



Registrar

National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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No. NEPRA/ADG(Trf)/TRF-92/HUBCO-2008/7248-52

May 27, 2025

Subject: **Decision of the Authority in the matter of joint application filed by Central Power Purchasing Agency (Guarantee) Limited and Narowal Energy Limited for reduction in tariff Components.**

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (total 06 pages) in the matter of joint application filed by Central Power Purchasing Agency (Guarantee) Limited and Narowal Energy Limited for reduction in tariff Components in Case No. NEPRA/TRF-92/HUBCO-2008.

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 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

Wasim Anwar Bhinder
(Wasim Anwar Bhinder)

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

Copy to:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
3. Chief Executive Officer, Central Power Purchasing Agency Guarantee Limited (CPPA-G), Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad.
4. Chief Executive Officer, Narowal Energy Ltd. [formerly Hub Power Co. Ltd. (HUBCO)], 11th Floor, Ocean Tower, Block 9, Main Clifton Road, Karachi Tele: 021 – 3587 4677



**DECISION OF THE AUTHORITY IN THE MATTER OF JOINT APPLICATION
FILED BY CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED
AND NAROWAL ENERGY LIMITED FOR REDUCTION IN TARIFF COMPONENTS**

1. INTRODUCTION

- 1.1. Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) and Narowal Energy Limited (NEL) signed Amendment Agreements on February 28, 2025 to reduce consumer end tariff. As per clause 3.1 of the agreement, the parties have jointly developed tariff adjustment applications as a necessary condition to bring into effect the agreed contractual amendments.

2. FILING OF APPLICATION

- 2.1. CPPA-G vide letter dated March 10, 2025 filed the joint application for reduction in tariff components pursuant to the Amendment Agreement. The Authority admitted the application on March 17, 2025.

3. GROUNDS OF APPLICATION

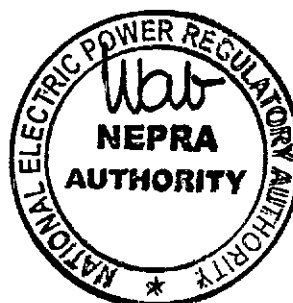
- 3.1. CPPA-G and IPPs have agreed on following terms and conditions for reduction of tariff components:
- a) O&M Components
 - b) Indexation of O&M Component
 - c) Cost of Working Capital
 - d) Insurance
 - e) Hybrid Take and Pay model
 - f) Termination of the Arbitration Submission Agreement

4. HEARING

- 4.1. Public Hearing in the matter was held on March 24, 2025. Notice of Admission/Hearing and individual notices were published/issued on March 18, 2025. The hearing was attended by the representatives of CPPA-G, IPP and other stakeholders.

**5. CONSIDERATION OF THE VIEWS OF THE STAKEHOLDERS, ANALYSIS AND
DECISION ON IMPORTANT ISSUES**

- 5.1. The issue wise discussion, submissions of stakeholders, analysis and findings are provided in the succeeding paragraphs.





a) O&M Components

- 5.2. The applicants requested to revise the O&M components as per the terms of the Amendment Agreement.
- 5.3. The submission of the applicants has been examined. The breakup of requested O&M components is provided hereunder:

Fixed O&M Local		Fixed O&M Foreign		Variable O&M Local	Variable O&M Foreign
Rs. Bil	Rs./kW/h	Rs. Bil	Rs./kW/h	Rs./kWh	
0.32	0.1734	1.25	0.6668	0.9396	1.6337

- 5.4. The comparison of requested revised O&M components and O&M component approved for the July – September 2024 quarter is provided hereunder:

Total Fixed O&M (Rs./kW/h)			Total Variable O&M (Rs./kWh)		
Approved	Revised	Difference	Approved	Revised	Difference
0.8707	0.8402	-4%	2.6667	2.5733	-4%

- 5.5. The requested O&M components are slightly lower than the approved component. Accordingly, the Authority has decided to approve the revised O&M components.
- 5.6. As per the Agreements, the new components shall be effective from 1st November 2024, therefore, these revised components shall serve as the reference for indexation purposes with effect from 1st November 2024.

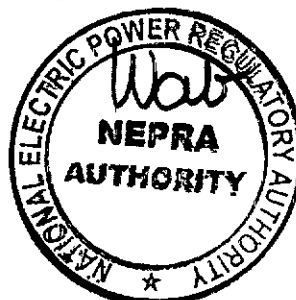
b) Indexation of O&M Components

i. Local O&M

- 5.7. According to the application, the Fixed and Variable O&M – Local shall be indexed with lower of (a) five percent (5%) per annum or (b) the actual average National Consumer Price Index (NCPI) for the preceding twelve months.

ii. Foreign O&M

- 5.8. According to the application, the Fixed and Variable O&M – Foreign shall be indexed as per the existing mechanism provided that the PKR / USD depreciation shall be allowed only to the extent of 70% of actual depreciation per annum. In case the PKR appreciates against USD in a year, then 100% of such appreciation shall be passed on to the consumers.
- 5.9. According to the application, the indices used in the quarterly indexation determined by NEPRA for the period July – September 2024 shall prevail.
- 5.10. The submissions of the petitioners have been examined. The applications did not clearly specify regarding application of abovementioned mechanism i.e. whether the reference O&M components and indices would be fixed or floating for future indexations. Under



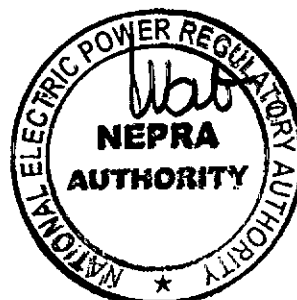


current mechanism, the reference values were fixed at the time of COD tariff which have been indexed at each quarter. However, in case of floating references, indexed component and indexed values of each quarter would become reference values for the subsequent quarter.

- 5.11. The issue was raised during the hearing and the Authority directed CPPA to submit written clarification in the matter. CPPA-G was reminded vide emails dated April 03, 2025 and April 09, 2025 to submit its response on application of indexation mechanism of O&M components with 5% per annum increase or CPI whichever is lower and for foreign components on the basis of exchange rate w.r.t fixed reference component or floating reference component. CPPA-G vide email dated April 11, 2025 submitted following response:

"During the negotiations, it was mutually agreed that the reference components of the Tariffs would be maintained on a "floating basis". This approach was deliberately adopted to mitigate the impact of compounding. Indexation To be made on quarterly basis."

- 5.12. CPPA-G, via email dated April 11, 2025 also submitted an illustration on O&M indexation, suggesting that quarterly indexation be allowed on the basis of actual NCPI and exchange rate until it cumulatively reaches the maximum annual cap of 5% in NCPI and 70% in Rupee depreciation against US Dollar. Thereafter, no further indexation should be allowed for the remaining quarters of the year. As mentioned above, CPPA-G also proposed that the reference components and indices should remain floating to mitigate the impact of compounding.
- 5.13. It would be pertinent to mention that under the proposed floating reference mechanism, both the reference and revised indices would change in each quarter, therefore, it would not be possible to accurately implement the agreed indexation mechanism within the maximum limits.
- 5.14. Considering the above and in order to mitigate the impact of compounding, the most appropriate approach is to fix the reference O&M component and the corresponding NCPI for a period of one year. The reference component shall be indexed on quarterly basis until either the cumulative increase reaches the maximum limit of 5% or average annual NCPI value, whichever shall be lower. The final indexed component and average NCPI for the preceding year shall serve as the reference for the subsequent year.
- 5.15. Similarly, foreign O&M components shall be indexed quarterly on the basis of 70% of the cumulative rupee devaluation against US dollar. In case rupee appreciates against US Dollar, 100% of the same shall be passed on to the consumers. The reference values for the entire year shall remain fixed. The final indexed component and exchange rate at the end of the year shall serve as the reference for the subsequent year.
- 5.16. The revised indexation mechanism shall be effective from November 01, 2024.





c) Cost of Working Capital (CWC)

5.17. As per the application, the CWC component shall be revised based on the following parameters:

- i. **Inventory Days:** 7 days at 100% load factor.
- ii. **Receivable Days:** 15 days at 15% load factor.
- iii. **RFO Price:** Rs. 165,000/Ton (excluding Sales Tax).
- iv. **Spread over KIBOR:** The spread over KIBOR has been revised from 2% to 1%.
- v. **Future Indexation:** The revised CWC in future shall be indexed at KIBOR + 1%.

5.18. During the hearing, the indexation/adjustment of CWC w.r.t. RFO price was discussed. It was explained by the case officer that no such mechanism is requested in the joint applications and that similar mechanism is currently applicable. The representative of Narowal Energy Limited submitted that there should be an annual indexation mechanism for RFO price of Rs. 165,000/Ton as the number of days has been reduced. Moreover, Mr. Arif Bilwani also submitted that fixed RFO price of Rs.165,000/Ton is not prudent considering the fact that the current and future price of furnace oil will remain below Rs. 165,000/Ton as its supply is high and consumption is low. According to Mr Bilwani, during this year, the refineries have exported one million tons of RFO. Therefore, CWC should be adjusted on the basis of actual price of fuel consumed by IPPs.

5.19. CPPA-G vide email dated April 11, 2025 submitted following comments:

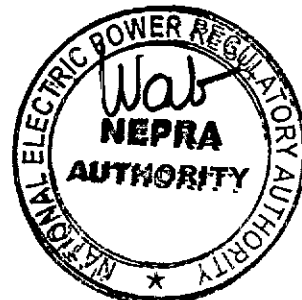
"As per the existing methodology, only KIBOR variations are subject to quarterly adjustments. Therefore, any modification to include RFO price adjustments within the working capital framework is not envisaged under the current regulatory framework."

5.20. The submissions of the applicants and comments of stakeholders have been examined. The requested CWC component is based on 3-Months KIBOR of 16.55% as on September 26, 2024.

5.21. The requested CWC of Rs. 0.1457/kW/h is 61% lower than the CWC component of Rs.0.3758/kW/h calculated on the basis of KIBOR of 16.55% + 2% spread. Accordingly, the Authority has decided to approve the revised CWC component of Rs. 0.1457/kW/h which shall be indexed quarterly, on the basis of KIBOR +1% spread. Moreover, in line with existing mechanism, the Authority has not considered the RFO price adjustment in future CWC indexation. The revised component and indexation shall be effective from November 01, 2024.

d) Insurance

5.22. As per the application, from the next Agreement Year, the maximum limit of insurance component shall be capped at 0.9% of allowed EPC Cost as per existing mechanism.



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- 5.23. The submission of the applicants has been reviewed. Currently, maximum cap of insurance component is 1.35% of the allowed EPC cost., however, the actual insurance cost remains within the maximum allowed limited. The revised insurance cap is in favour of consumers, therefore, the Authority has decided to revise the maximum limit of insurance to 0.90% of the allowed EPC cost which shall be applicable from the next agreement year.

e) Hybrid Take and Pay Model

- 5.24. The Parties agreed to implement a 'Hybrid Take-and-Pay Model'. IPP will be entitled to 35% of ROE and ROEDC components of tariff as part of CPP which will be computed as per the existing terms of the PPA. In case the Despatched and Delivered Net Electrical Output (NEO) exceeds 35% of the total contract capacity in terms of kWh, then IPP will be entitled to receive ROE and ROEDC components of tariff which shall be calculated on the actual NEO exceeding 35% of the total contract capacity in terms of kWh and IPP shall claim the differential CPP accordingly.
- 5.25. The arrangement has been mutually agreed between CPPA-G and IPP and in the interest of the consumer, therefore, the Authority has decided to approve the same.

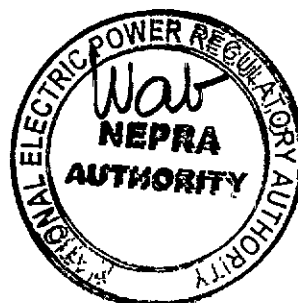
f) Termination of the Arbitration Submission Agreement

- 5.26. The GoP agreed to unconditionally and irrevocably withdraw and extinguish all claims against IPP under the Arbitration Submission Agreement (ASA). The GoP and IPP are in process of sending joint communication to the tribunal established under the ASA for termination / relinquishment of the arbitration.
- 5.27. The submissions of the applicants has been examined. During the hearing, CPPA-G submitted that it has made recovery of past excessive profits on account of fuel and O&M, therefore, the issue of past savings has been settled and a mechanism has already been in place for future savings in fuel and O&M.
- 5.28. The Arbitration Submission Agreement was agreed between CPPA-G and IPPs. Therefore, the termination of the same does not pertain to NEPRA.

6. ORDER

- I. The Authority hereby modify and approve its earlier decisions in the matter of Narowal Energy Limited to the extent of following:

Tariff Components	Unit	Tariff
Variable O&M – Local	Rs./kW/h	0.9396
Variable O&M – Foreign		1.6337
Fixed O&M – Local	Rs. /kW/h	0.1734
Fixed O&M – Foreign		0.6668
Cost of Working Capital		0.1457





- II. The O&M indexation mechanism is also modified to the following extent:
- a) Local O&M components (Variable and Fixed) shall be indexed on quarterly basis until either the cumulative increase reaches the maximum limit of 5% or average annual NCPI value, whichever shall be lower. The reference values for the entire year shall remain fixed. The final indexed component and average NCPI for the preceding shall serve as the reference for the subsequent year.
 - b) Foreign O&M components (Variable and Fixed) shall be indexed quarterly on the basis of 70% of the cumulative rupee devaluation against US dollar. In case rupee appreciates against US Dollar, 100% of the same shall be passed on to the consumers. The reference values for the entire year shall remain fixed. The final indexed component and exchange rate at the end of the year shall serve as the reference for the subsequent year.
 - c) The indices used in the quarterly indexation determined by NEPRA for the period July – September 2024 shall prevail as reference for the first year's indexation.
- III. The indexation of Cost of Working Capital component will be on the basis of KIBOR + spread of 1%.
- IV. The revised tariff components along with revised indexations shall be effective from November 01, 2024.

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

Engr. Rafique Ahmed Shaikh
Member

Amina Ahmed
Member

Engr. Maqsood Anwar Khan
Member

Waseem Mukhtar
Chairman

