



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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No. NEPRA/ADG(Tariff)/TRF-596/K-Electric-2022/16758-62

October 20, 2025

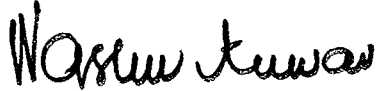
Subject: **Decision of the Authority in the matter of Motions for Leave for Review filed by the K-Electric Limited and Ministry of Energy against Determination of the Authority dated October 22, 2024 in the matter of tariff Petition of K-Electric for its Power Generation Plants**

Please find enclosed herewith the subject Decision of the Authority alongwith Additional note of Mr. Rafique Ahmed Shaikh (total 40 pages) on the subject matter in case No. NEPRA/TRF-596/K-Electric-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 Calendar 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**

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


(Wasim Anwar Bhinder)

Copy to:

1. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
2. Mr. Shehriyar Abbasi, Deputy Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
3. Chief Executive Officer, K-Electric Limited (KEL), KE House, Punjab Chowrangi, 39-B, Sunset Boulevard, Phase-II Defence Housing Authority, Karachi.
4. Chief Executive Officer, Central Power Purchasing Agency Guarantee Limited (CPPA-G), Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad

DECISION OF THE AUTHORITY IN THE MATTER OF MOTIONS FOR LEAVE FOR REVIEW FILED BY K-ELECTRIC LIMITED AND MINISTRY OF ENERGY AGAINST DETERMINATION OF THE AUTHORITY DATED OCTOBER 22, 2024 IN THE MATTER OF TARIFF PETITION OF K-ELECTRIC FOR ITS POWER GENERATION PLANTS

1. INTRODUCTION

- 1.1. K-Electric (KE) is the only vertically integrated utility in Pakistan. The company was privatized in November 2005 and is responsible for end-to-end planning and execution of generation, transmission and distribution of power to its customers within its service area which includes Karachi, Ghara in Sindh and Hub, Uthal, Vinder and Bela in Balochistan region. Upon expiry of the previous MYT 2017-2023, KE filed tariff petitions for generation power plants on December 01, 2022. The Authority vide its decision dated October 22, 2024 determined tariff for KE's power generation plants.

2. FILING OF MOTION FOR LEAVE FOR REVIEW

- 2.1. KE being aggrieved from the decision of the Authority dated October 22, 2024, filed a motion for leave for review (hereinafter, referred to as "MLR") vide letter dated October 31, 2024. The Authority admitted the MLR on January 07, 2025.
- 2.2. Ministry of Energy (hereinafter, MoE (PD)), filed a reconsideration request vide letter dated November 21, 2024 against the Authority's decision dated October 22, 2024 (hereinafter, "**Impugned Decision**"). Subsequently, MoE (PD) vide letter dated June 01, 2025 requested to treat its Reconsideration Request as Review Motion under NEPRA (Review Procedure) Regulations, 2009 (hereinafter, "**Review Regulations**").
- 2.3. On October 1, 2025, the Authority heard the question of maintainability of the MoE (PD)'s Reconsideration Request. In view of the peculiar circumstances of this case, the Authority accepted the request and decided to treat the Reconsideration Request as a review motion under the Review Regulations. This conversion is exceptional and shall not constitute a precedent for future matters.

3. HEARING

- 3.1. The hearing on the Motion for Leave for Review (MLR) filed by KE was conducted on October 1, 2025, and was attended by the representatives of KE, the MoE (PD), Mr. Arif Bilwani, Mr. Rehan Javaid, and Mr. Tanveer Bari.
- 3.2. Subsequently, the hearing on the Reconsideration Request filed by the MoE (PD) was held on October 9, 2025, with the participation of representatives from MoE (PD), KE, and public stakeholders, including Mr. Rehan Javaid and Mr. Tanveer Bari. During this hearing, KE reiterated its objections regarding the maintainability of MoE's request, which were also formally submitted through KE's written communication dated October 11, 2025.

4. OBJECTIONS RAISED BY K-ELECTRIC REGARDING MAINTAINABILITY

- 4.1. During the course of proceedings, KE raised multiple objections against the maintainability of MoE (PD)'s request, asserting inter alia that:
- i. The MoE (PD) lacked locus standi and constitutional competence to file a request without prior approval of the Federal Cabinet, relying upon *Mustafa Impex (PLD 2016 SC 808)* and other jurisprudence.
 - ii. A Reconsideration Request under Section 31(7) could not be converted into a Review Motion, as both remedies are distinct in nature and scope
 - iii. The request for review was time-barred, having been made beyond the ten-day limitation prescribed under Regulation 3(3) of the Review Regulations, without any formal prayer or justification for condonation.
 - iv. MoE (PD) was not a "party" or "intervener" within the meaning of Regulation 2(1)(d), and therefore lacked legal standing to seek review.
 - v. The grounds raised constituted an attempt to reopen substantive findings and policy determinations, amounting to a de facto appeal rather than a limited review.

5. SUBMISSIONS BY MOE (PD)

5.1. In response to KE's objections, MoE (PD) submitted the following:

- i. That under Section 7(2)(g) of the NEPRA Act and Rule 16(6) of the Tariff Rules, any party, including the Federal Government, may seek review of a determination;
- ii. That the MoE (PD) derives its constitutional authority from Articles 90, 97, and 99 of the Constitution, and under Schedule II, Entry 31B of the Rules of Business, 1973, is expressly responsible for electricity policy, KESC, and power sector governance;
- iii. That the Authority has consistently engaged MoE in tariff matters involving KE, and it cannot now deny it standing;
- iv. That, as held in PLD 2018 Islamabad 20 (upheld by Supreme Court), rules and regulations framed by NEPRA are subordinate to the parent statute, and cannot curtail the right of review granted by the NEPRA Act;
- v. That under 2016 SCMR 550, rules must not override statutory rights, and review cannot be barred by procedural technicalities in public regulatory matters.

6. AUTHORITY'S FINDINGS ON THE ISSUES ON MAINTAINABILITY

- 6.1. The Authority has carefully examined the preliminary objections raised by KE, the constitutional and statutory submissions presented by the MOE (PD), and the broader regulatory context of the Impugned Decision. The question of maintainability involves not only procedural compliance but also the Authority's statutory mandate under the NEPRA Act,

1997, particularly Section 7(2)(g) which empowers the Authority to review its decisions and is reproduced as follows:

“7 (2) In particular and without prejudice to the generality of the foregoing power, only the Authority, but subject to the provisions of sub-section (4), shall:

(g) review its orders, decisions or determinations.”

[Emphasis applied]

6.2. The aforementioned provision, though concise, is the legislative bedrock upon which the entire review mechanism is built. The legislature, in granting this power in such broad terms, effectively delegated the task of defining the specific procedures and triggers for review of decisions to the regulator itself. This legislative approach reflects an intent to afford NEPRA the necessary flexibility to design a review process that is fit for purpose and responsive to the unique and evolving demands of the power sector.

6.3. Further, Regulation 3(1) of the Review Regulations provides the unequivocal textual basis for the Authority’s power to initiate a review on its own motion. It states as under:

“The Authority may, at any time, on its own motion, review any order passed by it and on so reviewing modify, reverse or confirm the same.”

[Emphasis applied]

6.4. Notwithstanding that the Authority, in the peculiar circumstances of this case, converted the Reconsideration Request into a Review Motion, this administrative conversion does not circumscribe the Authority’s substantive competence to revisit its own determinations. The Authority’s mandate under Section 7(2)(g) of the NEPRA Act is broad and enabling, empowering it to take such measures as are necessary to discharge its regulatory functions - including, where warranted, the re-examination of a previous decision or determination to ensure legality, regulatory coherence, and protection of the public interest.

6.5. The Authority’s past precedents likewise reflect that, where the public interest so warrants, it may revisit its own determinations notwithstanding procedural defects in a party-initiated application. Prior determinations have recognized and exercised self-review under the NEPRA Act, the Tariff Rules, and the Review Regulations to correct material errors and align outcomes with sector realities. These decisions confirm that the Authority’s power to review and correct its determinations in the interest of justice is not extinguished by procedural infirmities in the initiating pleadings.

6.6. It is a well-established principle that substantial justice should be prioritized over a rigid adherence to procedure and technicalities. The Honorable Supreme Court of Pakistan in the case of *S.D.O / A.M. Hasht Nagri Sub-Division, PESCO, Peshawar v. Khawazan Zad* (PLD 2023 SC 174) held as follows:

"Having examined the scope of the above-cited rules of procedure contained in the C.P.C., we must reiterate the principle, which is by now well settled, that 'the proper place of procedure in any system of administration of justice is to help and not to thwart the grant to the people of their rights... Any system, which by giving effect to the form and not to the substance defeats substantive rights, is defective to that extent. The courts, thus, always lean in favor of adjudicating the matters on merits rather than stifling the proceedings on procedural formalities. The rules of procedure are meant to facilitate the court proceedings for enforcing the rights of litigants, not to trap them in procedural technicalities for frustrating their rights."

- 6.7. The Authority has already conducted extensive hearings which were attended by senior representatives of MoE (PD), KE and other stakeholders. These hearings were not confined to the preliminary issue of maintainability. On the contrary, all parties were given a full and unfettered opportunity to present detailed arguments on the substantive merits of each and every point raised for review. The record of these hearings confirms that a comprehensive debate on all substantive issues has already taken place. Accordingly, KE's stance was fully captured on the record, and the Authority proceeds on that record.
- 6.8. Having conclusively determined the question of maintainability, the Authority now proceeds to examine the substantive issues on merits raised in the Review Motion, including but not limited to matters pertaining to heat rate determinations, capacity charges, fuel efficiency, return on equity, and other components of the Impugned Determination, strictly within the statutory confines of review jurisdiction under Section 7(2)(g).

7. COMMENTS OF STAKEHOLDERS

Mr. Arif Bilwani

- 7.1. Mr. Arif Bilwani filed MLR vide email dated November 18, 2024. The MLR was found to be non-maintainable as Mr. Arif Bilwani does not qualify as party under Regulation 2(1)(d) of the Review Regulations with respect to the proceedings of the Determination dated October 22, 2024. Nevertheless, the contentions raised by Mr. Arif Bilwani in his MLR have been treated as written comments. The comments are summarized hereunder:

- Mr. Bilwani requested the Authority to consider all the 8 dissenting notes of Member Tariff as part of his MLR.
- Mr. Bilwani contended that the Authority has approved 14% USD based return on equity along with dollar indexation. KE is a vertically integrated entity having generation, transmission and distribution & wire business which no IPP performs. IPPs have been established for a specific purpose under a specific policy for a limited period of time. KE has been performing for more than 110 years. All its plants except BQPS-3 are 15 to 40 years old with no foreign debt. Therefore, benefits given to IPPs should not be extended to KE

- The Authority allowed the dollar-based return to KE on the premise that it was allowed in the previous MYT and is consistent with the return of IPPs and that a re-evaluation could result in a higher figure prevailing economic condition of the country. Therefore, a return cannot be fixed on mere assumption. Further, the proposal by KE, only when the return for all other IPPs is reduced, only then the same may be done for KE is presumptuous. The Federal Government has already renegotiated returns with some IPPs in 2022 and 2024, and continues its efforts with others. The Federal Government currently offers almost half the return on Roshan Digital Account compared to the returns allowed to KE. Further the foreign equity is only 66% while 34% is local. Therefore, the Authority is requested to revisit its decision in the national and consumer interest.
- Allowing Take or Pay for the four depreciated units (BQPS-I, KCCPP, KTGPS, and STGPS) needs reconsideration, as these plants are unlikely to operate due to severe gas shortages and the absence of GSAs with SSGC, especially after the energization of KKI/NKI grids. Allowing capacity payments on HSD, which is rarely used in KCCPP and may seldom be used in BQPS-II & III, is unjustified.
- In June 2015, during the catastrophic heatwave in Karachi, all six units of BQPS-I were deliberately kept non-functional due to the non-availability of RFO, despite having storage capacity of 160,000 tons to save working capital cost. Except inquiry & trivial fine by NEPRA no other measures were taken. As such, how will it be ensured that this will not be repeated again?
- The Authority itself has, time and again, been giving extensions in the working life of BQPS-1. To date several extensions have been allowed on flimsy grounds particularly under the garb of consumer interest. Already the life of some plants has been extended by 40 years and a proposal is in hand to give further extensions.
- KE has already obtained approvals from PLL and the Authority to utilize RLNG at BQPS-II and III. Any future long-term contracts should allow flexibility to use fuel at any plant. The Authority's concern of potential non-utilization of RLNG due to additional national grid supply is unfounded because only older units (BQPS-I, KCCPP, KTGS, STGS) will be discontinued. Moreover, plants that are now free from foreign debt should be shifted to a Take & Pay.
- KE has requested a higher outage allowance for BQPS-III due to a design fault. It was a blunder committed by EPC contractor which prevents the separate turbine operation because of the single shaft instead of multi shaft. The burden of such inefficiencies should not be transferred to consumers.
- Heat rates & net capacity for all the plants except for BQPS-3 were conducted only once and that too either in 2018 or 2019. Why are the tests not being carried out afresh for the new MYT & why are obsolete figures being depended upon? Similarly, issues discussed at 10.11 & 10.12 of Impugned Determination have been left for a future date
- Startup/Shutdown and Black Start charges are also deferred for a future date.

- The Authority accepted KE's calculation based on historical heat rate tests instead of directing KE to carry out the tests afresh. Furthermore, supply from PLL is on high pressure, therefore no compressor is required in case of BQPS-II.
- The variable O&M cost of BQPS-I is same for all 4 units. Since units 1 & 2 are to be retired within a short span of time, their weightage should have been worked out on time basis.
- The EPC Cost of KTGPS in US\$ is 84 million whereas that of SGPS is US\$ 73 million although both plants are identical in make, capacity & origin. Due to difference in EPC cost the premium for KTGPS is higher & the approved insurance component is also higher.
- The difference in RAB of KTGPS and SGPS needs a thorough probe. The issue of excessive RAB of BQPS-III is admitted in the Impugned Decision. BQPS-3 was approved in 2017 and was supposed to commence production in 2020 but the construction commenced in 2019 and was completed by the end of 2023. As stated above all this was also deliberated in the Mid-Year Review but to-date the Authority has not initiated any action against KE for recovering the unauthorized & illegally claimed Depreciation & RoRB amounting to Rs. 54 billion (approx).
- As per point 16.2 of the Impugned Decision the actual debt to equity ratio of KE for the year 2023 is 46:54 but the Authority has approved the notional debt to equity ratio of 70:30 which has been requested by KE and is also in line with Section 6(4) of the NEPRA (Benchmarks for Tariff Determination) Guidelines, 2018. Since KE has challenged the debt-to-equity ratio of 70:30 of the previous MYT before the NEPRA Appellate Tribunal, the decision of which is still pending, and if comes out in favor of KE then the same decision should be made applicable for current MYT which needs to be in writing and be made part of the order.
- The Authority has allowed depreciation on the straight-line method as per the previous MYT but it has not considered the SALVAGE VALUE of the asset at the end of its life when its written down value is zero
- KE has demanded that corporate tax, which is charged on net income, be allowed as a pass-through item as was allowed in the previous MYT. KE is a privatized commercial organisation which was paying corporate tax on its profits, if any, and it was never recoverable from the consumers. However, corporate tax is allowed as a pass-through as is allowed in the case of IPPs. It must be noted that KE has not been established under any power policy while IPPs have been allowed this concession under the power policy.
- KE has offered to share any savings in O&M between Consumer and KE in 60:40 ratio. In case of BQPS-I, the Authority approved sharing ratio of 50:50 with respect to O&M savings. The Authority has not assigned any reason for amending the sharing ratio for BQPS-I in favor of KE despite the fact that KE itself has offered higher share in favor of the consumers. Further the Authority has decided that O&M savings will be accounted for after every 5 years, however, it should be after every 3 years.

- In the table for summary of levelized tariff the Authority has assumed the Notional plant factor for BQPS-2 at 60% whereas for BQPS-3 it is 90%. After the energizing of KKI/NKI links/grids KE will be receiving 2,100 MW of power which will result in non-utilization of BQPS-1, KCCPP, KTGPS & SGTPS. The only plants that will be utilized at their full capacity at the time will be BQPS-2 & 3. Therefore, the load factor of 60% of BQPS-2 needs to be revisited.

Mr. Rehan Jawed

- 7.2. The commentator vide email dated October 10, 2025 submitted comments on behalf of industrial stakeholders in Karachi for the kind consideration of the Honorable Authority on the Impugned Decision. The MLR of MoE (PD) calls for downward revision of KE's allowed Return on Equity (ROE), delinking ROE from dollar indexation, reducing O&M allowances, and introducing restrictive financial parameters. While these measures are ostensibly aimed at reducing consumer burden, their selective application to one utility - K-Electric - raises critical questions of fairness, consistency, and regulatory credibility
- 7.3. KE's generation cost structure, capacity payment levels, and operational performance have consistently remained within NEPRA's established regulatory norms. The Impugned Decision was issued after extensive hearings and analysis, incorporating plant-specific unbundling, indexed efficiency incentives, and strict accountability mechanisms. Hence, the MoE (PD)'s attempt to reopen the case appears to disregard these established benchmarks while overlooking inefficiencies and higher costs across the national generation fleet.

Comparative Capacity Cost Analysis and Sectoral Imbalance

- The national grid's capacity payment burden has now crossed Rs 17.06 per unit of electricity delivered to consumers - making it the single largest component of circular debt. This figure, as reflected in CPPA-G's records, stems from systemic inefficiencies including excess contracted capacity, take-or-pay obligations, and under-utilized plants operating on outdated fuel mixes. These costs are socialized through the uniform national tariff, which all consumers - including those in Karachi - pay equally.
- By contrast, KE's capacity payments average around Rs 8 per unit on units sent out, and as clarified by Mr. Amir Ghaziani (CFO, KE) during the NEPRA hearing on 9 October 2025, KE's total capacity cost stands at approximately Rs 12 per unit - significantly lower than the national average borne by consumers. This disparity underscores that K-Electric's generation portfolio is more efficiently structured and better managed in terms of utilization and financial discipline
- MoE (PD)'s contention that KE's generation costs are high fails to acknowledge the primary cause: non-provision of indigenous natural gas committed under the Cabinet Committee on Energy's 2018 decision. Without this cheaper domestic fuel, KE has been forced to depend on imported RLNG - an unavoidable substitution that inflates cost but lies beyond the KE's control. In this context, penalizing KE through tariff reductions would punish compliance and responsible system management while ignoring inefficiencies elsewhere

Tariff Structure, ROE and Operational Norms

- The Impugned Decision retained a two-part ‘capacity plus energy’ tariff model consistent with IPP contracts. This design ensures availability-based payments for system reliability while keeping transparency and consumer cost containment intact. The determination also introduced plant-wise tariff unbundling and performance-based monitoring - features still absent in most public-sector generation facilities.
- The Return on Equity (ROE) allowed to KE - 14% USD-linked - is both rational and conservative. Historically, IPPs have been allowed returns between 15% and 17%, fully indexed to foreign exchange. The Impugned Decision already lowered KE’s prior ROE, applied a 70:30 debt-equity structure, and instituted performance-linked cost sharing. It is therefore unclear why KE’s tariff alone should be reopened to reduce returns when other generators retain similar or higher profit structures.
- Furthermore, proposals to cap O&M escalation to 5% or actual inflation (whichever is lower) are impractical given Pakistan’s inflationary environment. Such restrictive measures could erode KE’s maintenance capability, risking equipment reliability and supply continuity. If the goal is to improve efficiency, uniform O&M benchmarks should apply across all utilities - not exclusively to KE.

Policy Commitments and Fuel Cost Impact

- A key underlying factor affecting KE generation cost is the Government’s failure to implement its own Cabinet-level decision on fuel allocation. The Cabinet Committee on Energy (CCoE), through SSGC’s letter dated 23 April 2018, directed that 130 MMCFD of indigenous natural gas be allocated to KE with any balance met through RLNG. This allocation was never honored, forcing KE to generate power primarily on imported RLNG at substantially higher cost.
- Had the 2018 decision been implemented, the cumulative burden of Tariff Differential Subsidy (TDS) could have been reduced by hundreds of billions over the intervening years. Instead, consumers and the federal exchequer continue to bear the higher cost caused by reliance on RLNG. The situation is exacerbated by policy inconsistencies that saw KE’s proposed coal-based plant and renewable bidding rounds halted, despite similar projects being pursued elsewhere under public policy. Consequently, KE’s generation mix reflects external constraints, not managerial inefficiency. The equitable regulatory response, therefore, should not be to penalize KE through tariff denial but to facilitate the fulfillment of long-pending fuel supply commitments.

Broader Implications, National Equity, and Conclusion

- Karachi accounts for the largest concentration of industrial, commercial, and residential electricity demand in Pakistan. Any destabilization of KE’s finances directly affects the city’s power reliability and the national economy. Should KE’s tariff be curtailed below sustainable recovery levels, the outcome will likely be deferred maintenance, delayed projects, and potential supply interruptions during peak demand seasons. This risk undermines the broader objective of economic stability.

- Equally important is the issue of equity. The uniform national tariff used for consumer billing is derived from the pooled costs of state-owned DISCOs - not KE. Yet, KE's relatively efficient performance and significant reduction in AT&C losses since 2009 indirectly helps keep national average costs lower. While DISCO inefficiencies are routinely absorbed through fiscal adjustments or consumer surcharges, KE - operating under private ownership and strict regulatory oversight - is expected to sustain itself solely on allowed tariff recovery. This asymmetry contradicts the principles of competitive neutrality and discourages private sector participation.
- The Honorable Authority's Impugned Decision represented a carefully balanced framework: fair returns to sustain investment, transparent accountability, and consumer safeguards. Reopening the Impugned Decision on grounds of fiscal expediency risks undermining NEPRA's institutional credibility. Regulatory consistency and impartiality are essential to retain investor confidence in Pakistan's power sector.
- Has NEPRA ever observed such scrutiny of the IPPs and DISCOs by MoE (PD) and reviews against tariff increases in its history to benefit the consumers?
- In conclusion, K-Electric's generation cost structure remains efficient and transparent, with capacity costs nearly one-third below the national burden. The Review Motion lacks substantive justification and risks shifting attention away from systemic inefficiencies that persist across the national grid. It is respectfully urged that NEPRA uphold its Determination of 22 October 2024 and use this case as a reference point for efficiency and cost discipline rather than an exception. The Authority may also consider reaffirming the Government's fuel allocation commitment as a practical means to achieve long-term cost reductions without destabilizing Karachi's power supply.

7.4. According to the commentator, as an industrial consumer representing one of Karachi's most productive manufacturing clusters, it must be emphasized that the sustainability of KE directly determines the sustainability of Karachi's industries and its economic output. Unfortunately, certain elements within the Ministry of Power appear to view KE as a convenient scapegoat for the deep-rooted inefficiencies within their own system. Their departments and DISCOs continue to suffer from staggering losses, delayed reforms, and technical failures which are transferred to circular debt and paid by tax payer money and consumer surcharges, yet rather than addressing those chronic structural issues and hide their own inefficiencies, they prefer to attack the only utility that continues to operate transparently and under regulatory discipline. This approach is unjust and unacceptable.

7.5. According to the commentator, the MoE (PD) has failed to release the COVID incremental subsidy for Karachi's industries, converted negative FCAs into positive and uniform FCAs for Karachi consumers, and systematically denied relief to this city every time it was due. Each such act reflects targeted discrimination against Karachi's industrial base. Destabilizing KE is equivalent to destabilizing Karachi itself - the industrial and financial backbone of Pakistan. Even more concerning is the glaring lack of technical understanding among certain MoE (PD) officials as Generation is a Technical Subject yet financial experts have been commenting on it. They fail to grasp even the most basic engineering and economic principle - that higher voltage industrial consumers must be charged a lower tariff to incentivize consumption efficiency, reduce line

losses, and enhance grid stability. (AS REPLIED BY MOP IN NEPRA TARIFF REBASING ORDER) Instead, through distorted tariff structures, they are penalizing the very consumers who operate at higher voltages and reduce system stress. This situation is so illogical, so counterproductive to industrial growth and technical reality, that it is not merely unfortunate - it is alarming such non-technical people are running the power sector.

- 7.6. According to the commentator, NEPRA must therefore ask the MoE (PD)'s officials some fundamental questions: Why do they not object to the losses of DISCOs amounting to hundreds of billions each year? Why do they remain silent on non-performing IPPs and unnecessary capacity additions? Why is CTBCM still delayed despite repeated policy commitments? Why can they not bring the national average tariff down to even 9 cents per unit to support Pakistan's collapsing export competitiveness? Instead of fixing these core issues, they are expending all their effort on undermining the only private-sector utility that performs. This misplaced hostility must end, and NEPRA should safeguard its independence by confronting such distortions head-on. It is to be remembered that the national tariff is high and unaffordable because of the inefficiencies of national power sector, and not because of KE.

8. GROUNDS OF MOTION FOR LEAVE FOR REVIEW

- 8.1. KE filed MLR on following grounds:

- Reassessment of Control Period
- O&M Costs for BQPS-II
- O&M Costs for KCCPP
- O&M Cost Sharing Mechanism
- Availability of Plant
- Mechanism of Fuel Take or Pay Arrangements
- Insurance Allowed - BQPS-III

- 8.2. MoE (PD) filed MLR on following grounds:

- Return on Equity
- O&M Component
- O&M Indexation
- Spread on KIBOR
- Cost of Working Capital
- Collection of Debt Through Depreciation
- Adjustment of LIBOR or SOFR

- Cost of Insurance
- Tariff Methodology
- Sale Proceeds of Assets / Inventory
- CTBCM Consideration

9. DISCUSSION, ANALYSIS AND DECISION ON EACH GROUND OF REVIEW

9.1. The detailed discussion, analysis and decision on each ground of review is provided hereunder:

10. REASSESSMENT OF CONTROL PERIOD

- 10.1. KE submitted that it had requested tariff for the power plants for remaining life of the plants as per the Generation License, in line with tariffs determined for other Power plants for life of the plants. However, KE has been allowed a control period of 11 years for BPQS III (till completion of Debt servicing) and 7 years or remaining useful life of the plant, whichever is lower
- 10.2. According to KE, it is important to understand that power plants have a life of at least 30 years as also reflected in the approved Generation license that has been awarded to KE. Corresponding to asset life, IPPs are given Tariffs for 30 years / life of the plant to give certainty on costs to be allowed, debt repayments and recovery of investment and returns. This means that an investment made in the Power plant will be recovered along with the returns on the life of the plant.
- 10.3. KE further submitted that if the rationale for a shorter control period is to reassess project viability upon technological advancement every few years, this will have significant impact on the investor confidence and future investments. These power plant have been installed after due regulatory compliance and approvals and if tariff design allows recovery of investment and return over the life of asset, then a shorter control period would be unfair to the Company and will also compel investors to ask for a substantially higher tariff upfront to cover all costs returns in shorter control period or to not invest at all.
- 10.4. According to KE, it is endeavoring to ensure the addition of cheaper energy in the form of increased import from National Grid, local coal-based generation plant and renewable power plants in consumer interest, which however, inevitably will reduce the utilization of its existing fleet. Hence, it would be unfair to KE, that it is being exposed to tariff for a shorter control period, on the pretext that its existing generation fleet utilization will go down. Further, the same is inconsistent with the tariff design which allows recovery of investment and return over life of assets as well as the treatment followed for IPPs, with which KE's allowed returns have been benchmarked, which requires that risk profile should also be maintained similarly.
- 10.5. Therefore, KE requested the Authority to allow control period till the end of plant's life, consistent with approved tariff design, other IPPs and the approved licensed life of KE plants.
- 10.6. KE vide email dated October 11, 2025 submitted that IPPs are granted tariffs for the entire life of the plant and since KE has been benchmarked with IPPs the control period should also be similar or a higher upfront tariff/return be considered. KE is actively pursuing new, more

affordable energy sources like imports from the national grid, local coal, and renewables. While this benefits consumers, it will reduce the utilization of our existing generation fleet. Moreover, the utilization is also decreasing due to net metering policy and will also be impacted due to implementation of CTBCM in future. It would be unjust to penalize KE with a shorter control period due to decrease in utilization in the future.

- 10.7. Mr. Arif Bilwani submitted that allowing Take or Pay for the four depreciated units (BQPS-I, KCCPP, KTGPS, and STGPS) needs reconsideration, as these plants are unlikely to operate due to severe gas shortages and the absence of GSAs with SSGC, especially after the energization of KKI/NKI grids. Allowing capacity payments on HSD, which is rarely used in KCCPP and may seldom be used in BQPS-II & III, is unjustified.
- 10.8. Mr. Arif Bilwani in his comments submitted that the Authority itself has, time and again, been giving extensions in the working life of BQPS-I. To Date several extensions have been allowed on flimsy grounds particularly under the garb of consumer interest. Already the life of some plants has been extended to 40 years & proposal is in hand to further extend it.
- 10.9. During the hearing, the representatives of the MoE (PD) submitted that due to increase in imports from National Grid, the reduced utilization factor for power plants will result in payment of capacity charges for idle power plants. Accordingly, retirement of BQPS-I, KGTPS, SGTPS and KCCP was requested as per the treatment accorded to similar IPPs. It was highlighted during the hearing that this is a new ground and MoE (PD) did not file written submission in matter. MoE (PD) was asked to file written submission, however they failed to submit the same.
- 10.10. KE vide email dated October 11, 2025 submitted following rejoinder against MoE's submissions:
- KE has already filed for decommissioning / early retirement of SGEPS and KTGEPS effective September 2025 considering non-fulfillment of Gas commitments by GoP.
 - BQPS-I has two units remaining i.e. Unit 5 till September 2026 and Unit 6 till September 2032. Further, KCCPP has remaining life till August 2039. BQPS I is a dual fuel plant capable of running on Furnace Oil, Indigenous Gas and RLNG. Similarly, KCCP, can also run on Indigenous Gas, RLNG as well as HSD.
 - While Load factors of these plants on year basis are low, there are certain periods of summers where these plants are required to avoid load shed. For example, load factor of BQPS I was 35% in July 2024 and 41% in June 2025. Similarly, load factor of KCCP was 25% in June 2024.
 - BQPS I and KCCP also provide security against emergency situations of break down / RLNG non-supply or any similar events
 - Demand / supply analysis for the next 5 years is tabulated below, highlighting the shortfall in supply (without BQPS I and KCCPP) to meet the peak power demand

FY	2026	2027	2028	2029	2030
Peak Demand – MW	3,926	4,158	4,261	4,441	4,562
Available Supply – MW					
NTDC	2,000	2,000	2,000	2,000	2,000
SNPC	100	100	100	100	100
FPCL	52	52	52	52	52
BQ-3	880	880	880	880	880
BQ-2	500	500	500	500	500
Total Supply – MW	3,532	3,532	3,532	3,532	3,532
Gap – MW	(394)	(626)	(729)	(909)	(1,030)

- This gap will be addressed through KCCP and BQPS I Unit 5 & 6, as well as addition of new Coal and hybrid projects, subject to timely regulatory approvals.
- It is important to note that these plants were duly installed after regulatory approvals and have a given life as per the Generation License. KE invested significant amounts in installing these plants and rehabilitating old units which improved the generation efficiency significantly. These plants had high utilization in past and consumers benefited from low cost generation on Indigenous gas, which started declining in last few years despite GoP commitments.
- Now with lower utilization due to in demand and supply scenario over time due to factors including net metering, economic situation, change in dynamics of supply from National Grid and other factors, KE should not be penalized with pre mature decommissioning as considerable investments made in these plants are yet to be recovered.
- The Authority has also considered this factor under para 6.7 and has decided in the Impugned Determination that decision of premature retirement / decommissioning of these plants would necessitate the immediate payment of all associated costs
- Accordingly, this matter has already been comprehensively discussed in the Impugned Determination, and the current submissions of MoE (PD) provide no new evidence or material change in circumstances to warrant a review or amendment.

10.11. The submissions of the Petitioners have been reviewed. The Authority approved control period of each plant considering the fact that KE will be in a better supply position with completion of KKI/NKI grids, proposed arrangement of additional power from national grid and proposed new wind/solar projects.

10.12. During the hearing, the representatives of the MoE highlighted that the interconnection capacity of KE with NTDC will be increased to 2,050 MW. Further, the MoE also highlighted that in FY 2024, the dispatch factor of BQPS-I, KCCP, KTGEPS and STGEPS was 15.74%, 6.54%, 0.2% and 0.02%, respectively. The representatives of MoE (PD) insisted on early termination of these plants. KE expressed concerns regarding potential supply constraints if all four plants are retired simultaneously.

- 10.13. During the hearing, the Authority specifically sought clarification from the representative of MOE regarding the potential implications of retiring KE's thermal units and discontinuing their associated tariffs. KE cautioned that premature termination, absent financial safeguards, would critically undermine its operational liquidity, jeopardize debt servicing, and could precipitate insolvency, thereby impairing its ability to maintain supply obligations within its licensed service territory. MoE (PD), however, contested these assertions, characterizing them as speculative and primarily commercial. MoE (PD) maintained that no adverse system-level ramifications were anticipated, and that tariff rationalization and removal of redundant capacity were necessary sectoral imperatives. The representative of the MoE (PD) further contended that detailed analysis has been done, which forms basis of this prayer.
- 10.14. The Authority has carefully reviewed the submissions of KE, stakeholders, and MoE (PD). The Authority noted that control periods under tariff determinations are a regulatory construct distinct from the licensed operational life of a generation facility. While IPPs may receive tariffs for the full life of a plant, KE, as a vertically integrated utility operating under a multi-source portfolio, remains subject to evolving system requirements, interconnection capacity, and national least-cost dispatch objectives.
- 10.15. The Authority observes that with the completion of the KKI/NKI interconnection and enhanced grid access exceeding 2,000 MW, KE is expected to rely progressively on lower-cost national generation. Accordingly, reassessment of existing thermal fleet economics at defined intervals is essential to protect consumers from avoidable capacity payments on underutilized assets.
- 10.16. It is further noted that KE has formally initiated decommissioning of SGEPS and KTGEPS due to fuel constraints and declining dispatch. In view of these developments, the Authority has decided to discontinue the tariff of KTGEPS and SGEPS effective September 23, 2025, as disclosed by KE to the Pakistan Stock Exchange.
- 10.17. Further, considering the submissions of the MoE (PD), the Authority has also decided to discontinue tariff of BQPS-I and KCCP w.e.f. the date of notification of the instant decision in the official Gazette. Based on its representation, MoE (PD) shall ensure that the termination of these plants does not affect supply situation of KE. In case of disposal of terminated / retired four plants, the gain / loss shall be adjusted as per Para No. 26.2 of the Impugned Determination provided that the disposal shall be made on an arm's length transaction(s) through a transparent and competitive process.
- 10.18. Furthermore, the Authority has decided to maintain its earlier decision w.r.t control period of BQPS II & III.

11. O&M COSTS FOR BQPS-II

- 11.1. According to KE, it had submitted the request for O&M expense component based on detailed calculations of forecasted expenses along with comparison with similar plants as well as historic average expenses-of FY 2017 - 2023. Further, it also submitted an evaluation of independent consultant's on O&M expenses, comprising of consortium of OMS (Pvt) Limited and Ernst & Young. KE also provided reasons where the O&M was higher than similar IPPs due to technical justifications.

- 11.2. According to KE, while allowing O&M expenses for BQPS II Plant, comparison of requested O&M expenses have been made with Nandipur IPP and KE's historic expenses. While making comparison with historic expenses, the comparison of Variable O&M has been done with average for FY 2017 to FY 2023, however, inconsistently for comparing Fixed O&M, only FY 2023 has been considered. In both cases, KE's actual O&M has been allowed, being lower. This has resulted in a significant reduction in Fixed O&M portion. Summary of Fixed O&M numbers is given below:

Description	Requested (Indexed)	Actual Avg (FY 17-23) Indexed	Actual FY 23 Indexed	Nandipur Indexed	Approved	Reduction
Rs. / kWh						
Local	0.47	0.40	0.28	0.32	0.21	(0.26)
Foreign	0.50	0.61	0.25	0.46	0.25	(0.25)
Fixed Total	0.97	1.01	0.53	0.78	0.46	(0.51)
Rs. Million						
Fixed Total	4,202	4,371	2,294	3,382	1,994	(2,208)

- 11.3. According to KE, the Fixed O&M number has been approved based on actual FY 2023 expense of PKR 1,994 million. It's important to note that Fixed O&M costs for power plants encompass more than just yearly constant expenses. They also include levelized impact of periodic costs, such as those recurring every 10 years, and one-time expenditures that may not accurately reflect actual annual costs of one year. Furthermore, O&M expenses going forward also include certain expenses to be incurred based on aging profile of the plant.

- 11.4. KE submitted following summary of reasons:

Description	Amount (Rs, Mil)
Actual Fixed Expense FY 2023	1,994
There was a one-off negative adjustment of PKR 215 mn due to change in policy of Provisioning (indexed amount PKR 240 mn). Expense requested within MYT based on historic trend PKR around 80 mn. Considering one off adjustment, this shall be adjusted from FY 2023 expense	320
Actual Adjusted	2,314
Reasons for higher maintenance expense in ask as compared to FY 2023. Major Items include: ✓ BQPS II plant has completed 10 years and considering the aging, operation profile with frequent start and stop, maintenance requirements in future would increase and accordingly, comparing a levelized Fixed O&M of 20 years, which captures maintenance expenses due to aging till end of life, with 1 particular year would not be correct. As an example: - Higher maintenance of I&C Control System Repair & Maintenance (Impact Rs. 259 Mn) - Electrical Maintenance Services & Spares & Rehabilitation of Protection System (Impact Rs. 128 Mn)	1,762

Description	Amount (Rs, Mil)
✓ Further, Certain expenses are incurred periodically which may not be reflected in FY 23. For example upgradation of DCS/ECS with ICSOT Cybersecurity which is planned after every 8- to 10 years and is included in levelized request in Tariff - (Impact Rs. 74 Mn) ✓ Similarly, certain new equipment have been / planned to be installed for which maintenance requirements would be required. For example, HSD maintenance, RLNG system maintenance etc. - (Impact Rs. 100 Mn) Detailed item wise comparison with FY 2023, average FY 2017 - FY 2023 and ask, along with reasons given in Annexure A.	
Coverage of Cost of Import of power during stand by - this has not been separately allowed and hence KE will have to cover this within O&M. Actual Import cost of FY 2023, not included in O&M above, was PKR 174 mn Considering increase in supply from National Grid, standby operations would increase hence, this cost will be on higher side.	174
Total	4,250
KE's Request	4,202
Historic Average FY 2017 – 2023	4,371
Based on Nandipur IPP (on BQPS II capacity)	3,382

- 11.5. KE further submitted that looking at one year's fixed O&M would be incorrect as many expenses are periodically entered, not directly linked with plant operations. Hence, these fall in fixed O&M and are critical and prudent expenses required to be incurred to maintain plant operational.
- 11.6. According to KE, it had submitted detailed reasoning to the authority as to the differences in maintenance requirement of Nandipur Plant vs BQ-II which included:
- BQII plant is operated on open cooling system is based on seawater and needs continuous maintenance to extend the life. Protective coatings are required to avoid corrosion due to sea water. Whereas Nandipur operates on closed cycle system, water is taken from Canal / Well and there is no requirement for special coatings.
 - Water treatment Plant Maintenance cost due to high conductivity of Sea water upto 55000 Us/cm, overall Membrane and treatment equipment cost is high. ECP Electro chlorination plant is installed. Whereas Nandipur has low conductivity of Canal and well water which requires only demin train
 - Maintenance and equipment Requirements for Gas compressors installed at upstream GTs at BQPS II due to low gas pressure
 - H₂ plant maintenance requirement for Steam turbine Generator cooling, Nandipur has Air cooled generator
- 11.7. Accordingly, KE requested to consider and allow its requested fixed O&M expense of Rs. 0.97 per kWh.

11.8. KE vide email dated October 11, 2025 submitted that O&M Expenses which are linked with running hours are classified under Variable O&M, whereas remaining expenses fall under Fixed O&M. Along with overheads, Fixed O&M also include any periodic expenses that follow certain cycle i.e. 5 year, 10 year etc., and any one-time expenditures. Further, one year's expense may also include any one-off adjustments which need to be excluded for long term period. Therefore, benchmarking Fixed O&M based on one year's actual expense of FY 2023 would not be correct as it would ignore the impact of periodic expenses. Further, KE will also have to cover the cost of Power imports and free startups within Fixed O&M – these were not accounted for in O&M in last MYT, hence not included in actual O&M for FY 2023. Major items which are incurred periodically and may not be reflected in FY 23:

Description	Availability/Reliability/Efficiency	OEM Recommendation	Condition Based Maintenance Ageing	Last Maintenance /Justification	Next maintenance	Requested in Tariff levelized (June 2023)	Major Items Reasoning
I&C Control System Repair & Maintenance GT Air Intake and IGV Painting, Auxiliaries, Controls Hardware, HMI Software	✓	✓	✓	2020-2021 2022 First time 2013	10-15 Yearly 15 Years 5 Yearly 5 Yearly	259	Upgradation is essential due to obsolescence. GT Control Hardware upgradation in 2030 and GT HMI/Software Upgrades. CEMS (Continuous Emission Monitoring System) Upgrade. F&G System Upgradation phase wise manner. Natural Gas compressors Station PLC Hardware Upgrades & HMI/Software Upgrades.
DCS/ECS upgrade with ICSOT Cybersecurity	✓	✓	✓	First time 2017 2015-2020 First time	10 Years 5 Years 5-10 Years 2-5 Yearly Yearly	74	DCS upgradation. ST ETS and local controls / instruments upgradation. WTP/BOP Control System Upgrades, H2 & N2 Station Control System Upgradation ICS-OT Cybersecurity Hardware Installation/Commissioning, Assessment phase wise manner. Yearly routine maintenance includes RLNG system control hardware and instrumentation, PLC cards
Electrical Maintenance Services & Spares & Rehabilitation of Protection System	✓	✓	✓	First time First time First time 2016-2019	15 Yearly 15 Yearly 15 Yearly 2-5 Yearly	128	Upgradation of obsolete Excitation system of GTGs and STG. Battery Replacements for U&L and L&L phase wise manner. 220KV GIS Maintenance and GT GCBs maintenance. Electrical Maintenance Spares for ST and GTs Transformers, Tap changer, BSDG SAM Controller, Maintenance and replacement of Plant MOVs, ECP Electrolyze cells phase wise manner.
Boiler Inspection, Cleaning & Repair	✓	✓	✓	Partially 2017-2018 First time	Yearly 4-5 Yearly 10-15 Yearly	200	Historically Routine of Boiler inspection and maintenance of Divertor damper. HRSG pumps, High pressure valves performed phase wise manner. Divertor Damper replacement, Modules maintenance and replacement.
CW / ACW Maintenance Job	✓	✓	✓	First time 2017-2019	15 Yearly 2-5 Yearly Yearly	112	CW Piping replacement with HDPE. CW pump and motor replacement phase wise manner. CW and ACW valves, hydraulic system and lines maintenance, replacement and coating phase wise manner
WTP pump maintenance / overhauling work & Membranes replacement	✓	✓	✓	2022	2-5 Yearly Yearly	291	Water Treatment Plant UF, PRO and SRO Membrane Replacement WTP Pumps, Motors, Valves, Tanks and VFD Replacement and Overhauling work (PRO, SRO, UF, Clarified Pumping system) phase wise manner.

11.9. MoE in its MLR submitted that Q&M expenses be rationalized on the basis of actual average O&M expenditure of the last five years or determined tariff whichever is lower, in order to bring efficiencies in the operations of K-Electric's plants. Further, comparison should be made with the efficient power plants in terms of O&M expenses.

11.10. KE vide email dated October 11, 2025 submitted following rejoinder against MoE's submissions:

- KE submitted its request for O&M expenses on the basis of detailed calculations and analysis specifically considering critical plant maintenance requirements. These requested costs were duly validated by an independent consultant (OMS (Private) Limited & EY Ford Rhodes), the report of which was submitted to the Authority for its consideration.
- It is pertinent to note that the Authority, in determining the final allowed figure, analyzed KE's request in detail by comparing with historical costs for the preceding seven years as well as benchmarking them against the costs allowed to other comparable plants of similar size and technology across the sector, and allowed the lowest of all figures thereby significantly reducing the allowed O&M. Plant wise discussion is given in the Impugned Determination under para 13.

- While allowing the O&M, NEPRA has also made significant reductions in O&M and KE has filed review against significant reduction in Fixed O&M of BQPS II and KCCP where comparisons have not been made correctly, resulting in under recovery of costs and impact on Plant's reliability / availability.
- While O&M costs should be efficient, it is important to note that they must also cover prudent expenditures in line with the principles of cost-plus tariff regimes; allowing a figure lower than the necessary prudent O&M can critically impact the plant's long-term reliability and performance, ultimately affecting service delivery to consumers.
- Accordingly, this matter has already been comprehensively discussed in the Determination, and the current submissions of MoE (PD) provide no new evidence or material change in circumstances to warrant a review or amendment.

11.11. The submissions of MoE (PD) & KE have been reviewed. The Impugned Determination expressly provides that O&M services are carried out by KE itself, therefore, the approved O&M components of all plants are based on lower of requested O&M, average of 7 years actual variable O&M or approved O&M of comparable power plant. In case of Fixed O&M, the average of 5 years is higher than the approved fixed O&M.

11.12. It would be pertinent to highlight that, KE has only requested to revise fixed O&M component of BQPS-II. The requested fixed O&M cost was compared with the actual expense of FY 23 (last year) and applicable O&M component of Nandipur which has same technology and a 3rd party O&M contract. The Authority allowed fixed O&M cost of Rs. 1.994 billion which was based on actual fixed O&M expense of Rs. 1.743 billion for the FY 2023. The year wise actual O&M cost from FY 2017 to FY 2023 is provided hereunder:

Description	2017	2018	2019	2020	2021	2022	2023
	Rs. in Million						
Administrative Expense	805	593	746	651	830	837	750
Contract Services incl LTSA	4,850	3,029	1,939	1,117	1,270	1,230	992
Total Fixed O&M	5,656	3,623	2,686	1,768	2,101	2,067	1,743

11.13. As provided above, the actual fixed O&M expense has been declining consistently over the 7 years period from Rs. 5.65 billion to Rs. 1.74 billion. The requested cost of Rs. 4.2 billion is much higher than the actual cost of FY 2023, Further, the reasons provided by KE in the instant MLR were also considered by the Authority while approving the O&M cost, therefore, no new information has been submitted by KE.

11.14. The requested cost of Rs. 4.2 billion is significantly higher than the actual expenditure incurred during FY 2023, as it also includes estimated future costs related to DCS upgrades and cybersecurity enhancements, which may or may not materialize within the control period. Since these upgradation activities are not time-bound and the existing software and hardware may remain functional beyond the anticipated lifespan, the Authority has decided to uphold its earlier decision. Accordingly, the Petitioner shall submit a comprehensive need assessment along with scope, cost estimates and the ISMO's comments for NEPRA's consideration, review and prior approval as and when such works become necessary.

12. O&M COSTS FOR KCCPP

12.1. According to KE, it had submitted the request for O&M expense component based on detailed calculations of forecasted expenses along with comparison with similar plants as well as historic average expenses of FY 2017 - 2023. Further, Independent Consultant's evaluation on O&M expenses, comprising of consortium of OMS (Pvt) Limited and Ernst & Young was also submitted. Moreover, reasons were provided where the O&M was higher than similar IPPs due to technical justifications. While allowing O&M expenses for KCCPP Plant, comparison of KE's request has been done with IPPs like Habibullah Coastal Power Plant and Saif Power Limited

12.2. For Variable O&M, the Authority has compared KE's request with Habibullah Coastal Power Plant which is technologically comparable to KCCPP:

Requested (Indexed)	Actual Avg (FY 17 - 23) Indexed	Habibullah Coastal (Indexed)	Approved	Reduction
Rs. /kWh				
1.81	2.41	1.77	1.77	(0.04)

12.3. For Fixed O&M, the comparison of KE's request was made with Saif Power Limited stating that in Habibullah Coastal, the fixed O&M is the part of the capacity charges, and no clear bifurcation of capacity charge is available to identify the fixed O&M, and has allowed Fixed O&M of Saif power to KE. This has resulted in a significant reduction in Fixed O&M portion for KCCPP

Description	Requested (Indexed)	Actual Avg (FY 17-23) Indexed	Actual FY 23 Indexed	Saif Power Indexed	Approved	Reduction
Fixed O&M (Rs. /kWh)	1.08	1.21	0.80	0.72	0.72	(0.36)
Fixed O&M (Rs. Mil)	2,093	2,334	1,541	1,401	1,401	(692)

12.4. According to KE, Saif Power Limited differs from KCCPP in terms of its technology, configuration and operations. Considering the different configuration, its operations are simpler and less costly than KCCPP due to lower number of machines and Cooling tower system as against Sea water cooling

Plant	Configuration	No. of Turbines	Technology	Auxiliaries Loading	Cooling System
KCCPP	4 x GT 2 x HRSG 2 x ST	6	LM6000 Aeroderivative Gas Turbines	16 MW	Sea Water
Saif Power	4 x GT 2 x HRSG 1 x ST	3	Frame 6F Gas Turbines	7 MW	Cooling Tower

12.5. According to KE, it is evident from the above comparison that KCCPP has to operationally manage two Power Blocks as compared to one Power Block of Saif Power, hence comparison

with Saif power would not be correct. Some examples of activities where KE has to incur higher expenses is given below:

- Maintenance of Sea Water intake, outfall and disbursement System (sea water system not there in Saif power) - Annual impact PKR 61 million

Sea Water is widely used at KCCPP as a coolant in various systems, such as condenser, closed cooling system etc. In addition to this, sea water is also used in RO Plants to generate demin water. There is huge infrastructure (comprising sea water intake lagoon, underground channels, outfall system), pumping and piping system exists to accomplish this operational need. Due to harsh nature of the sea water, the whole system needs frequent repair and maintenance.

- Maintenance of Chillers for Gas Turbines air intake (not there in Saif power) - Annual Impact PKR 32 million

The gas turbines are comprised of intake air cooling system. 1200RT Centrifugal Chillers (Make: McQuay) are installed at the air intake of the Gas Turbines. These high capacity chillers have 660 Volts motors, huge evaporator, condensers, pumps and monitoring/control systems, which require extensive repair and maintenance.

- Higher maintenance of Electrical and I&C Control System for two additional gas turbines - Annual impact of PKR 45 million
- Higher maintenance of Corrective maintenance jobs including mechanical, electrical and I&C due to two additional gas turbines - PKR 48 million
- Higher maintenance cost due to 2nd ST (Saif power has one ST only) - Annual impact PKR 85 million

Increase maintenance is mainly due to addition of separate monitoring & control systems, MV Switchgears, auxiliary cooling systems and dedicated water treatment plant.

- 12.6. KE further submitted that with two power blocks' configurations, KCCPP has a technical advantage over Saif Power. That, in case of forced or planned outage of a steam turbine, 50% of KCCPP Complex remains available for Combined Cycle mode of operation. While Saif Power loses its full combined cycle operational capability in case of forced or planned outage of its single steam turbine.
- 12.7. According to KE, the allowed cost for KCCPP is significantly lower than requested and average actual expense of FY 2017 to 2023, and it would impact the availability and reliability of the plant. Hence, comparison of KE's requested costs with Saif power is not correct, and it is requested to consider KE's submitted Fixed O&M expenses for future amounting to PKR 1.08 per kWh, which is still lower than its own 7 years indexed historical cost.
- 12.8. KE vide email dated October 11, 2025 submitted that in case if KCCP is allowed significantly lower O&M, below key activities would suffer which are important for plants availability and reliability:

Description	Availability/ Reliability /Efficiency	OEM Recommendation	Condition Based Maintenance Ageing	Last Maintenance /Justification	Next Maintenance	Requested in Tariff levelized (June 2023)	Major Items Reasoning
I&C Control System Repair & Maintenance	✓	✓	✓	Upgrade against obsolete installed in 2009 (Plant Commissioning) Replacement as per Maintenance Requirement	FY-27 FY-27 FY-28 FY-27 FY-26 Yearly	110	Money With DCS PCS 2 Hardware (Controllers, I/O Cards) Replacement, GT's Control System/HMI Software Upgrades Chiller controller's upgradation ST protection relay redundancy STG-HMI / Software / Control System Upgradation E&C CARDS, RELAYS, BREAKERS ETC / DCS BOP Control system Maintenance
Electrical Maintenance Services & Spares & Rehabilitation of Protection System	✓	-	✓	Upgrade against obsolete installed in 2009 (Plant Commissioning) Replacement/overhaul as per Maintenance Requirement	FY-27 FY-27 FY-28 FY-28 FY-27 FY-27 Yearly 3 Years	119	GIS Protection Relay/Battery Bank/Switchgear Overhauling GTG/STG AVR Upgradation GT 110V Charger Upgrade/UPS/Battery Bank Replacement ST/GT & I-RSG MCC Upgradation Transformer protection relay GT 34V Charger Upgradation Switchgear & Lightning spares Chiller/VV Motors Overhauling
Civil & Plant Infrastructure Repairs & Maintenance	✓	-	✓	Condition based	FY-26/27 Yearly Yearly FY-27 Yearly	112	FIRE FIGHTING & WSD Tanks/Dem Water Tanks Repair Cooling Water Pits Repair & Maintenance (Silo Replacement) Epoxy Flooring/Structure Painting Sea Water Dredging/Sheet Piling/Ponds Cleaning/Bathymetric Steam Turbine Hall-1/2 Sandwich panel Color Job/FMS
HFC & Chillers	✓	-	✓	Periodic Maintenance	Yearly	32	NGC & CHILLERS, PUMP
WTP pump maintenance / overhauling work & Membranes replacement	✓	-	✓	Condition based 2021 2022 2022 2021	FY-27 FY-28 FY-27 FY-27	62	Bi-RO/SIRO Membrane Replacement RO Multimed/Actuator's Replacement W/P VFC/EDI Upgradation WTP Pumps Repairing

12.9. The submissions of the Petitioner have been examined. O&M services are carried out by KE itself, therefore, the requested O&M cost was compared with the actual O&M expense and applicable O&M component of similar power plant which was Habibullah Coastal in this case. Accordingly, variable O&M of Habibullah Coastal was allowed for KCCPP and KE has not requested to revise the variable O&M.

12.10. The technological and configurational differences as referred by KE is mainly applicable in case of Variable O&M and that is why the Authority allowed Variable O&M on the basis of similar technology and configuration in a similar power plant. In case of Fixed O&M, since bifurcation of Fixed O&M component was not available for that similar plant, therefore, the fixed cost was benchmarked to approximately a similar capacity power plant. The approved O&M cost for KCCP is very near to the actual O&M cost of KE for FY 2023 and the requested fixed O&M cost is much higher than the actual O&M cost. Since the plant is being terminated, therefore, no decision is required on future requested costs. Accordingly, the Authority has decided to maintain its earlier decision in the matter.

13. INDEXATION OF O&M COMPONENT

13.1. MoE submitted that O&M expenses to be indexed annually to lower of the National Consumers Price Indexed (NCPI) published by Pakistan Bureau of Statistics or a flat rate of 5%.

13.2. KE vide email dated October 11, 2025 submitted following rejoinder against MoE (PD)'s submissions:

- O&M indexation is linked with CPI and exchange rate to adequately cover the inflationary impacts over the tariff period. With given economic situation where inflation touched as high as 29% in FY2023, a flat rate would cause KE to be significantly out of pocket. Similarly, Exchange Rate Indexation is also required to cover impact of change in Foreign Expenses, which include critical parts procured from foreign providers or Original Equipment Manufacturers (OEMs), and essential service agreements for plant maintenance.

- CPI / Exchange rate indexation is therefore not merely preferential but is a necessary mechanism to ensure that prudent costs are adequately covered and that plants can be maintained in an efficient and reliable manner over time. Limiting the Indexation factor in such an arbitrary manner would be inherently unfair and unjust to KE as the rate of inflation / exchange rate is an external factor that is not within KE's control or management.
- Regarding foreign spares, it is pertinent to note that these foreign spares and related services are already included as part of Foreign O&M, a treatment that is consistent with other IPPs and KE has not requested any separate allowance for the same.
- Accordingly, MoE has not provided any basis or rational for change in O&M indexation mechanism and has requested the same merely referencing to some IPPs where this indexation mechanism has been changed on the basis of a negotiated settlement between Plants and GoP. This does not apply to KE as explained in point under RoE above.
- Therefore, this matter has already been comprehensively discussed in the Determination, and the current submissions of MoE provide no new evidence or material change in circumstances to warrant a review or amendment.

13.3. The submission of the Petitioner has been reviewed. The MoE did not provide any justification or concrete evidence in support of its request to change the indexation mechanism, therefore, the same has not been considered. Moreover, there is a sharing mechanism in place and in case actual O&M is less than the allowed indexed O&M, the benefit shall be shared in the ratio of 60:40 to the consumers and KE. Accordingly, the Authority has decided to maintain its earlier decision in the matter.

14. O&M COST SHARING MECHANISM

- 14.1. KE submitted that in para 24.3 of the Impugned Determination, NEPRA has determined a sharing mechanism for O&M savings, wherein it is stated that O&M savings shall be shared after every five years in the ratio of 50:50 (Consumers: KE) for BQPS-I & 60:40 (Consumers: KE) for other plants.
- 14.2. According to KE, sharing of O&M (e.g. 5 years) would not be appropriate as a significant portion of O&M expense would be incurred at the time of major overhaul and inspection of plant, which may not necessarily fall within the first 5 years. As a result, O&M savings may be shared with consumers and at the time of actual overhaul, loss would be incurred.
- 14.3. KE further submitted that overhaul cycle of each plant is based on Maintenance regime based on interval of certain hours, as recommended by OEM, after which Major overhauls / Major inspections occur. For example, Major overhaul of BQPS II GT is to be done after every 64,000 hours and for BQPS III, major overhaul of GT is to be done after every 107,000 hours. Overhaul cycle and maintenance regime of each plant is defined in detail in the petition and a summary is also attached in the instant MLR. Accordingly, KE requested that the sharing in O&M shall be done after completion of major overhaul of the complete plant.
- 14.4. KE also submitted that it should be allowed to carry over the loss incurred after overhaul cycle to future years to set off with any gain. This is for the reason that KE's plants, other than BQPS

III, are already in operation and following a maintenance regime, and accordingly, Overhauls may occur in initial years of new Tariff. Whereas, O&M expenses are levelized over life of the plant and will be collected over a period of time, accordingly, if overhaul falls in initial years and overhaul cycle is completed, there will be a loss in O&M as revenue collected will be lower in initial years, which will be compensated with revenue collection in future years.

14.5. Accordingly, KE has made following requests:

- O&M sharing shall be done after an Overhaul cycle is completed
- Overhaul cycle for each plant should be based on Maintenance regime of each plant as given in petition and summarized above
- Overhaul cycle shall be considered completed in the year in which all overhauls of all components (all GTs, Engines and ST(s), as applicable) is completed.
- Any loss in O&M at the end of Overhaul cycle shall be allowed to be carried forward

14.6. Mr. Arif Bilwani submitted that KE has offered to share any savings in O&M between Consumer and KE in 60:40 ratio. In case of BQPS-I, the Authority approved sharing ratio of 50:50 with respect to O&M savings. The Authority has not assigned any reason for amending the sharing ratio for BQPS-I in favor of KE despite the fact that the Petitioner itself has offered higher share in favor of the consumers. Further the Authority has decided that O&M savings will be accounted for after every 5 years, however, it should be after every 3 years.

14.7. The submissions of KE and commentator have been examined. The Authority, in the Impugned Determination, approved an O&M savings sharing ratio of 50:50 for BQPS-I. Additionally, the Authority allowed fuel efficiency gains to be shared between 70% to 40%, corresponding to efficiency gain ranging from 0.01% to over 1.50%. The same mechanism is applicable in case RFO plants established under the 2002 Power Policy. It would be pertinent to mention that KE proposed sharing of savings only in O&M costs, excluding fuel savings. However, the Authority approved sharing in both O&M and fuel efficiency gains. Mr. Arif Bilwani, in his submissions, referred only to the O&M savings ratio of BQPS-I while ignoring the sharing mechanism approved for fuel savings.

14.8. With respect to the submissions of KE it would be pertinent to highlight that in case of thermal IPPs of 2002 power policy, annual sharing mechanism is in place. Moreover, in case of K-2 and K-3, the Authority has also approved time period of 5 years for sharing of savings in O&M. Accordingly, the Authority has decided to maintain its earlier decision in the matter.

15. AVAILABILITY OF PLANT

15.1. According to KE in the tariff Petition it was submitted that KE will ensure its plants availability and in case of fuel unavailability there should be no deduction in capacity as it is beyond its control. However, the request has not been considered by the Honorable Authority.

15.2. According to KE, given the circumstances of fuel unavailability at SGEPS and KTGEPS plants, which is beyond its control, it would be unfair to penalize KE for full capacity disallowance. In

this regard, KE would like to highlight that KE had installed these power plant in 2009 after due process and based on 276 MMCFD of gas allocation by the Economic Coordination Committee (ECC). These plants were also added in the Generation license based on plant life of 30 years. These plants had an average load factor of 42% since commissioning, which was around 70% till 2012 when substantial Gas quantity was being provided based on allocation. It is important to note that KE has already repaid all outstanding debts related to these plants and has yet to recover these costs completely in the Tariff.

- 15.3. KE further submitted that it has actively pursued various strategies to secure its allocated gas supply and optimize plant performance. These efforts include engaging with SSGC, the Government of Pakistan, and relevant regulatory bodies, as well as initiating legal proceedings. Additionally, KE remains engaged with SSGC for signing of Gas Supply Agreement (GSA).
- 15.4. According to KE, recently SSGC has completed the installation of new pipelines near KTGEPS and commissioned a new transmission pipeline from Gadap to Surjani. While these developments are promising, their impact on gas supply to KE's plants remains to be determined. KE is actively monitoring the situation and will keep the Authority informed of any significant developments or agreements reached with SSGC.
- 15.5. In light of the ongoing developments with Government of Pakistan, KE requested the Authority to allow time until December 2026 to implement these plans and allow the capacity payment of SGEPS and KTGEPS plants during this period
- 15.6. KE further submitted that in case plant is operated on part load due to unavailability of gas at full pressure, it should be allowed part load adjustment based on the curves, as the operations on part load are done in accordance with Economic merit order and in consumer interest
- 15.7. The submissions of the Petitioner have been examined. The Authority in the Impugned Determination decided that the responsibility of fuel arrangement shall be on KE. In case KE is unable to make the plant available for dispatch due to any reason, including but not limited to non-availability of fuel, capacity payment shall not be allowed. The same mechanism is applicable in CPPA-G system, where the responsibility of fuel arrangement lies with the power plants. Therefore, there is no justification for allowing capacity payments to KE's plants that remain unavailable due to lack of fuel, particularly given the heavy burden of capacity payments on consumers. Accordingly, the Authority has decided to maintain its earlier decision in the matter.
- 15.8. Further, the Authority also decided to not allow part load adjustment of KTGEPS and SGEPS on account of shortage /unavailability of fuel.

16. INSURANCE ALLOWED – BQPS III

- 16.1. KE submitted that in its Tariff Petition, KE requested Insurance Cover for its Plants at a maximum capping of 1% of EPC Cost. However, this request has not been considered by the Authority.
- 16.2. According to KE, while NEPRA's recent Tariff Guideline specifies an insurance component of 0.7% of the EPC cost, however, this benchmark is not available in the industry due to substantial

reduction in EPC costs for recent and new thermal plants. Accordingly, KE had submitted that insurance cost of 1% shall be considered for BQPS III plant.

- 16.3. According to KE its actual Insurance Agreement for BQPS-III has also been finalized at around 1.02%. Also, we would like to submit that similar plants (Bhikki, Balloki, and HBS) also have significantly higher actual insurance costs, ranging above 1% in recent years. This is also evident from the extracts of NEPRA decisions on Insurance for the following IPPs as summarized below

Actual Insurance Cost Requested as a % of EPC Cost			
Description	HBS	Balloki	Bhiki
FY 24	1.50%	1.37%	1.15%
FY 23	1.43%	1.60%	1.51%
FY 22	1.61%	2.49%	1.35%
FY 21	1.69%	1.87%	1.43%
FY 20	1.61%	1.72%	1.82%
FY 19	1.33%	1.31%	2.32%
Allowed FY 19 to FY 24	1.00%	1.00%	1.00%

- 16.4. Accordingly, KE requested the Authority to consider allowing Insurance @ 1% of EPC Cost for its BQPS-III Plant, in line with the actual cost and the insurance amount allowed to other similar IPPs.
- 16.5. KE further stated that the specific EPC cost attributable to the Plant, which is USD 393 Mn (translating to USD 0.44 Mn / MW which is significantly lower than the USD 0.80 Mn for old thermal plants, on which benchmark of 1% has been allowed in past), should be considered instead of the total EPC Cost of USD 442 Mn which also includes the transmission component.
- 16.6. MoE submitted that cost of insurance be allowed by the Authority should be as per-actual with a cap of 0.50%. The regulator may reconsider the cost base on which percentage needs to be applied; whether that is EPC cost, depreciated value or net realizable value
- 16.7. KE vide email dated October 11, 2025 submitted following rejoinder against MoE's submissions:
- KE had submitted Insurance cost with capping upto 1% of EPC costs. While allowing Insurance costs, maximum ceiling has been revised downwards to 0.7% of EPC based on the NEPRA (Benchmark for Tariff Determination) Guidelines 2018 (from a previous 1%), this revised figure has not been practically applied
 - Conversely, the IPPs against which KE's power plants have been consistently benchmarked are allowed an insurance premium of 1% of the EPC cost.
 - KE's actual Insurance Agreement for BQPS-III for FY 2025 was around 1.06% and the rates of other recent IPPs, whose actual Insurance costs are already escalating even above the 1% threshold (e.g., FY 2025 figures for HBS at 1.20%, Balloki at 1.19%, and Bhikki at 1.15%).
 - Insurance costs of KE's other power plants are also around 0.7% (except BQPS I where BI insurance is not currently available).

- There is no basis given under the review of MoE for reducing the cap to 0.5%. Accordingly, this matter has already been comprehensively discussed in the Impugned Determination, and the current submissions of MoE (PD) provide no new evidence or material change in circumstances to warrant a review or amendment.

- 16.8. The submissions of the petitioners have been examined. The Authority allowed maximum insurance limit of 0.70% of the EPC cost as provided in the tariff guidelines for all six plants, however, KE has filed review only for BQPS-III power plant.
- 16.9. The tariff guidelines were published on June 19, 2018, and the Authority approved maximum insurance limit of 1% of EPC cost in case of HBS, Balloki and Bhiki prior to the guidelines. Further, these plants are government owned entities and as per applicable law are required to obtain insurance from National Insurance Company Limited. No such condition is applicable on KE. Accordingly, the Authority has decided to maintain its earlier decision in the matter.

17. MECHANISM OF FUEL TAKE OR PAY ARRANGEMENTS

- 17.1. KE submitted that in para 8.9 of the Impugned Determination, it is stated that the Take or Pay (ToP) arrangements for RLNG agreements shall be considered in case of increase in supply from National Grid or implementation of Central dispatch, based on the mechanism implemented for the four government-owned RLNG plants will be permitted
- 17.2. KE highlighted that it would like to emphasize that the contractual terms typically afforded to government entities often diverge significantly from those available to private sector participants, including but not limited to pricing, penalties, and force majeure provisions. As a result, direct comparisons between the two are not appropriate.
- 17.3. KE further submitted that it has provided detailed information illustrating how ToP obligations are managed within Gas Supply Agreements (GSAs) in other jurisdictions, demonstrating the variations in ToP obligations in such arrangements. Leveraging their government backing, government-owned RLNG plants typically benefit from more favorable Take-or-Pay (ToP) arrangements compared to terms available on a commercial basis.
- 17.4. Accordingly, KE requested that impact of its actual ToP arrangements shall be considered, being prudent and in line with industry norms, in the form of allowing KE to operate its plants as must-run to ensure utilization of committed gas as per the terms of the agreement.
- 17.5. KE vide email dated October 11, 2025 submitted that power offtake from the National Grid is increased from November 2024. Accordingly, as ToP mechanism is followed for 4 RLNG plants as per their GSA, ToP mechanism shall also be applicable for KE as per its GSA with PLL. Hence, terms of KE's GSA with PLL are to be considered for Take or Pay RLNG. Accordingly, KE requested that as now the required condition has been met, same shall be incorporated in the tariff decision and Authority to consider the ToP based on GSA of PLL accordingly.
- 17.6. Mr. Arif Bilwani further submitted that KE has already obtained approvals from PLL and the Authority to utilize RLNG at BQPS-II and III. Any future long-term contracts should allow flexibility to use fuel at any plant. The Authority's concern of potential non-utilization of RLNG due to additional national grid supply is unfounded because only older units (BQPS-I, KCCPP,

KTGS, STGS) will be discontinued. Moreover, plants that are now free from foreign debt should be shifted to a Take & Pay.

- 17.7. The submission of the KE and Mr. Arif Bilwani have been reviewed. It would be pertinent to mention that the Authority decided to disallow "Take or Pay" of RLNG under current arrangements. However, it has also been provided that if there is an additional electricity supply from the national grid or the implementation of central dispatch. KE shall be exposed to undue risk of non-utilization of committed RLNG. Therefore, upon occurrence of either event, the similar mechanism of 4 large RLNG power plants shall be applicable. Additionally, KE shall ensure to commit the quantity of RLNG that allows for maximal feasible mitigation of the 'take or pay' provision, ensuring that it can be fully utilized in accordance with the economic merit order.
- 17.8. The Authority was well aware of the facts submitted by KE and no new information / evidence has been submitted. Accordingly, the Authority has decided to maintain its earlier decision in the matter. The Authority also decided that no Take or Pay fuel arrangement, whatsoever, shall be allowed in future after expiry of existing Gas Supply Agreement expiring in December 2025. The conditional approval granted under additional supply/central dispatch shall not be applicable to future GSA(s).

18. RETURN ON EQUITY

- 18.1. Mr. Arif Bilwani submitted that the Authority has approved 14% US\$ based return on equity along with dollar indexation. KE is a vertically integrated entity having generation, transmission and distribution & wire business which no IPP performs. IPPs have been established for a specific purpose under a policy of GOP. KE has been performing for more than 110 years. All its plants except BQPS-3 are 15 to 40 years old with no foreign debt. Allowing the benefits, offered to IPPs is not appropriate.
- 18.2. According to Mr. Arif Bilwani, the Authority allowed the dollar-based return on the premise that it was allowed in the previous MYT and is consistent with the return of IPPs and that a re-evaluation could result in a higher figure prevailing economic condition of the country. He further submitted that the return cannot be fixed on mere assumption. The GoP has already renegotiated returns with some IPPs in 2022 and 2024, and continues its efforts with others. The GoP offers almost half the return on Roshan Digital Account compared to the return allowed to KE. Further the foreign equity is only 66% while 34% is local. The Authority is requested to revisit its decision in the national and consumer interest.
- 18.3. MoE (PD) submitted that keeping in view the current economic situation prevailing in the country, the Return on Equity (ROE) may be revised downwards as 14 % US dollar-based ROE is deemed to be high. Electricity consumers are facing unsustainable tariffs due to dollar-based RoE; continuing the policy of dollar-based ROE is unjustified; ROE should be de-linked from USD. According to MoE (PD), ROE should be granted based on units delivered instead of "take or pay" basis. Alternatively, ROE may be linked with net delivered electricity so that burden of capacity can be reduced during low utilization situation.
- 18.4. KE vide email dated October 11, 2025 submitted following rejoinder against MoE (PD)'s submissions:

- KE was initially granted a USD-based 15% RoE in the Previous Multi-Year Tariff (MYT 2017 - 2023), a figure consistent with comparable Independent Power Producers (IPPs) operating across the sector.
- The Authority, in Para 17.4 of the Impugned Determination, itself acknowledged that this 15% figure was derived from comprehensive benchmarking and financial analysis conducted at the time. The Authority further stated that a re-evaluation today could conceivably yield a higher figure given the severity of the prevailing economic conditions of the country. Despite this, KE's RoE was still reduced from 15% to 14%. Any further unilateral reduction, de-linking with USD or change in mechanism to "Take & Pay" basis would be unfair and discriminatory.
- Further, regarding Take or Pay Structure, Authority has also considered this and stated that it is not prudent to change the fundamental tariff structure from a "Take or Pay" to a "Take and Pay" basis, as articulated in Para 6.5 of the Impugned Determination.
- It is important to note that the reduction in RoE for certain IPPs was based on a mutually negotiated and agreed position, keeping in view multiple considerations, between those specific IPPs and the Government of Pakistan (GoP). Returns of these IPPs in historic years were much higher as compared to KE which had to incur losses in initial years after privatization and equity was injected to turn around the Company. However, KE's RoE since privatization is below 2% only, which is quite low as compared to other IPPs. Therefore, KE's circumstances are significantly different than the IPPs where changes have been mutually agreed based on negotiation.
- During the proceedings of Generation Tariff, KE has already submitted that in future if RoE of all existing IPPs is reduced, then KE may consider the same as per the applicable legal framework. There are many IPPs where this change has not been applied, such as China Hub Coal, Port Qasim Electric Power, and Lucky Electric Power Company Limited. Therefore, proposition to apply changes to RoE on premise of changes in RoE of some IPPs based on negotiation is fundamentally flawed.
- Moreover, as per the Organization of Islamic Cooperation Agreement, which include KE's shareholders (who are from member countries signatory to the OIC Agreement), all investments, including the returns generated therefrom, shall be treated as capital under this Agreement. In accordance with Para 4 of Article 1, of OIC Agreement profits, dividends, interest, or other income are considered an integral part of the original investment. Given that the investment is denominated in U.S. dollars, the corresponding returns shall likewise be regarded and settled in U.S. dollars, ensuring consistency in financial treatment.
- In addition to the above, under Para 1 of Article 10, the host state is obligated to protect investors from any action that could directly or indirectly affect their ownership, control, or use of their investment. This means that the investor's basic rights, capital and the returns generated from it are secured. The state cannot take or permit any measure that deprives the investor of their rights, benefits, or control over the investment, ensuring that the investment and its returns remain protected, stable, and free from unjust interference.

- Moreover, while KE's actual equity is higher as it had to invest equity post privatization to be able to do investments whereas KE is getting Return on Equity on 30% of RAB. Hence, KE is already getting lower returns as equity is restricted to 30%. Applying further changes to RoE would significantly reduce the already lower Returns of KE.
- Accordingly, this matter has already been comprehensively discussed in the Impugned Determination, and the current submissions of MoE provide no new evidence or material change in circumstances to warrant a review or amendment

18.5. The submissions of the KE, MoE and commentator have been reviewed. Keeping in view the equity injections in US Dollars, the Authority has decided to maintain its earlier decision in the matter. Further, considering the submissions of MoE and in case of other similar power plants, the Authority has also decided to approve Hybrid Take & Pay arrangement w.e.f November 01, 2025 for payment of ROE component on the basis of Net Electrical Output exceeding 35% of the total contract capacity in terms of kWh. Up to 35%, the existing Take or Pay mechanism shall prevail.

19. OUTAGE ALLOWANCE, HEAT RATES AND NET CAPACITY

- 19.1. KE submitted that in para 9.3 of the Impugned Determination, NEPRA allowed certain Outage Allowances, against KE ask for maintenance of its plants. KE understands that the above allowance is for operational maintenance and overhauls and do not cover specific commissioning outages. Accordingly, it is understood that KE's request for allowing 60-day outage for BQPS-III HSD commissioning in FY 2024 is being considered separately. Similarly, commissioning outage for BQPS II HSD will also be considered separately under BQPS II HSD commissioning request
- 19.2. According to Mr. Arif Bilwani KE has requested a higher outage allowance for BQPS-III due to a design fault. It was a blunder committed by EPC contractor which prevents the separate turbine operation because of the single shaft instead of multi shaft. The burden of such inefficiencies should not be transferred to consumers.
- 19.3. Mr. Arif Bilwani submitted that heat rates & net capacity for all the plants except for BQPS-3 were conducted only once and that too either in 2018 or 2019. Mr. Bilwani requested that the tests should be carried out afresh for the new MYT instead of depending on obsolete figures. Similarly, issues discussed at 10.11 & 10.12 of the Impugned Determination have been left for a future date. The Authority accepted KE's calculation based on historical heat rate tests instead of directing the Petitioner to carry out the tests afresh. Furthermore, supply from PLL is on high pressure, therefore no compressor is required in case of BQPS-II. Startup/Shutdown and Black Start charges are also deferred for a future date.
- 19.4. The submission of KE and Mr. Arif Bilwani have been reviewed. It would be pertinent to highlight that it has been a standard practice, also followed in CPPA-G system, that performance tests are generally conducted once usually at COD, and then these results are relied upon for life of plant along with necessary degradation adjustments. Similarly tests of KE plants were conducted in previous MYT, after major modification the rationale for the same has been provided in MYT decision. Additionally, it is important to highlight that the Authority has approved an availability of 90% for the BQPS-III plant, which is higher than the initially

requested availability of 88%. The Authority has decided to maintain its earlier decision. Furthermore, the matter concerning the additional allowance for the commissioning of High-Speed Diesel (HSD) at BQPS-III will be addressed within the framework of the Service Level Agreement (SLA), in accordance with the ongoing regulatory proceedings.

20. REGULATORY ASSET BASE

- 20.1. Mr. Arif Bilwani submitted that the EPC Cost of KTGPS in US\$ is 84 million whereas that of SGPS is US\$ 73 million although both plants are identical in make, capacity & origin which is not palatable. Due to difference in EPC cost the premium for KTGEPS is also higher & the approved component is also higher by Rs. 0.0055/kwh which needs to be probed. KE has petitioned the RAB of KTGPS at Rs. 3,221 million whereas for SGEPS at Rs. 4,504 million and the actual audited figures for both are Rs. 3,612 million & Rs. 4,726 million which is quite perplexing if we refer to the earlier point where the EPC Cost in USS is 84 million & 73 million.
- 20.2. According to Mr. Arif Bilwani, as per para 15.6 of the Impugned Determination, the Authority itself has admitted that despite "The issue of excessive depreciation and RoRB of BQPS-3 (including ROE, interest and hedging cost) allowed due to mismatch of actual and anticipated timelines was also discussed in the midterm review, and no downward adjustment was made in the tariff in accordance with the terms of previous MYT". Mr. Bilwani stated that the benefits already availed by the Petitioner on account of this violation of the MYT term should be accounted for. Setting up of BQPS-3 was approved in 2017 (Under the previous MYT) & was supposed to commence production in 2020 but the construction commenced in 2019 & complete production by end 2023. As stated above all this was also deliberated in the Mid Year Review but to-date the Authority has not initiated any action against KE to recover the unauthorized & illegally claimed Depreciation & RoRB amounting to Rs. 54 billion (approx).
- 20.3. The comments of Mr. Arif Bilwani have been reviewed. The outstanding RAB at the start of FY 2017 was Rs. 5,862 million for KTGEPS and Rs. 5,633 million for SGEPS. The net reduction in RAB from FY 2017 to FY 2023 amounts to Rs. 2,641 million for KTGEPS and Rs. 1,129 million for SGEPS. Therefore, the outstanding RAB of KTGEPS as of July 01, 2023, is lower than that of SGEPS. With respect to the RAB of BQPS-III, the issue has already been decided in Para No. 15.7 of the Impugned Determination.

21. DEBT TO EQUITY RATIO

- 21.1. According to Mr. Arif Bilwani, the actual debt to equity ratio of KE for the year 2023 is 46:54 but the Authority has approved the notional debt to equity ratio of 70:30 which has been requested by the Petitioner and is also in line with Section 6(4) of the NEPRA (Benchmarks for Tariff Determination) Guidelines, 2018. Since the Petitioner has challenged the debt to equity ratio of 70:30 of the previous MYT before the NEPRA Appellate Tribunal, decision of which is still pending and if comes out in favor of KE then the same decision should be made applicable for current MYT which needs to be in writing and be made part of the order.
- 21.2. The submission has been examined. As provided in Para 16.2 of the Impugned Determination, KE itself has requested debt to equity ratio of 70:30. KE has challenged debt to equity ratio approved in previous MYT of 2017-2023, therefore, the same is not applicable in the instant

case. Further, the equity in excess of 30% if allowed will result in higher tariff. Accordingly, the Authority decided to maintain its earlier decision in the matter.

22. COLLECTION OF DEBT THROUGH DEPRECIATION

- 22.1. MoE (PD) submitted the assessment should be carried out on whether recovery, through depreciation is more than, actual debt, and the tariff should be adjusted accordingly for excess recoveries. Thereafter - Long-Term Debt be allowed by the Authority be based on actual basis.
- 22.2. KE vide email dated October 11, 2025 submitted following rejoinder against MoE (PD)'s submissions:
- KE's tariff structure was different than IPPs and KE was allowed "depreciation" on the life of the asset, rather than "debt servicing" in initial years as allowed to IPPs. This means that KE had to obtain debt and bridge the gap between Debt tenure vs depreciation on asset life through its own sources.
 - As explicitly detailed in Para 6.6 of the Impugned Determination, the generation plants within KE's system (excluding BQPS-III) have completed their debt repayments, yet they have not received the corresponding capital amounts through tariffs.
 - Therefore, any arbitrary change in this current, established tariff structure will result in a significant under-recovery of cost, which has already been paid by KE (except BQPS III) out of its own pocket and will critically impact the sustainability and long-term viability of its plants
 - Accordingly, this matter has already been comprehensively discussed in the Impugned Determination, and the current submissions of MoE (PD) provide no new evidence or material change in circumstances to warrant a review or amendment.
- 22.3. Mr. Arif Bilwani submitted that the Authority has allowed depreciation on the straight-line method as per the previous MYT but it has not considered the salvage value of the asset at the end of its life when written down value would be zero.
- 22.4. The submissions of MoE (PD) and KE have been reviewed. The equity in excess of 30% is treated as debt therefore, the comparison of actual vs allowed cost of debt may not be appropriate and the allowed cost of debt will always be higher than the actual cost of debt. The same was also explained during the hearing.
- 22.5. Moreover, the issue of salvage value highlighted by the commentator has been discussed and addressed under Para 26 of the Impugned Determination:

"...Since full depreciation of the capitalized cost is being allowed to KE, it would be justified to credit the entire actual realized residual value of the asset to the consumers. Accordingly, the Authority has decided that the scrap/residual value realized at the time of actual disposal of the plant, as and when occur, shall be credited to the consumers and shall be adjusted in the quarterly adjustment of supply tariff...."

23. COST OF DEBT & COST OF WORKING CAPITAL

23.1. MoE (PD) submitted that for long term debt in PKR, spread on KIBOR should not be more than 1% and cost of debt to be true up on actual. Being the most relevant, LIBOR or SOFR adjustment should be allowed to the actual payment of loans in Foreign Currency. Financial cost of working capital may be re-considered as KIBOR+0.5% or at actual. Any procurement of foreign spare parts be adjusted on actuals.

23.2. KE vide email dated October 11, 2025 submitted following rejoinder against MoE (PD)'s submissions:

- KE was directed to provide details of its actual loans (as referenced in Para 18.10 of the Determination), which is approximately 2.25%. based on current local financing Further, KE also submitted details of debt previously obtained for its existing plants where the spread was 2.96% (higher than 2.5%).

Sr.	Loan Name	Loan Spread	Loan Amount	Agreement Date	Loan Tenure
1	IFC – Tranche A	2.85% - 2.50%	USD 45 Mn	22-Mar-07	10 Years
2	IFC – Tranche B1	4.25% - 3.75%	USD 55 Mn		
3	IFC – Tranche B2	4.25% - 3.75%	USD 25 Mn		
4	ADB – Tranche A	2.85% - 2.50%	USD 50 Mn	04-Jun-07	10 Years
5	ADB – Tranche B1	4.25% - 3.75%	USD 75 Mn		
6	ADB – Tranche B2	4.25% - 3.75%	USD 25 Mn		
7	1 st Syndicate	3%	PKR 8 Bn	23-May-07	9 Years
8	2 nd Syndicate	3%	PKR 8.5 Bn	29-June-10	7 Years
9	OEKB	1.75%	USD 23.38 Mn	5-May-10	4.5 Years
10	3 rd Syndicate	3%	PKR 2.125 Bn	5-May-10	4.5 Years
11	7.7 Bn Syndicate	2.50%	PKR 7.7 Bn	28-Mar-14	5 Years

- It is pertinent to note that the NEPRA (Benchmarks and Tariff Determination) Guidelines 2018 specifically provide for a maximum spread of 2.25% in the case of local financing.
- Hence, KE's initial request for a 2.5% spread was reduced and finalized at 2.25% (as detailed in Para 18.5 of the Impugned Determination), based on afore-mentioned tariff guidelines and KE's actual cost of borrowing of current loan.
- MoE (PD) has not provided any rationale for request of reduction of spread to 1%. Any arbitrary reduction to a rate as low as 1% would lack any factual basis and would be inherently discriminatory in nature
- Accordingly, this matter has already been discussed in the Impugned Determination, and the current submissions of MoE (PD) provide no new evidence or material change in circumstances to warrant a review or amendment.
- Spread of 2% was allowed being consistent with the standard spread allowed to other IPPs across the power sector. Any unilateral reduction of this approved spread to a mere 0.5%

would be arbitrary, fundamentally lacking any technical or financial basis, and unsupported by any new evidence or material information presented in the current review process.

- The Authority has allowed SOFR only against the loans actually obtained in foreign currency on which the SOFR benchmark is contractually applicable.

- 23.3. The submissions of the Petitioners have been examined. The equity in excess of 30% is treated as debt, therefore, spread on KIBOR of 2.25% was allowed as per the NEPRA (Benchmarks and Tariff Determination) Guidelines 2018 and actual spread of 2.25% in case of BQPS-III. Currently, 3 Month KIBOR is approximately 11% and with spread the total cost of debt works out approx 13.25% which is still lower than the ROE. In case of Cost of Working Capital, the MoE (PD) requested to revise the spread to 0.5% over KIBOR, however, no justification or supporting evidence was provided in this respect.
- 23.4. Keeping all above in view, the Authority has decided to maintain its earlier decision with the condition that the cost of debt and cost of working capital including spread shall be actualized subject to maximum approved cap.

24. PASS THROUGH ITEM – INCOME TAX

- 24.1. According to Mr. Arif Bilwani, KE has requested corporate tax as pass through item as allowed in previous MYT. The undersigned has always dissented and opposed it on the premise that KE is a privatized commercial organization which was paying corporate tax on its profits, if any, and it was never recoverable from the consumers. Unfortunately, the Authority has always taken the stand that since it is a pass-through item for all the IPPs. IPPs have been allowed this concession because of the Power Policy of the GoP for setting up IPPs whereas KE has not been established under any power policy.
- 24.2. The submission of the commentator has been examined. The return allowed does not include the impact of income tax, therefore, income tax is allowed as pass-through item in line with other power plants. However, the Authority in the Impugned Determination expressly stated that KE is a vertically integrated entity and currently no separate income tax is applicable on generation segment and in case the same is applicable due to change in law in future, it shall be allowed. Accordingly, the Authority has decided to maintain its earlier decision in the matter.

25. NOTIONAL PLANT FACTOR

- 25.1. According to the commentator, in the table for summary of levelized tariff the Authority has assumed the notional plant factor for BQPS-2 at 60% whereas for BQPS-3 it is 90%. After the energizing of KKI/NKI links/grids KE will be receiving 2,100 MW of power which will result in non utilisation of BQPS-1, KCCPP, KTGPS & SGTPS. The only plants that will be utilised at their full capacity at the time will be BQPS-2 & 3. Therefore, the load factor of 60% of BQPS-2 needs to be revisited.
- 25.2. The submissions of the commentator have been reviewed. It would be pertinent to highlight that in a Take or Pay tariff regime, plant factor has nothing to do with the actual payment which is made on the basis of availability irrespective of actual operation of the plant. The use of plant factor in the tariff table is notional, which shows that at any assumed load factor what will be the

effective tariff. Accordingly, the Authority has decided to maintain its earlier decision in the matter.

26. TARIFF METHODOLOGY

26.1. MoE submitted to reconsider the tariff methodology holistically to determine efficient tariff to reduce electricity generation cost; transitioning away from a Regulatory Asset based tariff pricing model to a cost-plus model wherein cost plus is on Take and Pay basis. During the hearing the representative of MoE clarified that Take and Pay means Hybrid Take and Pay arrangement.

26.2. KE vide email dated October 11, 2025 submitted following rejoinder against MoE's submissions:

- The tariff structure allowed by NEPRA is fundamentally based on a cost-plus tariff regime, as mandated by the NEPRA Act. This methodology ensures that all prudent costs, along with a reasonable return, are permitted over the operational life of the plant, which is typically around 30 years.
- This long-tenure approach is paramount as it ensures clarity and predictability of returns over a significant period, making power sector projects financially viable for investments. Any proposition involving frequent changes or shorter tenures would introduce regulatory uncertainty and fundamentally discourage investors from making future essential investments in the sector
- Tariffs with Take or Pay structures ensure plant's availability through recovery of required costs including Fixed O&M, insurance, working capital costs etc. Non-recovery of these essential costs can undermine plant's availability in required periods.
- Further, Unlike IPPs, where tariffs are front loaded, KE's plants (other than BQPS III) have completed debt repayments, whereas not completely recovered in tariff. With change on 'Take and Pay' regime, KE will be unable to recover the already paid debt and will be penalized on account of investing equity.
- Furthermore, the Authority has explicitly addressed the stability of the tariff structure in the Impugned Determination. The Authority stated that given the remaining life of KE's plants, it is not prudent to change the fundamental tariff structure from a "Take or Pay" to a "Take and Pay" basis, and that changing to Take and Pay mechanism would result in under recovery of required costs to operate the power plant. As articulated in Para 6.5 and para 6.6 of the Impugned Determination.
- Further to above, it is also important to note that while drawing comparison with IPPs where GoP has done a negotiation for reduction in certain components on mutual agreement is incorrect due to reasons explained in point 2 above. Having said this in those cases as well, capacity tariff is on Take or Pay with only Returns converted to Take and Pay with a minimum threshold.
- Accordingly, this matter has already been comprehensively discussed in the Impugned Determination, and the current submissions of MoE (PD) provide no new evidence or

material change in circumstances to warrant a review or modification of the Impugned Determination.

- 26.3. The submissions of the Petitioner and reply of KE have been reviewed. The issue of Hybrid Take & Pay tariff has already been addressed above under Para No. 18 and need no further deliberations.

27. PROCEEDS FROM SALE / DISPOSAL OF ASSET / INVENTORY

- 27.1. MoE (PD) submitted that all proceeds generated through sales of any assets, inventory or disposal must be adjusted on the basis of actual or realizable value whichever is lower and not on cost basis as suggested in the determination.
- 27.2. KE vide email dated October 11, 2025 submitted following rejoinder against MoE (PD)'s submissions:
- Under the Impugned Determination, in case where the full depreciation of the capitalized cost is allowed and recovered by KE (i.e. for plants excluding BPQS III), the entire actual realized residual value of the asset will be credited to consumers
 - However, in scenarios involving the disposal of a plant before the completion of its determined life, where full depreciation has not been recovered, any gain or loss must be appropriately captured based on the original cost basis, rather than any revalued amount
 - In such cases, since the full cost would not have been recovered through the tariff mechanism, KE should be allowed to retain the proceeds up to the amount of its unrecovered investment in the asset under the tariff
- 27.3. The submissions of the Petitioner have been reviewed. During the hearing it was clarified that the mechanism has already been provided and net proceeds differential shall be adjusted in the supply tariff. The relevant part of the determination is reproduced hereunder:

"Since full depreciation of the capitalized cost is being allowed to KE, it would be justified to credit the entire actual realized residual value of the asset to the consumers. Accordingly, the Authority has decided that the scrap/residual value realized at the time of actual disposal of the plant, as and when occur, shall be credited to the consumers and shall be adjusted in the quarterly adjustment of supply tariff. In case of BQPS-III, the cost of land has already been paid by the consumers, therefore, the sale proceeds of land in case of disposal shall also be credited to the consumers. Further, In the event of dismantling, retirement or disposal of a plant or an asset before the - completion of its useful life, any gain or loss shall be captured as other income based on the cost basis, rather than the revalued amount."

28. CTBCM

- 28.1. MoE (PD) submitted that the implementation of the CTBCM and the approved design of the electricity market, necessitates country-wide, integrated system operations and long-term power generation planning. This is particularly relevant in the instant case since integration with the national pool will have direct implications for generation planning, dispatch and power acquisition-at K-Electric. Specifically, the Authority needs to review every request in KE's generation tariff petition in the context of an integrated electricity market;
- a. Any allowance for must-run plants, extension in useful life or other concessions must be assessed in the context of an integrated pool, operated by a single Independent System and Market Operator (ISMO).
 - b. KE's future generation demand needs to be optimized against a single, countrywide demand pool with specific capacity obligations assigned to KE.
 - c. Any further generation acquisition must be predicated on expediting the integration Process and guided by integrated system operation. The two part-tariff awarded to KE under the current MYT requires the system operator to monitor the Annual Dependable Capacity (ADC) and hourly availability which must be performed by the ISMO (and not KE) to ensure impartiality and avoid conflict of interest.
- 28.2. KE vide email dated October 11, 2025 submitted following rejoinder against MoE's submissions:
- For the purpose of central despatch and EPP optimization at national level, KE has already agreed to central despatch based on an agreed upon SOP between KE and ISMO.
 - Further, KE is the System Operator for its service area as per the Transmission License of KE and hence shall continue to perform the role of System Operator for its service territory – KE has already filed a review on certain aspects of the CTBCM Integration Plan determination which is currently with NEPRA.
 - Moreover, future power procurement is already governed through NEPRA approved Power Acquisition Program (PAP).
- 28.3. The submissions of the MoE (PD) have been reviewed. The Authority vide its decision dated May 26, 2025 in the matter of KE Integration Plan into CTBCM has decided for integration of for KE's network/region in the centralized system operation to be carried out by single System Operator i-e ISMO pursuant to NEPRA Act, NE Policy, NE Plan and the Grid Code. Further the said determination includes the directions and decisions, *inter-alia*, for the development of SOP for two (02) years, amendment of the power procurement agency agreement (PPAA) and interconnection agreement (ICA), as well as the mechanisms for verification of availability, outages, conduct of ADC test at par with CPPA-G system, etc. KE is hereby directed to diligently implement the decisions outlined in the KE Integration Determination, in both letter and spirit, to ensure seamless integration and compliance with the regulatory framework.

29. CLARIFICATION SOUGHT

29.1. KE also requested following clarifications:

i. Pass-through Items – Unrecovered Cost

- 29.2. According to KE, it requested to allow pass through of any unrecovered cost determined by NEPRA pertaining to MYT 2017 -2023 relating to Generation segment, the Authority has stated, in para 21.6, that these costs shall be claimed under the pending End of Term Adjustment under the MYT FY17-23.
- 29.3. KE submitted that there may be certain costs pertaining to MYT 2017 - 2023 Generation segment which are not captured in the End of Term (e.g. GIDC costs, or price update notifications issued subsequently or decision on pending tax disputes). Any such costs as allowed under the previous MYT mechanism, will be claimed as pass through and shall be pass through in Supply business, after determination by NEPRA. KE requested clarification from the Authority on the above point for pass through of these costs in Supply Business
- 29.4. The submissions of the Petitioner have been reviewed. Any prudent cost pertaining to previous MYT (e.g GIDC costs, or price update notifications issued subsequently or decision on pending tax disputes) shall be considered in FCA / Quarterly adjustments of Distribution / Supply tariff subject to approval of the Authority.

ii. Over / Under Recovery of SOFR / KIBOR

- 29.5. According to KE, in the determination, NEPRA has stated that in case the actual cost of debt is lower than the allowed cost, the same shall be adjusted at the time of quarterly indexation. Regarding request for annual adjustment of any over/under recovery, the mechanism/methodology for calculation of overnight SOFR shall be applied uniformly across all IPPs including KE.
- 29.6. In this regard KE would like to clarify its request wherein any Over/Under recovery arising from the difference between the SOFR/KIBOR applicable under the Tariff (i.e., applicable on the first day of each quarter) and the Actual Loan Agreements (weighted average of four quarters) should be allowed as a separate cost through an Annual Adjustment. This approach would ensure the recovery of prudent costs while mitigating the risk of undue cost recovery under the Tariff.
- 29.7. The submissions of the Petitioner have been reviewed. The Authority decided that mechanism approved for calculation of Daily SOFR vide decision dated December 05, 2024 shall be applicable in instant case.

iii. Indexation Formulas (Cost of Debt, Transaction Cost and Calorific Value)

- 29.8. According to KE, although the narrative clearly outlines the factors influencing the indexation of various tariff components such as Working Capital, we would appreciate the provision of a

specific formula for the same and for the following items to ensure accurate future adjustments of the relevant Tariff Components without any ambiguity:

Cost of Debt

- 29.9. KE submitted that while the provided indexation formulas for Debt Servicing of Local Loans are applicable to BQPS-III due to the availability of loan schedules, we seek confirmation of the appropriate formulas to be used for Local Cost of Debt for other plants.
- 29.10. Similarly, for Sinasure Unhedged Cost & the spread portion for Hedged Loans (both Sinasure & Hermes), the formula mentioned doesn't clarify the indexation approach for the Exchange rate on the finance cost. Therefore, clarification was sought from the Authority on the application of the formula.
- 29.11. The submission of the Petitioner has been reviewed. For indexation of local cost of debt component, the reference tariff component shall be divided by the reference interest rate and multiplied by revised interest rate. Further, for foreign loan, the issue of exchange rate has already been provided in the mechanism.

Transaction Cost

- 29.12. Furthermore, in the Amortization of Transaction Cost Schedule, Recurring Cost has been allowed by the Authority as Rs. 0.0015 per KWh (Rs. 12 Mn per annum), however, the schedule does not bifurcate the same into its Foreign & Local Components. KE would like to highlight that Rs. 0.0014 per KWh pertains to Foreign Component, which will be subject to Quarterly Indexation on account of variation in exchange rate, whereas the remaining Rs. 0.0001 per KWh pertains to Local component.
- 29.13. The submission of the Petitioner has been reviewed and found to be correct. The approved Recurring Cost Component of Rs. 0.0015/kW/h within Transaction Cost Component is bifurcated into local Rs. 0.0001/kW/h and foreign Rs. 0.0014/kW/h components

HSD Calorific Value

- 29.14. KE understand that the Authority has approved an indexation mechanism for GCV of HFO, as it's priced in Rs. per M. Ton, rather than directly in Rs. per MMBTU. Given that HSD is also not directly priced in Rs. per MMBTU, but in Rs. per Litre, we seek the Authority's confirmation on whether a similar mechanism will be followed for HSD's GCV indexation to ensure prudent cost recovery
- 29.15. The submissions of KE have been examined. In case of IPPs and GPPs (HBS, Balloki, QATPL etc) no mechanism exist for adjustment of calorific value of HSD. KE did not request CV adjustment either in the tariff petition. Therefore, no CV adjustment shall be allowed on HSD.

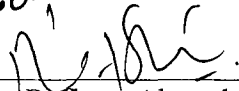
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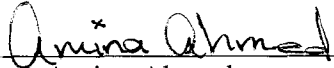
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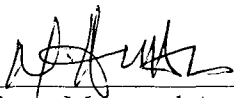
The above Order of the Authority is intimated to the Federal Government for notification in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.

AUTHORITY

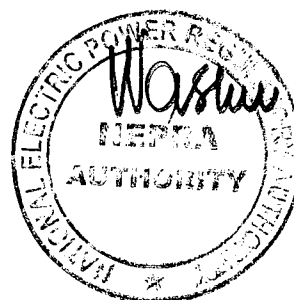
Additional note is
attached.


Engr. Rafique Ahmed Shaikh
Member


Amina Ahmed
Member


Engr. Maqsood Anwar Khan
Member


Waseem Mukhtar
Chairman



Additional Note on the Proposed Decommissioning of Four Power Plants in K-Electric's Generation Fleet

In light of current operational realities and the critical need to ensure system reliability under all conditions—especially during emergencies and peak demand periods—I strongly urge the deferral of the decommissioning of the KCCP and BQPS-I power plants for the following reasons:

- K-Electric's increasing reliance on power imports from the National Grid, while economically beneficial, introduces significant operational risks. Although the interconnection capacity has recently been enhanced to approximately 2,072 MW, this represents a technical ceiling constrained by factors such as transformer loading, voltage stability, and transmission corridor limitations. A tripping or outage on a major interconnection—such as the 500 kV KKI or 220 kV NKI lines—can immediately result in a significant deficit of electric power. If compounded by the unavailability of a major internal generation unit—such as BQPS-II or BQPS-III due to forced outage or maintenance or fuel unavailability—the resulting shortfall could exceed 1,000 MW. Such a supply gap would necessitate extensive load shedding and could jeopardize overall grid stability, especially during periods of high ambient temperature that coincide with peak consumer demand.
- KE's internal generation units serve purposes beyond simple megawatt contribution; they provide essential operational capabilities. These include spinning reserve for frequency regulation, system inertia for stability, black-start capability for system restoration, and the ability to operate in island mode during grid disturbances. Prematurely retiring these assets would undermine these critical functions and expose the system to heightened risks during external shocks. Past blackout incidents have demonstrated that internal generation was instrumental in ensuring timely restoration and maintaining system integrity.
- It is important to highlight that, as of now, no infrastructure beyond the currently available 2,072 MW interconnection has been confirmed. Moreover, there are no merchant power plants currently operating within KE's licensed area that can offer firm, dispatchable capacity under a market-based framework, nor has such a regulatory regime been implemented.

Way Forward:

Decommissioning of these two power plants (KCCP and BQPS-I) should be deferred for at least one year, during which time the following steps should be undertaken:

1. **Establishment of a Functional Merchant Power Market:** A comprehensive regulatory and commercial framework must be developed to enable merchant generators to participate in KE's system, with clearly defined obligations for providing firm and standby capacity.
2. **Firm Supply Commitments from the National Grid:** A contractual or regulatory mechanism should be instituted to ensure KE can depend on firm, dispatchable capacity from the national system, particularly during contingency scenarios.
3. **Completion of Key Infrastructure Projects:** This includes the timely finalization and commissioning of the proposed new interconnection corridor with the National Grid, along with the completion of any ongoing grid reinforcement or capacity enhancement projects necessary to reliably accommodate higher levels of imported power.

In the absence of these critical assets, decommissioning the existing plants would significantly reduce operational flexibility and could hinder KE's ability to meet peak demand reliably.



Rafique Ahmed Shaikh
Member (Technical)