



National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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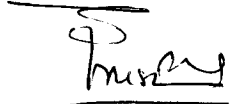
No. NEPRA/PAR-152/KE(EPCL)-2016/10923-10925
July 07, 2017

Subject: Decision of the Authority with respect to Review Motion filed by Engro Polymer & Chemicals Limited (EPCL) against Decision dated 03.01.2016 in the matter of granting permission to K-Electric Ltd. for Negotiating the Power Acquisition Contract (PAC) with EPCL [Case # NEPRA/PAR-152/KE(EPCL)-2016]

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (03 pages) in the matter of Motion for Leave for Review filed by Engro Polymer & Chemicals Limited (EPCL) against Decision dated 03.01.2016 in the matter of granting permission to K-Electric Ltd. for Negotiating the Power Acquisition Contract (PAC) with EPCL in Case # NEPRA/PAR-152/KE(EPCL)-2016, for information.

Enclosure: As above


07.07.17
(Syed Safeer Hussain)

Secretary
Ministry of Water & Power
'A' Block, Pak Secretariat
Islamabad

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.



DECISION OF THE AUTHORITY WITH RESPECT TO REVIEW MOTION FILED BY ENGRO POLYMER & CHEMICALS LIMITED (EPCL) AGAINST DECISION DATED 03.01.2016 IN THE MATTER OF GRANTING PERMISSION TO K-ELECTRIC FOR NEGOTIATING THE POWER ACQUISITION CONTRACT (PAR) WITH EPCL (NO. NEPRA/PAR-152/KE(EPCL)-2016)

M/s Engro Polymer & Chemicals Limited (EPCL) vide letter dated 18.01.2017 has submitted the motion for leave for review against decision of the Authority dated 03.01.2017 in the matter of granting permission to K-Electric for negotiating the Power Acquisition Contract (PAC) with Engro Polymer & Chemicals Limited (EPCL) for purchase of 4.5 MW Natural Gas based Power.

2. EPCL requested to review the following matters:

- Decrease in Fuel Cost Component
- Rate of Return allowed on ROE instead of WACC
- Exclusion of depreciation from tariff calculation.

3. The above issues were already considered and discussed in the Authority's decision dated 3.1.2017, however, in order to provide an opportunity to the applicant for producing fresh evidence, grounds/justification in support of its original claim, the Authority decided to conduct a hearing in the matter. Accordingly a hearing was held on 29th March 2017 wherein representatives of EPCL and K-Electric participated. Representatives of K-Electric requested the Authority to review the case keeping in view the demand supply gap in Karachi. It is pertinent to mention here that as per regulation 3(2) of the National Electric Power Regulatory Authority (Review Procedure) Regulations, 2009, "any party who is aggrieved from any order of the Authority and who, from the discovery of new and important matter of evidence or on account of some mistake or error apparent on the face of record or from any other sufficient reasons, may file a motion seeking review of such order". Therefore, while deciding the review motion, the afore-referred regulation has to be kept in mind and the grounds of the Review Motion which do not fulfill the requirements of the said regulation cannot be considered.

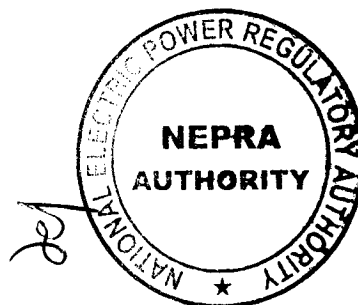
4. Based on the submissions of the EPCL, K-Electric and earlier precedence in the Captive Power Plants, the issue-wise discussion and decision is as under:

5. **Decrease in Fuel Cost Component**

5.1 EPCL submitted that the fuel cost component has been decreased due to higher efficiency taken by the Authority while calculating the fuel cost component. EPCL submitted that due to deterioration, the machine efficiency is not as assessed by the Authority.

5.2 Based on available information and technical analysis, the Authority in its determination dated 3rd January 2017, approved thermal efficiency of 38.15% net LHV flat instead of proposed 36.14% net LHV flat. The petitioner in its review motion neither discussed about the revision in thermal efficiency in detail nor it provided any new documentary evidence in support of its claim. During the hearing, the Authority also directed the representative of the company to furnish manufacturer's degradation curves along with all technical documents enabling NEPRA for assessing equipment efficiency. However, no relevant information has been provided.

5.3 Notwithstanding the above, the calculation and rationale of allowing 38.15% net LHV flat



thermal efficiency have been reviewed and it is noted that all the relevant information and factors have been considered by the Authority in determining efficiency as allowed i.e. 38.15% net LHV flat. Since EPCL has failed to provide any fresh evidence and degradation curves, therefore, in the absence of any new documentary evidence, the Authority has decided to maintain its earlier decision.

6. Rate of Return Allowed on ROE instead of WACC

6.1 EPCL requested to allow Weighted Average Cost of Capital instead of ROE allowed by the Authority. EPCL submitted that the overall project has to be considered instead of 25% equity on which NEPRA allowed return. EPCL submitted that WACC of Rs. 1.1617/kWh was computed in accordance with NEPRA guidelines, however, NEPRA has replaced it by ROE of Rs.0.4702/kWh, and the said replacement is a departure from the NEPRA defined tariff guidelines. EPCL further submitted that the power plant is Captive Power Plant, however, the gas turbine was commissioned in 1999 at 43:57 debt to equity ratio. EPCL requested to compute ROE on 57% equity and not on 25%. In addition to that, EPCL submitted that NEPRA has disallowed depreciation allowance amounting to Rs.0.5051/kWh. No reason has been given for the exclusion of this very important element.

6.2 It is to be noted that Captive Power Plant (CPP) has been defined in NEPRA Licensing (Application & Modification Procedure) Regulations – 1999 as under:

"Captive Power Plant" means Industrial undertakings or other businesses carrying out the activity of power production for self-consumption, who intend to sell the power, surplus to their requirement, to a Distribution Company or bulk-power consumer."

6.3 EPCL is a CPP which is willing to sell surplus power to the K-Electric. To all CPPs, NEPRA only allows return on equity. No debt servicing or Weighted Average Cost of Capital is allowed. The EPCL is allowed 15% IRR on equity similar to other CPPs. In view thereof, EPCL has been treated in the same manner and no discrimination is made. Keeping in view the aforesaid, the Authority has decided to maintain its earlier decision.

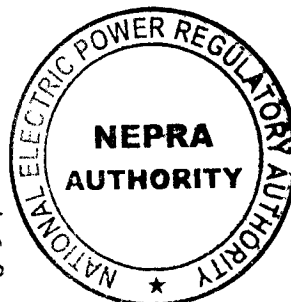
7. Exclusion of Depreciation from Tariff Calculations

7.1 EPCL submitted that wear and tear is a part of the project, which will be deteriorated with the passage of time. Accordingly, depreciation in the matter needs to be allowed as requested. EPCL requested to include depreciation as part of the allowed tariff. EPCL requested the Authority to allow Rs.0.5051/kWh on account of depreciation.

7.2 It is to be appreciated that the Captive Power Plant is installed by a person for his own purpose and surplus energy which may vary depending upon the business requirements is supplied to the grid. In the instant case, EPCL installed the machine for its own purpose which becomes Idle in case of addition of another power plant. EPCL intends to run this machine and supply 4.5 MW electricity to K-Electric which is surplus. As stated above, the Authority in all Captive

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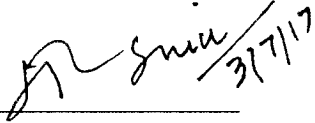


Power Plants allows only return on equity and no depreciation is considered or allowed. In view thereof, the contention of the EPCL is not valid in the matter.

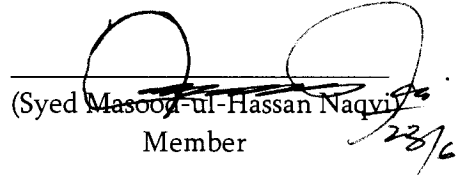
8. Decision

8.1 Keeping in view the above discussion, the Authority considers that EPCL has not provided any new evidence / record / information which requires modification of the earlier decision of the Authority, therefore, the instant Review Motion is hereby dismissed.

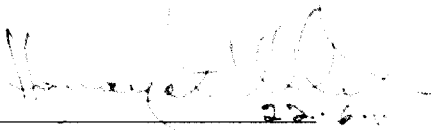
AUTHORITY


31/7/17

(Major (R) Haroon Rashid)
Member


22/6


(Syed Masood-ul-Hassan Naqvi)
Member


22/6

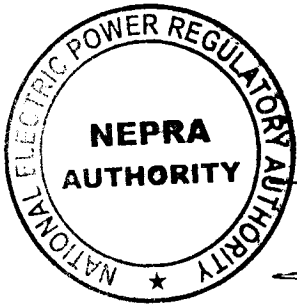
(Himayat Ullah Khan)
Member

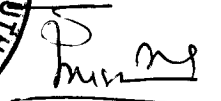


(Saif Ullah Chattha)
Vice Chairman 4.7.2017



(Brig. (R) Tariq Saddozai)
Chairman




07.07.17