



Registrar

National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-85/HPGCL-2007/18155-18157
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 Halmore Power Generation Company Ltd. (HPGCL) (Case No. NEPRA/TRF-85/HPGCL-2007)

Dear Sir,

Please find enclosed herewith the subject decision of the Authority (04 Pages) in Case No. No. NEPRA/TRF-85/HPGCL-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


02042

(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 AGREEMENT DATED FEBRUARY 11, 2021 WITH HALMORE POWER GENERATION COMPANY 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 Halmore Power Generation Company Limited (HPGCL) 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

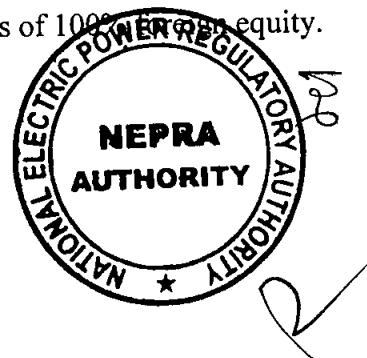
- 2.1. CPPA-G vide letter No. CPPA/CEO/2021/8201 dated February 17, 2021 filed application for adjustment in Return on Equity (ROE) and Return on Equity During Construction (ROEDC) components of tariff of HPGCL pursuant to Master Agreement dated February 11, 2021.
- 2.2. According to CPPA-G the application 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	0.6329	PKR/USD
ROEDC	0.3216	PKR/USD

- 2.4. The requested tariff has been worked out on the basis of 100% 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. HPGCL vide letter No. HPGCL/CPA-72/166 dated March 15, 2021 submitted that its entire equity was financed by foreign investor.

4. ADMISSION OF THE APPLICATION

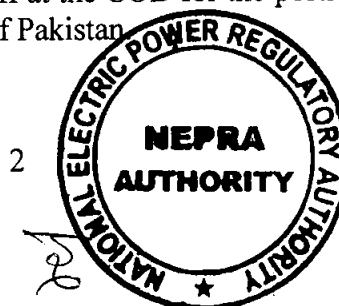
- 4.1. The Authority admitted the subject application on February 25, 2021 and decided to hold a hearing in the matter on March 03, 2021. Accordingly, Notice of Admission/Hearing was published in the national newspapers on February 26, 2021 inviting comments from the stakeholders. Individual notices 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 agreed with HPGCL to adjust ROE and ROEDC components of tariff as per the following terms and conditions

a) Foreign Equity

12% per annum each for the ROE and ROEDC components of tariff based on the Authority approved equity for the calculation of ROE and ROEDC at the Commercial Operations Date (COD) with US\$ indexation as per the Tariff at the COD for the portion of the foreign equity investment registered with the State Bank of Pakistan





The Revised Foreign 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.

- 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 November 06, 2014 at the time of COD tariff adjustment approved reference ROE and ROEDC components of Rs. 0.4226/kW/h and Rs. 0.2048/kW/h respectively subject to dollar indexation on the basis of equity investment of US\$ 60.05 million, ROEDC of US\$ 28.66 million, return of 15% and exchange rate of Rs. 85.9/US\$. The applicable ROE and ROEDC components of tariff for January-March 2021 quarter are Rs. 0.7911/kW/h and Rs. 0.3834/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:

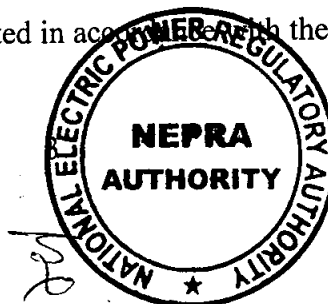
"Subject to the terms of the agreement, the Company agrees to prospective reduction in tariff component with the Return on Equity (ROE) and Return on Equity During Construction (ROEDC), which shall be 12% per annum, for foreign equity provided in the Tariff Determination at the COD/True-up."

6.3. Accordingly, on the basis of equity investment of US\$ 60.05 million, outstanding ROEDC of US\$ 27.25 million, return of 12% and reference exchange rate of Rs. 85.9/US\$, the revised ROE and ROEDC components works out Rs. 0.3381/kW/h and Rs. 0.1718/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.

6.4. The requested ROE and ROEDC components were calculated on the basis of exchange rate of Rs. 160.8/US\$. Since the applicant has sought modification of reference tariff components of ROE and ROEDC, therefore, for determination of revised reference components, the reference exchange rate of Rs 85.9/US\$ as per COD tariff adjustment decision has been used.

6.5. As provided in the clause 2.2 of the Master Agreement, the revised components shall be effective on the date when last installment under the Payment Mechanism has been paid. Till effective date of the revised components, existing ROE and ROEDC components together with the applicable indexations shall continue to be applied.

6.6. 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 06, 2014 of Halmore Power Generation Company 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)	0.3381	US\$/PKR
Return on Equity During Construction (ROEDC)	0.1718	US\$/PKR

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.


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.

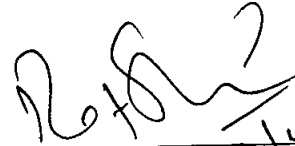
IV. Withholding tax on dividends shall be adjusted in accordance with the revised ROE and ROEDC components.

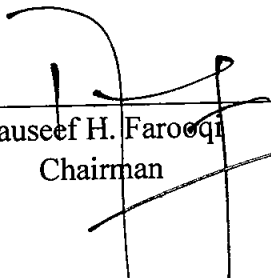
8. NOTIFICATION

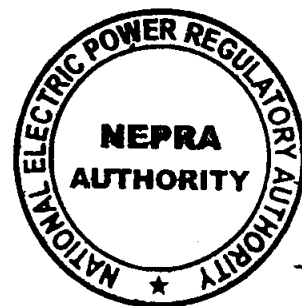
The above Order of the Authority is intimated to the Federal Government for notification in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

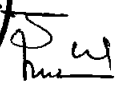
AUTHORITY


3/24/21
Rehmatullah Baloch
Member


2/24/21
Engr. Rafique Ahmed Shaikh
Member


Tauseef H. Farooqi
Chairman




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