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No. NEPRA/R/ADG(Tariff)/PAR-148/SNPCL-2015/37371-37373
September 21, 2021


Subject: Decision of the Authority in the matter of Fuel Cost Component & Capacity Charge Components Adjustments on account of Order of the Authority regarding Heat Rate & Net Capacity Approval for Sindh Nooriabad Power Company (Pvt.) Ltd. (SNPC-II) dated June 4, 2021 [Case # NEPRA/PAR-148/SNPCL-2015]

Dear Sir,

Please find enclosed herewith the subject decision of the Authority along with tariff components (Annex-I) and Dissenting Note of Mr. Tauseef H. Farooqi, Chairman NEPRA (06 pages) in Case No. NEPRA/PAR-148/SNPCL-2015.

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.
3. The Tariff Components attached as Annex-I are to be notified in the official Gazette.

Enclosure: As above


21 09 21
(Syed Safer Hussain)

Secretary
Ministry of Energy (Power Division)
'A' Block, Pak Secretariats
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 FUEL COST COMPONENT &
CAPACITY CHARGE COMPONENTS ADJUSTMENTS ON ACCOUNT OF ORDER OF THE
AUTHORITY REGARDING HEAT RATE & NET CAPACITY APPROVAL FOR SINDH
NOORIBAD POWER COMPANY LTD. (SNPCL-II) DATED JUNE 04, 2021**

INTRODUCTION:

1. Sindh Nooriabad Power Company (Pvt) Limited (SNPC) and Sindh Nooriabad Power Company (Pvt) Limited Phase-II (SNOPC-II) (collectively referred to as "SNPCs") are two gas based power generation plants of 50 MW each, selling electricity to K-Electric. SNPCs are jointly sponsored by Government of Sindh ("GoS") and Technomen Kinetics (Pvt.) Limited ("TKL") having share of 49% and 51% respectively. The EPC Contract was signed with Technomen Kinetics.
2. The Generation License to each project was issued by NEPRA on 15th July 2015. Reference tariff in respect of each plant was determined on 1st June 2016 which was later reviewed on 4th August 2017. SNPC achieved Commercial Operations Date ("COD") on 8th January 2018 and SNPC-II on 23 January 2018.
3. The Authority in the matter of review motion filed by SNPC-I&II decided as follows: (Paragraph – ORDER 8.A)

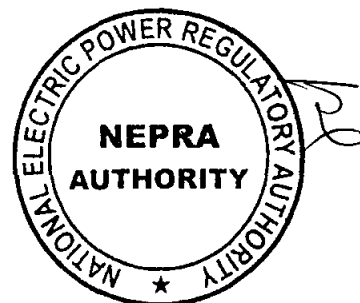
All the relevant tariff components shall be adjusted at the time of COD based upon the Initial Dependable Capacity Test to be carried out for determination of net dependable capacity in case the capacity is established higher than 50.5312 MW; however, no adjustment shall be made if the capacity comes out less than 50.5312 MW

The allowed tariff has been worked out on the basis of minimum net efficiency of 43.66% (net HHV at mean site conditions). Based upon the test of the complex to be carried out at the time of COD by an Independent Engineer in presence of NEPRA officials, the reference fuel cost component of tariff shall be adjusted, provided that the combined auxiliary and transformer losses are lower or equal to 3%

[Ref: Decision dtd. August 4, 2017 - Paragraph Order 8.A]

SUBMISSIONS OF SNPC-I&II

4. In line with the above referred decision, the heat rate test and Initial Dependable Capacity Test (IDCT) was conducted on October 22 & 23, 2020 (simple cycle and combined cycle). Based on the actual heat rate and net capacity test, the decision in the matter was intimated to SNPC-I&II vide letter dated June 4, 2021. As per decision of the Authority dated June 04, 2021, heat rate has been established as 8143.699 Btu/kWh as against the reference heat rate of 7814 Btu/kWh. Similarly the net capacity has been established as 51.526 MW with reference to net capacity of 50.5312 MW.

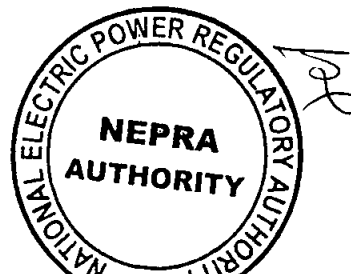




5. SNPC vide letter dated June 15, 2021 submitted that in pursuance of above decision, adjustments of the capacity and heat rate may be approved as an interim relief for the Company for issuing invoices to KE for payments to SNPC-I&II.
6. The Authority considered the request of SNPC and observed that one-time adjustment in relevant tariff components was required to be made at the time of COD as per reference generation tariff dated August 04, 2017. The Authority observed that SNPC achieved its COD in January 2018 and submitted its one-time COD adjustment request in May 2020 which is pending before the Authority due to the re-determination of generation tariff proceedings initiated in the light of Accountability Court Order dated July 30, 2019. Hearing in the matter was fixed in June 2021 which was postponed on the request of SNPC-II. The true-up/adjustment at COD shall be made subsequent to re-determination of generation tariff of SNPC.
7. The Authority observed that heat rate and net capacity has been established in line with the NEPRA's decision dated August 04, 2017 which if not allowed will have accumulated financial implications in later stage on both i.e. Company and the end-consumers. Further, the re-determination of generation tariff and true-up/adjustment on the basis of documentary evidence will require considerable time. Keeping in view the aforesaid factors, the Authority has decided to allow the revision in relevant tariff components of reference generation tariff of SNPC dated August 04, 2017 on account of heat rate test and IDC test on interim basis.
8. Accordingly based on the revised heat rate test of 8143.699 Btu/kWh and revised gas price at COD of Rs. 500/MMBTU, the fuel cost component in the instant case has been worked out as Rs. 4.0718/kWh. Similarly, based on net capacity of 51.526 MW, the reference capacity charge components has been revised which are subject to adjustment on account of re-determination of generation tariff and true-up thereafter:

Tariff Components	SNPC-II (Ref)	SNPC-II (Rev)
	Rs./kW/hr	
Fixed O&M	0.3500	0.3432
Insurance	0.1090	0.1069
ROEDC	0.0450	0.0441
ROE	0.3991	0.3915
Principal Component	0.6902	0.6770
Interest	0.9349	0.9171
Total	2.5283	2.4798

9. The above interim relief granted to SNPC on its request shall become applicable from its COD i.e. January 23, 2018 and is purely on provisional basis. The interim relief shall be subject to adjustment on account of re-determination of generation tariff after which the COD adjustment shall be made on the basis of documentary evidence.





10. ORDER

10.1 Sindh Nooriabad Power Company (Pvt) Limited (SNPC-II) is granted interim relief in relevant tariff components (Fuel Cost Components and Capacity Charge components) of generation tariff dated August 04, 2017 on account of heat rate and Initial Dependable Capacity (IDC) test. The tariff components attached as Annex-I are to be notified in the official gazette, in accordance with the provisions of Section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

10.2 KE to ensure that all payments are consistent with the tariff determination(s).

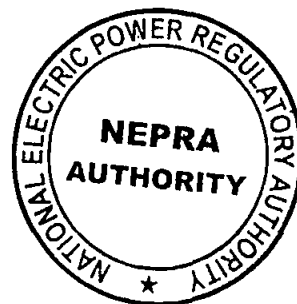
AUTHORITY

(Rehmatullah Baloch)
Member

(Engr. Rafique Ahmed Shaikh)
Member
(Eng. Maqsood Anwar Khan)
Member

* _____
(Tauseef H. Farooqi)
Chairman

I don't agree with the decision and my detailed dissenting note is attached.

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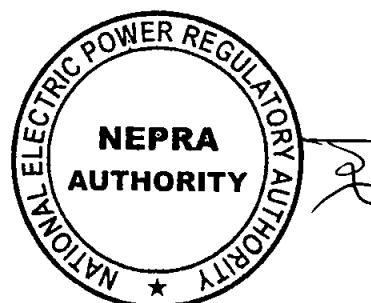
REFERENCE GENERATION TARIFF SINDH NOORIABAD POWER COMPANY (PVT.) LIMITED-II

Tariff Components	
Energy Purchase Price (Rs./kWh)	
Fuel Cost	4.0718
Variable O&M Foreign	0.3410
Variable O&M Local	0.2790
Total	4.6918
Capacity Charge Rs./kW/hr	
Fixed O&M - Local	0.3432
Insurance	0.1069
ROEDC	0.0441
ROE	0.3915
Debt Servicing - Principal	0.6770
- Interest	0.9171
Total	2.4798

Note: The above tariff components shall become applicable since COD i.e. January 23, 2018

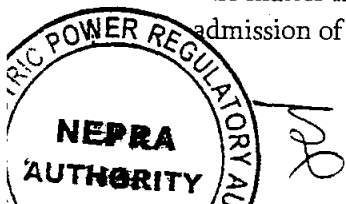
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DECISION OF THE AUTHORITY IN THE MATTER OF FUEL COST COMPONENTS AND CAPACITY CHARGES ADJUSTEMENTS BASED ON REVISION IN HEAT RATE AND NET CAPACITY FOR SNPC & SNPC-II

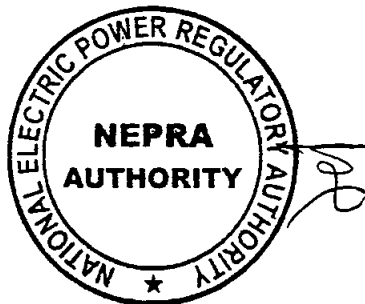
1. Pursuant to notification of the K-Electric MYT vide SRO dated 22.05.2019, the Authority vide decision dated 31.12.2019, determined K-Electric's adjustment requests on account of monthly FCA from July 2016 to June 2019 and Quarterly adjustments on account of Power Purchase Price (PPP), indexation of O&M costs, adjustment of T&D losses etc. from July 2016 to March 2019.
2. The Authority while deciding the aforementioned adjustments, excluded an amount of Rs.2,313.53 million on account of capacity charges of SNPC & SNPC-II (other than fixed O&M), on the grounds of non-filing of COD adjustment requests by these plants and the fact that investigations were being carried out by NAB against these plants. It also transpired, during the proceedings that two of the Directors of these Plants have made admission of guilt and made plea bargains with NAB, whereby a certain amount has already been paid to NAB and the remaining amount shall be paid in due course of time. Accordingly, it was decided that capacity charges of SNPC & SNPC-II, would be considered, once the ongoing investigations by NAB in the matter are concluded, as this will result in downward adjustment in the already allowed/notified tariff.
3. Both SNPC & SNPC-II filed Motion for Leave for Review against the aforementioned decision of the Authority, pleading that non-payment of capacity payments, especially the debt servicing and insurance components would result in cash flow issues and may lead to the closure of the projects.
4. The Authority, vide decision dated 19.06.2020, keeping in view the submissions of SNPC & SNPC-II, and to ensure project viability is not seriously hampered solely in interest of consumers and the overall national interest, decided to provisionally allow SNPC & SNPC-II, its debt servicing and Insurance component, as per their reference generation tariffs of 4.08.2017. It was also decided to re-determine/modify the tariff awarded to the SNPC & SNPC-II, owing to NAB proceedings, for which separate proceedings were to be carried out by the Authority. The Petitioner, was accordingly directed, in terms of Section 44 of NEPRA Act, to provide complete details in this regard.
5. The Authority afterwards vide decision dated 05.11.2020 further allowed indexation on debt servicing component of SNPC & SNPC-II, in order to ensure that the plants remain financially viable and payments to lender are made on time, so as to avoid any threat to closure of the projects.
6. All the aforementioned decisions of the Authority were in good faith to ensure projects' viability while keeping in view the consumer interest, as the plants were already in operation. But when the Authority started its proceedings to re-determine/modify the tariff in the light of NAB proceedings, both the companies did not come back to the Authority for their tariff re-determination and instead chose to start legal proceedings against Authority's decision in the court of Law. Despite this is petitioner's constitutional right to seek legal remedy, I honestly feel SNPC & SNPC II undermined or even misused the Authority's gracious gesture to ensure their financial viability by not coming to Authority for the redetermination of their tariff despite repeated reminders.
7. A summary of the aforementioned facts/ discussion is as under;
 - The matter is under investigated by NAB and two of the Directors of SNPC and SNPC-II, after admission of guilt, have made plea bargains with NAB.



21/9/2021

- The amount as a result of plea bargain has been deposited with NAB and has been verbally confirmed by the Government of Sindh (GoS) that they are in receipt of that amount.
- Capacity charges of SNPC & SNPC-II were withheld by NEPRA, owing to the ongoing investigations of NAB, as this will result in downward adjustment in the already allowed/notified tariff.
- In good faith to ensure projects' viability, and solely in the consumer interest, Authority decided to release the capacity components of SNPC & SNPC-II, and also to re-determine/modify their reference tariffs.
- The Petitioners, were directed, in terms of Section 44 of NEPRA Act, to provide complete details in this regard.
- The Authority further, to avoid any threat to closure of the projects, allowed indexation on debt servicing component of these plants.
- SNPC & SNPC-II did comply with the directions of NEPRA regarding redetermination of tariffs and undermined or even misused Authority's gracious gesture, by not coming to NEPRA for redetermination of their tariffs, despite repeated reminders, rather chose to start legal proceedings against NEPRA decision.

8. Therefore, in view of the above stated facts, I am of the opinion that the requested adjustments with respect to fuel cost and capacity components based on revision in heat rate and net capacity shall only be carried out at the time of COD after their tariff is redetermined in light of abovementioned factors.



J
09/09/2021