components are provided hereunder:

	Requested Tariff Rs./kW/h	Indexation
ROE	0.3041	PKR/USD
ROEDC	0.0558	PKR/USD

- 2.4. According to CPPA-G, the proposed reference tariff shall be applicable with effect from July 01, 2023 as provided in the Clause 2.2 and Clause 2.3 of the Master Agreement. The requested tariff has been worked out on the basis of 100% foreign equity.





3. DETERMINATION SOUGHT

3.1. CPPA-G requested the Authority to the followings:

- i. Accept this application
- ii. Adjust the ROE and ROEDC components of tariff as agreed in the Master Agreement.
- iii. Adjust pass-through withholding tax on dividend in accordance with the adjusted ROE and ROEDC components.
- iv. Approve the tariff adjustments to become effective as provided in Clause 2.2, Clause 2.3 and Annex-A of the Master Agreement and notified accordingly.

3.2. CPPA-G vide letter No. CPPA/CEO/15621 dated March 16, 2021 filed corrigendum in the matter and requested followings:

- i. Local and foreign equity element of the Equity for the purpose of determining the "Return on Equity" and "Return on Equity During Construction" for each power project may be obtained from the latest record available in the State Bank of Pakistan. In this connection, Applicant has written a letter to the State Bank of Pakistan for seeking updated record (Annex-II). Applicant has also sought such information from respective IPPs which is still awaited. NEPRA may obtain requisite information please.
- ii. Calculation of "return on Equity During Construction" as applied by the Applicant be interpreted in line with the respective Tariff Adjustments Applications.
- iii. The reference tariff of each power projects in respect of "Return on Equity" and "Return on Equity During Construction" shall be re-adjusted in accordance with the provisions of Tariff Application.

3.3. FPCDL provided relevant SBP documents for entire foreign equity investment.

4. ADMISSION OF THE APPLICATION

4.1. The Authority admitted the subject application on February 25, 2021 and decided to hold a 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.

5. GROUNDS OF REVIEW

5.1. According to CPPA-G, it has entered into the Master Agreement with the Company. Therefore, pursuant to the Clause 6.1 of the Master Agreement, the Company have agreed to adjust the ROE and ROEDC Components of Tariff per the following terms and conditions:

- i. The Company agrees to a reduction in tariff component of ROE and ROEDC which shall be 12% per annum, for its foreign equity investment presently registered with SBP. Provided, however, in order to enable the Company and its sponsors to meet their offshore debt obligation, payment calculated as per the existing ROE and ROEDC will continue till 30th

(Handwritten marks)



June 2023. From 1st July 2023, the ROE and ROEDC tariff component will be reduced to a level which ensures that the Company's IRR is 12% from 1st April 2021 till the end of the Term. The adjustments shall become effective as referred to in clause 2.2, clause 2.3 and Annex A of the Master Agreement

6. DECISION OF THE AUTHORITY

6.1. The Authority vide decision dated November 28, 2013 at the time of COD tariff adjustment approved reference ROE and ROEDC components of Rs. 0.4199/kW/h and Rs. 0.0770/kW/h respectively subject to dollar indexation on the basis of equity investment of US\$ 53.02 million, ROEDC of US\$ 9.43 million, return of 15% and exchange rate of Rs. 83.3/US\$. The applicable ROE and ROEDC components of tariff for January-March 2021 quarter are Rs. 0.8106/kW/h and Rs. 0.1486/kW/h respectively on the basis of exchange rate of Rs. 160.8/US\$.

6.2. Clause 6.1 of the Master Agreement is reproduced hereunder:

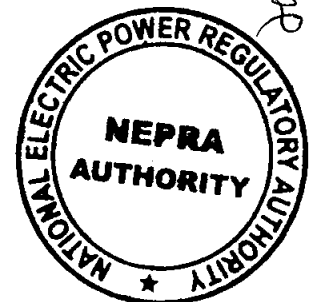
“Subject to the terms of this Agreement, the Company agrees to a reduction in tariff component with the ROE and ROEDC, which shall be 12% per annum, for its foreign equity investment presently registered with SBP. Provided, however, in order to enable the Company and its sponsors to meet their offshore debt obligation, payment calculated as per the existing ROE and ROEDC will continue till 30th June 2023. From 1st July 2023, the ROE and ROEDC tariff component will be reduced to a level which ensures that the Company's IRR is 12% from the date of payment of first installment under the Payment Mechanism till end of the Term.”

6.3. In accordance with the above Clause, the existing tariff will continue till June 30, 2023. With effect from 1st July 2023, the agreed rate of return of 12% has been adjusted downward to 10.86% to realize effective rate of 12% from April 01, 2021 till end of PPA term in May 2036.

6.4. Accordingly, on the basis of equity investment of US\$ 53.02 million, return on equity of 10.86% and reference exchange rate of Rs. 83.3/US\$, the revised ROE and ROEDC components works out Rs. 0.3041/kW/h and Rs. 0.0558/kW/h respectively and the same are being approved. The revised tariff components shall be quarterly adjusted on account of variation in Rupee-Dollar parity as per the existing indexation mechanism.

6.5. As provided in the Clause 2.2 read with Clause 6.1 of the Master Agreement, the revised components shall be effective on July 01, 2023 provided that the final installment under the Payment Mechanism has been timely paid to the Company. Till effective date of the revised components, existing ROE and ROEDC components together with the applicable indexations shall continue to be applied.

6.6. In line with other similar power plants, withholding tax on dividends shall be adjusted in accordance with the revised ROE and ROEDC components



7. ORDER

- I. The Authority hereby modify and approve the reference tariff dated November 28, 2013 of Foundation Power Company Daharki Limited for delivery of electricity to the power purchaser to the extent of following tariff components:

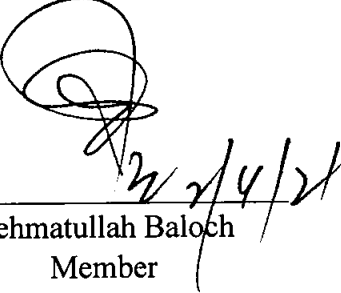
Description	Tariff Rs./kW/h	Indexation
Return on Equity (ROE)	0.3041	US\$/PKR
Return on Equity During Construction (ROEDC)	0.0558	US\$/PKR


- II. The modified ROE and ROEDC components shall be effective on July 01, 2023 as provided in Clause 6.1 of the Master Agreement.
- III. The existing ROE and ROEDC components shall be indexed as per the mechanism stipulated in the COD tariff adjustment decision, till the effective date of the modified ROE and ROEDC components.
- IV. Withholding tax on dividends shall be adjusted in accordance with the revised ROE and ROEDC components.

8. NOTIFICATION

The above 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.

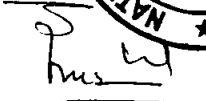
AUTHORITY


Rehmatullah Baloch
Member


Engr. Rafique Ahmed Shaikh
Member


Tauseef H. Farooq
Chairman




02.04.21.