



National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-591/GAEL-2022/3236-3238
February 22, 2023

Subject: **Decision of the Authority in the matter of Tariff Petition filed by Gul Ahmed Energy Limited for Approval of Generation Tariff for Two Years for its RFO Based Power Plant of 136.17 MW (Gross) at Karachi [Case # NEPRA/TRF-591/GAEL-2022]**

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (09 Pages) in Case No. NEPRA/TRF-591/GAEL-2022.

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 within 30 days from the intimation of this Decision. In the event the Federal Government fails to notify the subject tariff Decision or refer the matter to the Authority for reconsideration, within the time period specified in Section 31(7), then the Authority shall notify the same in the official Gazette pursuant to Section 31(7) of NEPRA Act.

Enclosure: As above


(Engr. Mazhar Iqbal Ranjha)

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

Copy to: (alongwith copy of subject Decision):

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



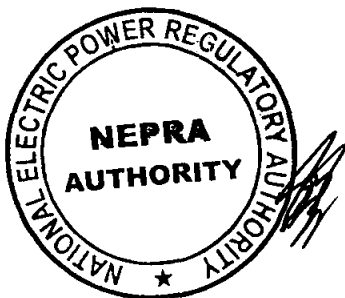
**DECISION OF THE AUTHORITY IN THE MATTER OF TARIFF PETITION FILED BY
GUL AHMED ENERGY LIMITED FOR APPROVAL OF GENERATION TARIFF FOR
TWO YEARS FOR ITS RFO BASED POWER PLANT OF 136.17 MW (GROSS) AT
KARACHI.**

1. INTRODUCTION

- 1.1. Gul Ahmed Energy Limited (GAEL), has been operating a RFO based power generation facility of 136.17 MW gross (net 127.5 MW) at Korangi Industrial Township, Karachi, Sindh. The project is established under 1994 Power Policy. The Project has been selling electricity to K-Electric. The company was granted a license in 2003 vide license No. IPGL/09/2003 dated 26th August 2003. NEPRA vide Modification I extended the term of generation license up to 25th August 2029.
- 1.2. Contemplating the expiry of the PPA with KE, GAEL, vide letter dated 13.02.2019 submitted Cost-plus Tariff Petition for approval of the Reference Generation Tariff that will apply during the PPA Term Extension between KE and GAEL for term of 5 years. Decision in the matter was issued on 21st November 2019 with term extension for a period of three (3) years w.e.f. 3rd November 2019. Review Motion against the said Determination of the Authority was decided on 3rd June 2020. The approved tariff was applicable w.e.f 3rd November 2019 for a term of three years or till the time CPPA-G/NTDC are willing and capable of supplying equivalent additional power to KF, whichever comes earlier.
- 1.3. GAEL and KE have further agreed to extend the term of the power purchase arrangement for an additional period of 2 years i.e. till 2nd November 2024.

2. FILING & ADMISSION OF TARIFF PETITION

- 2.1. GAEL vide letter dated 12th September 2022 filed tariff petition for determination of revised generation tariff for sale of electricity to KE for a period of two year extended term of PPA commencing from 3rd November 2022. The Authority admitted the subject Petition in on 18th October 2022.
- 2.2. Notice of Admission along with salient features of the petition was made public on 1st November 2022 inviting comments/interventions from stakeholders. Salient features of the Petition are as under:
 - i. The petitioner proposed the following tariff:

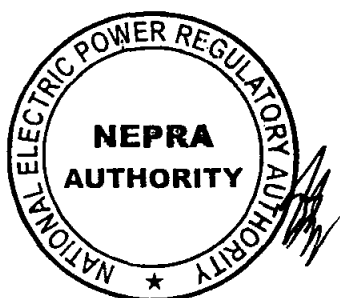


Description	Requested Tariff
Energy Charge (Rs./kWh):	
Fuel cost component	36.7754
Variable O&M cost component	1.3600
Total	38.1354
Capacity Charge (Rs./kWh):	
Fixed O&M cost component	1.0445
Cost of working capital	1.5181
Insurance	0.3681
Return on Equity	1.2903
Total	4.2210
Total Tariff (Rs./kWh)	42.3564

- ii. The Petitioner assumed (Ex-GST) RFO price of Rs. 168,264.237 per Ton which is subject to adjustment as per actual.
- iii. The petitioner assumed RFO based thermal efficiency of 40.79% (LHV heat rates of 8,364.18 BTU/kWh).
- iv. Average lower Calorific Value assumed is 38,269.92 Btu/Kg.
- v. Cost of working capital is assumed at 17.16% (3 month KIBOR (15.16%) + 2% spread).
- vi. The petitioner considered annual insurance cost of USD 798,219 p.a. with assumption that NEPRA will allow indexation of this component to its actual cost paid.
- vii. The return on Equity component of tariff has been calculated on the basis of 12% IRR.
- viii. Exchange Rate: Exchange Rate of Rs. 206/USD has been assumed.
- ix. Net capacity of the plant is 127.50 MW.
- x. The requested tariff was calculated on the projected plant factor of 40%.

3. INTERIM TARIFF

- 3.1. Pursuant to Rule 4(7) of the National Electric Power Regulatory Authority (Tariff Standards and Procedure) Rules, 1998, GAEL vide letter dated 17th October 2022 requested the Authority to exercise its powers and grant a provisional approval of tariff based on the reference tariff petition.



Such provisional tariff will allow the company to continue the supply of power to KE during the period between the expiry of its existing tariff i.e. 2nd November 2022 till the Authority arrives at its final determination with regard to the Company's reference tariff petition. Since the expiration of the current tariff is near, GAEL requested the grant of the provisional tariff approval for the interim period on an urgent basis so that the company can continue to supply electricity to KE.

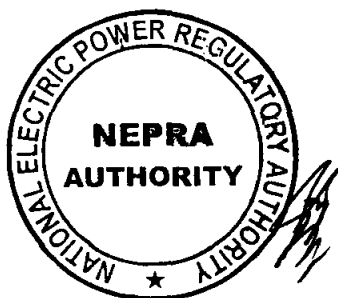
- 3.2. Decision in the matter was issued on 1st December 2022 wherein the Authority allowed following Take and Pay base tariff for immediate application subject to final decision and an order of refund, if any, for the protection of the consumers while the proceedings are pending before the Authority:

Description	Rs. /kWh
Energy Charge:	
Fuel cost component (RFO Price Rs. 153,407/ton)	33.0979
Variable O&M cost component	1.0280
Total	34.1259
Capacity Charge:	
Fixed O&M cost component	0.7357
Cost of working capital	0.8700
Insurance	0.1819
Return on Equity	0.8039
Total	2.5915
Total Tariff	36.7174

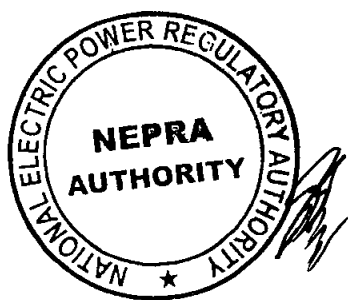
- 3.3. The fuel cost component shall be subject to variation in RFO price during the interim period as per existing mechanism.

4. COMMENTS/INTERVENTION REQUESTS OF STAKEHOLDERS

- 4.1. In response to the notice of admission and individual notices, E-mail comments of M. Arif, K-Electric Consumers forum and M. Raza have been received so far which are reproduced in the succeeding paragraphs.
- 4.2. M. Arif vide E-mail dated 25th November 2022 submitted the following comments:
- As per the notice, placed on the website of the Authority, the total tariff demanded by the applicant is Rs. 42.3564/kWh to be charged to KE, ultimately be passed on to end consumers, on its supplies.
 - The undersigned earnestly request the Authority not to entertain the petition for the reason that not only the tariff demanded is extremely high on the basis of assumptions but it will go higher when the US\$ is taken at actual and other hidden assumptions are accounted for which in the opinion of the undersigned may go beyond Rs 50/- per unit.



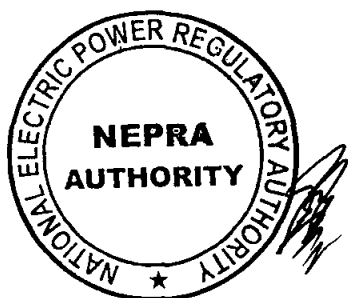
- Neither the aforesaid notice nor the petition provides details about the amount of Equity on which the petitioner has demanded IRR of 12% p.a.
- The petition lacks the details of Working Capital on which the petitioner has demanded a Cost of 17.16% (15.16%+2% spread).
- The petitioner has demanded the cost of insurance in US\$ amounting to 798,219/- per annum. As per practice one cannot place insurance cover directly with an insurance company outside Pakistan. It is only allowed to be placed in Pakistan with any insurance company which reinsures it in the international market. Therefore, the cost is always paid in Pak Rs.
- The petitioner has assumed Calorific Value of fuel (RFO) to be 38,269.92 Btu/kg. whereas for the same fuel KE assumes at 40,351 Btu/kg. which means that the petitioner is either consuming some inferior grade of fuel otherwise RFO sold by PSO, the biggest supplier, cannot have two grades of RFO.
- The petitioner, after having availed all the rights, facilities, incentives and privileges under the Power Generation Policy under which it was established cannot now claim any such incentive, privilege or benefit allowed under any other Power Generation Policy after the expiry of its term.
- The petition is silent about the treatment of Income Tax, WPPF, WWF and Super Tax livable on the company which in all fairness must be borne by the company as it is conducting business and earning profits. Nowhere in the world the buyer has to pay all the above mentioned charges. It was only under the power policies that such incentives were provided to attract investment in the power sector which benefit the company has already enjoyed.
- In the previous tariff hearing determination Case No. NEPRA/TRF-464/ GAEL-2019 under the heading No.7.1 it is clearly stated that all the participants vehemently opposed any extension in the PPA of the petitioner except for KE on its plea of shortfall in its system and future growth in power demand which was unfortunately accepted by the Authority. Despite supplies from GAEL and TAPAL, whose tenures were extended, there was no respite from load shedding and the hapless consumers are still facing not only long hours of unannounced load shedding but also humongous monthly bills.
- Under heading No.7.3 of the aforesaid decision it has been very clearly stated that the Authority has decided to allow extension of the PPA for 3 years with direction to KE to upgrade its system to take additional power from NTDC/CPPA because many new efficient plants have been added to the national grid and equivalent power can easily be provided which is extremely cheaper than the rate at which the petitioner is proposing to sell.



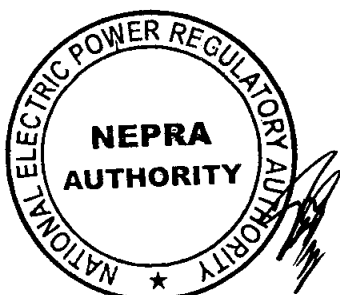
- It is also much cheaper than the cost at which the buyer KE generates its own power. Why then KE has again supported the petition?
 - Has it still not upgraded its 220kv transmission line even after 3 years?
 - If that is the case then KE must be penalized for knowingly not following the directives of the Authority and also the petition be turned down. KE's own new RLNG based 900MW power plant, although considerably delayed, it will be fully operational by December, 2022 as has been stated in its Annual Report of 2022 and also confirmed by its CEO in the annual general meeting of its shareholders. Then why does it need power from GAEL & TAPAL?
- The Authority is requested to direct the petitioner to provide the figures of W.D.V. of its Fixed Assets, its Equity, current assets & current liabilities as on 30.6.2022 or 30.9.2022. To direct the petitioner also to provide the amount of dividend so far declared to date.

4.3. Hafiz Naeem Ur Rehman, President K-Electric Consumer Forum vide E-Mail dated 8th November 2022 submitted the following comments:

- The licensee is operating its Residual Furnace Oil based single cycle power plant comprising 9 Generating sets of 15.13 MW capacity totaling 136.17 MW gross and net capacity of 125.30MW. The plant, established under the 1994 power policy, is operating since 1997 and has already completed 22 years of operation. Although the generation license of the applicant is to expire on Nov-2022, the licensee has requested the Authority, to enable the licensee to run the plant for a further period of two years i.e. up to November 2024.
- The undersigned still does not favor the extension of license for the following reasons:
 - i. The power plant is based on costlier RFO fuel, one of the dirtiest fuels, which the GOP itself has not only banned in new power plants but also is discouraging its use in existing power plants by curtailing their operation to the bare minimum. Above mentioned costlier, old and in-efficient RFO based power plants burdening the consumers of Karachi, power sector as well as the national exchequer adversely.
 - ii. Production of power from old and in-efficient RFO fuel is much costlier than from LNG/Gas. It results in higher cost of power generation, alarming levels of circular debt and high import bills draining the country's foreign reserves.
 - iii. Setting up of new RFO based power plants has been banned.
 - iv. It is a single cycle power plant which further adds to the cost of electricity because of its inefficiency.
 - v. RFO based power plants are inefficient because their auxiliary consumption is much higher.



- vi. RFO based power plants are much costlier to operate because of their higher maintenance cost.
 - vii. RFO based plants are detrimental to the environment as compared to LNG/Gas based plants.
 - viii. This RFO based power plant comprises small generators which adds up-to their inefficiency as compared to large turbine-based power plants.
 - ix. The federal govt. is already discouraging to run the various RFO based IPPs, set-up under various power policies, and is paying them only the capacity charges for the simple reason that cost of power produced by these plants is much higher and it is more beneficial to pay only the capacity charges. This is the sole reason that there is drastic reduction in the import of RFO and even the local refineries are unable to operate at their optimum capacity because the market for RFO is no more.
 - x. Even in the merit order of operation, this plant does not find any favor as the much bigger and more efficient RFO plants are much ahead of this small, highly inefficient, more expensive to operate on per MW basis. If the operators of this plant still intend to run it, then they may do so on their own by selling the power to industrial and other consumers located in the adjoining area by availing the transmission and distribution network of K Electric which is now legally allowable after the recent amendments (2017) in the NEPRA Act and also under the NEPRA Wheeling of Electric Power Rules, 2016.
 - xi. Instead of approval of Gul Ahmed's generation tariff for RFO based costlier power plant of 136.17 MW (Gross) for the benefits of private IPP at the cost of consumers whenever KE has drawn up to a maximum of 1,100 MW from the national grid at Jamshoro and NTDC-KE Interconnection (NKI). It may be noted that K-2, K3, Port Qasim, HUBCO, China Hub Power and Lucky Electric Power (more than 4000 MW total) are located nearby to the service area of KE. These plants in the vicinity of KE are not only cheaper than plants operating in the KE system but are also underutilized. In order to optimize the operations, better utilization of the available resources, and supply electricity to KE with minimal cost and transmission losses, it would be more prudent that the interconnection capacity of grid systems adjacent to the aforementioned power plants should be enhanced.
- In the end the undersigned once again reiterates that the license must not be extended as it is detrimental to the interest of consumers as well as the GOP because its old inefficient and costlier power is a burden on the consumers in their tariff and on the GOP in its subsidy to the power distributor.



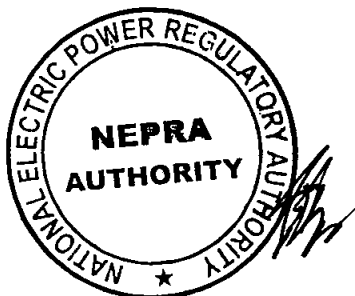
- NEPRA is giving favor to K-Electric and Gul Ahmed Energy Limited by admitting the tariff petition for approval, at the cost of electricity consumers, the National Exchequer and the National Economy.

4.4. M. Raza Sangji in response to notice of admission submitted the following comments vide Email dated 2nd November 2022:

- It is interestingly noted that in the above-mentioned Notice by NEPRA power tariff was assumed on the Plant Capacity Factor of 40% average. It does not worth to use different plants for 30-40% capacity therefore I requested NEPRA in my earlier mail dated April 22, 2022 to prefer those IPPs which are listed on PSX and use them with full capacity instead of using all the plants on lower capacity which results in higher cost and ultimately consumers have to share this burden whereas using some efficient plants on full capacity will save fuel hence resulting in lower tariff.
- Your attention is invited to Annual Report 2022 of Nishat Chunian Power Limited, a public limited listed company on Pakistan Stock Exchange, Page # 13, whereas it is mentioned that Plant capacity was 51.47%. Similarly, Nishat Power Limited vide its Annual Report 2022, Page # 16, claims that its average capacity was 46.42% whereas its capacity was more than 65% in April, 2022.
- Further Pakistan is facing extreme weather/climate changes and recent floods caused extreme situation as loss of agriculture produce, infrastructure and inundation of agriculture land for more than 3 months will cause severe food shortages due to disruption in sowing pattern. As Gul Ahmed Energy is privately owned and unlisted company hence it should not be allowed to operate as it caused Rs.42.36/Kwh, which is exorbitant and Operator of the Plant do not share any profit with general citizen of Pakistan in form profit distribution hence it is causing elite formation and they always invest their money in other countries causing shortage of foreign exchange as evident from SBP tightening of foreign exchange outflow therefore Pakistan is facing inflation of more than 27%.
- It is therefore once again requested that Gul Ahmed Energy Limited should not be used as it will cause higher tariff resulting in costly energy therefore rendering our industries to close causing loss of thousands of jobs.

4.5. M. Raza Sangji in response to notice of hearing again submitted the following comments vide Email dated 8th December 2022:

- Your attention is invited to my mail dated November 2, 2022, reproduced below for ready reference, wherein it is clearly informed to you that Gul Ahmed Energy being run on RFO/FO with capacity factor of 40% will highly expensive and will be highly inflammatory inflation causing.
- It is also noted with great concern that on one hand one of the group companies namely Gul Ahmed Textile Mills, which is a member of All Pakistan Textile Mills Association



are demanding subsidy in electricity supply and are given electricity at Rs.20/- per KWH whereas its associates/group company wants that Government of Pakistan should purchase electricity on exorbitant price fueling further inflation.

- It is therefore once again requested that price of electricity from Gul Ahmed Energy should be less than Government of Pakistan supply to its own sister/associate/group company namely Gul Ahmed Textile Mills.
- Further it is once again requested that GOP should purchase electricity ,first, from only those power plants which are listed on PSX and once their full capacity is utilized then , if required, other private power producers should be used.

5. ISSUES FRAMED FOR THE HEARING

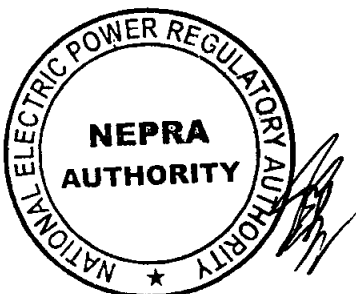
5.1. Following issues were framed for the hearing:

- i. Whether the requested extension in PPA term at revised tariff is justified?
- ii. Whether the revision in tariff on the basis of assumed capacity factor of 40% is justified?
- iii. Whether the fuel cost component at thermal efficiency of 40.79% is justified?
- iv. Whether the variable O&M component of tariff of Rs. 1.3600/kWh at annual estimated cost of Rs. 606.968 million is justified?
- v. Whether the fixed O&M cost component of tariff of Rs. 1.0445/kWh on actual average annual cost of last 3 years of Rs. 466.645 million is justified?
- vi. Whether the insurance cost component of tariff of Rs. 0.3681/kWh on annual insurance of US\$ 798,219 is justified?
- vii. Whether the cost of Working Capital component of tariff of Rs. 1.5181 on the basis of working capital requirement of Rs. 3.95 billion is justified?
- viii. Whether the ROE component on the basis of 12% IRR is justified?
- ix. Any other relevant issue arising during the proceedings.

6. HEARING

6.1. Hearing in the matter was scheduled on 15th December 2022. Notice of Hearing along with issues framed was made public on 6th December 2022. Individual notices were also sent to various stakeholders on 7th December 2022.

6.2. The hearing was held as per schedule and was participated by representatives from the Petitioner, KE, FPCCI, Mr. Anil Mumtaz, Mr. Arif Bilwani, Mr. Tanveer Barri and Mr. Imran. During the hearing except for KE, commentators did not support the extension of the proposed PPA term for further two years.



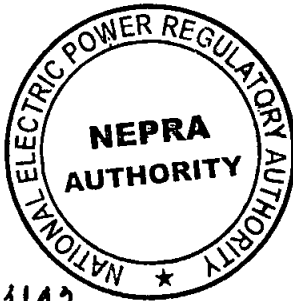


7. DECISION

- 7.1. The submissions of the Petitioner have been evaluated. The project is part of IGCEP 2022-31 till 30th June 2023. With the advent of CTBCM and end of 5 years moratorium period in April 2023, the power producer is free to sell energy under CTBCM regime. It may also find new off takers and enter into bilateral agreements with bulk power consumers.
- 7.2. Accordingly, the Authority has decided to extend the term of tariff till 30th April 2023 or lifting of the moratorium period before the stipulated date, whichever comes earlier, on the same terms & conditions approved vide decision dated 3rd June 2020. The instant decision shall supersede the interim tariff decision dated 1st December 2022. After 30th April 2023 GAEL may sell energy under CTBCM regime.
- 7.3. The above decision of the Authority shall be notified in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

AUTHORITY

Mathar Niaz Rana (nsc)
Member

Engr. Maqsood Anwar Khan
Member
Engr. Rafique Ahmed Shaikh
Member
28/04/23
Tauseef H. Farooqi
Chairman