



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-92/HUBCO-2008/18167-18169  
April 2, 2021

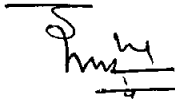
**Subject: Decision of the Authority in the matter of Application filed by Central Power Purchasing Agency Guarantee Ltd. (CPPA-G) for Adjustment of ROE and ROEDC Components of Tariff pursuant to the signing of the Master Agreement with Narowal Energy Ltd. (NEL) (Case No. NEPRA/TRF-92/HUBCO-2008)**

Dear Sir,

Please find enclosed herewith the subject decision of the Authority (05 Pages) in Case No. No. NEPRA/TRF-92/HUBCO-2008.

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

  
02 04 21  
( 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 APPLICATION FILED BY  
CENTRAL POWER PURCHASING AGENCY (CPPA-G) FOR ADJUSTMENT OF ROE  
AND ROEDC COMPONENTS OF TARIFF PURSUANT TO THE SIGNING OF THE  
MASTER AGREEMENT WITH NAROWAL 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 3<sup>rd</sup> 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 8<sup>th</sup> February 2021 and approved the same.
- 1.4. Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) and Narowal Energy Limited (NEL) 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.

**2. FILING OF APPLICATION**

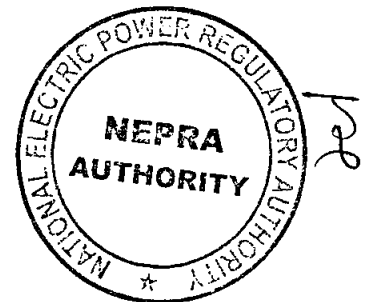
- 2.1. CPPA-G vide letter No. CPPA/CEO/2021/8201 dated February 17, 2021 filed application for adjustment in Return on Equity (ROE) and Return on Equity During Construction (ROEDC) components of tariff of NEL pursuant to signing of the Master Agreement.
- 2.2. According to CPPA-G the application is filed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

	<b>Requested Tariff Rs./kW/h</b>	<b>Indexation</b>
ROE	1.0753	No Indexation
ROEDC	0.2132	No Indexation

- 2.4. The requested tariff has been worked out on the basis of 100% local equity.

**3. DETERMINATION SOUGHT**

- 3.1. CPPA-G requested the Authority to the followings:
  - i. Accept this application



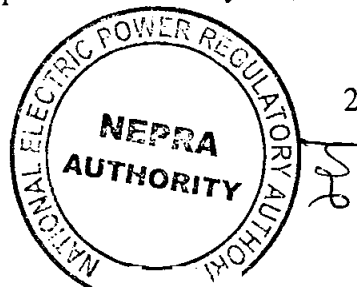


- ii. Adjust the ROE and ROEDC components of tariff as agreed in the Master Agreement.
  - iii. Approve the tariff adjustments to become effective as provided in Clause 2.2, 2.3 and Annex-A of the Master Agreement and notified accordingly.
- 3.2. CPPA-G vide letter No. CPPA/CEO/15621 dated March 16, 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. NEL vide letter No. 15151-CPPAG dated March 16, 2021 submitted that its entire equity was financed by local investor.
- 3.4. In response to a query, CPPA-G vide letter No. CPPA/CFO/2021/8304 dated March 30, 2021 submitted that in case of local component of equity, it has been agreed that the exchange rate once touches Rs. 168/US\$ for invoices purposes, the revised tariff shall become effective, with no further indexation and will remain in place even if the exchange rate fall below Rs. 168/US\$ with no corresponding decrease in the applicable tariff.
- 3.5. CPPA-G vide letter No. CPPA/CFO/DGMF-I/8620-22 dated March 31, 2021 in continuation to tariff adjustment submitted that while calculating the ROE and ROEDC components, it was assumed that the exchange rate will reach Rs. 168/US\$ on September 30, 2021 for invoicing purposes. Accordingly, redemption in respect of ROEDC (Local) component was affected till 30-09-2021. However, the exchange rate may or may not be at Rs. 168/USD on 30-09-2021. In view of the above, CPPA-G requested that the following clarification paragraph may please be added in the order part of the Authority’s decision:

*“The ROEDC (Local) component has been computed assuming that the exchange rate reaches Rs. 168/US\$ on 30-Sep-2021. If the exchange rate reaches Rs. 168/US\$ either earlier or later than 30-Sep-2021, the ROEDC (Local) components shall be mutually agreed and adjusted by the Parties to cater for the period deviating from 30-Sep-2021.”*

#### **4. ADMISSION OF THE APPLICATION**

- 4.1. 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.



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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 agreed with NEL to adjust ROE and ROEDC components of tariff as per the following terms and conditions

### a) Local Equity

17% per annum each for the ROE and ROEDC components of the tariff based on the Authority approved equity in USD for calculation of the ROE and ROEDC at the COD calculated at the exchange rate of Rs.148/US\$, with no future USD indexation.

The revised local ROE and ROEDC components shall be effective on the date when last installment under the Payment Mechanism has been paid as agreed in the Master Agreement and the applicable exchange rate under the present Tariff reaches Rs. 168/US\$. Thereafter from the effective date, the revised ROE and ROEDC shall be applied for the remainder term of the PPA as per the Master Agreement.

b) Till effective date of the revised ROE and ROEDC components, NEPRA shall continue to index ROE and ROEDC with US\$ as per COD Tariff.

c) Pass-through withholding tax on dividend to be calculated in accordance with the adjusted ROE and ROEDC.

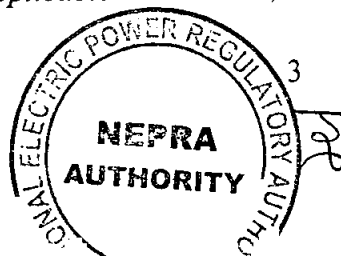
5.2. As per clause 2.3 of the Master Agreements, *“Subject to the terms of this Agreement, after notification of the revised tariff determination in line with the Tariff Adjustment Application and payment of first installment under the Payment Mechanism, and till Revised Tariff Effective Date, the Parties agree that the Company shall commence giving discount in future invoices consistent with the notified tariff and this Agreement (“Tariff Discounts”). From and after the Revised Tariff Effective Date, billing and invoicing shall be as per the revised tariff.”*

## 6. DECISION OF THE AUTHORITY

6.1. The Authority vide decision dated June 08, 2012 at the time of COD tariff adjustment approved reference ROE and ROEDC components of Rs. 0.5398/kW/h and Rs. 0.1106/kW/h respectively subject to dollar indexation on the basis of return on equity of 15%, equity investment of US\$ 80.05 million, ROEDC of US\$ 15.90 million and exchange rate of Rs. 84.20/US\$. The applicable ROE and ROEDC components of tariff for January-March 2021 quarter are Rs. 1.0309/kW/h and Rs. 0.2112/kW/h respectively on the basis of exchange rate of Rs. 160.8/US\$.

6.2. Clause 7.1 of the Master Agreement is reproduced hereunder:

*“Subject to terms of this agreement, the Company agrees to prospective reduction in tariff component with the ROE and ROEDC, which shall be, 17% per annum in PKR on NEPRA approved equity at COD for ROE and ROEDC calculated at exchange rate of Rs. 148/US\$, with no future US\$ indexation for local investors. Notwithstanding anything contained otherwise herein, the existing ROE and ROEDC, together with the applicable indexations, shall continue to be applied until the date*





*the applicable exchange rate under the present Tariff reaches PKR 168/US\$ (i.e., the date of the signing of the MoU), whereupon the revised ROE and ROEDC shall apply for the remainder of the Term of the PPA”*

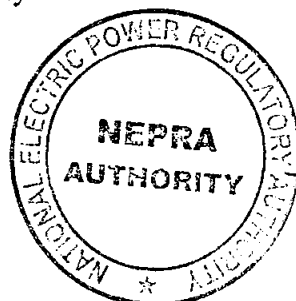
- 6.3. Accordingly, on the basis of equity investment of US\$ 80.05 million, outstanding ROEDC of US\$ 14.26 million, return on equity of 17% and exchange rate of Rs. 148/US\$, the revised ROE and ROEDC components works out Rs. 1.0753/kW/h and Rs. 0.2132/kW/h respectively and the same are being approved. The revised tariff components shall not be subject to US\$ indexation.
- 6.4. As provided in the Clause 2.2 read with Clause 7.1 of Master Agreement, the revised components shall be effective on the date when last installment under the Payment Mechanism has been paid and the applicable exchange rate under the present Tariff reaches Rs. 168/US\$. Thereafter, the revised components shall remain applicable for the remaining term of the PPA. Till effective date of the revised components, existing ROE and ROEDC components, together with the applicable indexations, shall continue to be applied.
- 6.5. In line with other similar power plants, withholding tax on dividends shall also be adjusted in accordance with the revised ROE and ROEDC components.
- 6.6. The Authority has also considered the request of CPPA-G submitted vide letter dated March 31, 2021 and decided to accept the same which shall be subject to approval of NEPRA.

## 7. ORDER

- I. The Authority hereby modify and approve the reference tariff dated June 08, 2012 of Narowal Energy 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)	1.0753	Nil
Return on Equity During Construction (ROEDC)	0.2132	Nil

- II. The modified ROE and ROEDC components shall be effective on the date when last installment under the Payment Mechanism has been paid as agreed in Clause 2.2 of the Master Agreement and the applicable exchange rate under the present Tariff reaches Rs. 168/US\$. Thereafter, the revised components shall remain applicable for the remaining term of the PPA.
- 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. The local ROEDC component has been computed assuming that the exchange rate reaches Rs. 168/US\$ on September 30, 2021. If the exchange rate reaches Rs. 168/US\$ either earlier or later than September 30, 2021 the local ROEDC component shall be mutually agreed and adjusted by the Parties to cater for the period deviating from September 30, 2021 which shall be subject to approval of the Authority.







V. Withholding tax on dividends shall be adjusted in accordance with the revised ROE and ROEDC components

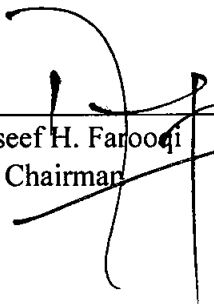
8. **NOTIFICATION**

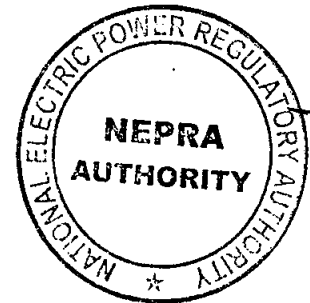
The above Order of the Authority is intimated to the Federal Government for notification in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

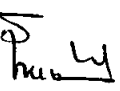
**AUTHORITY**

  
3/2/4/21  
Rehmatullah Baloch  
Member

  
Engr. Rafique Ahmed Shaikh  
Member

  
Tauseef H. Farooqi  
Chairman



  
2021