



Registrar

# National Electric Power Regulatory Authority

## Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/PAR-179/KE(IIL)-2018/28461-28463

June 7, 2021

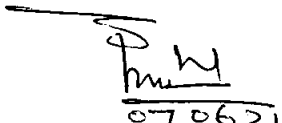
Subject: **APPROVAL OF POWER ACQUISITION REQUEST FILED BY K-ELECTRIC FOR PURCHASE OF UPTO 4 MW FROM INTERNATIONAL INDUSTRIES LIMITED (IIL) UNDER NEPRA INTERIM POWER PROCUREMENT (PROCEDURES & STANDARDS) REGULATIONS 2005 [CASE # PAR-179/KE(IIL)-2018]**

Dear Sir,

Please find enclosed herewith the subject approval of the Authority (06 pages) in Case No. NEPRA/PAR-179/KE(IIL)-2018.

2. The approval of the Authority is being intimated to the Federal Government for the purpose of notification in the official gazette in accordance with the provisions of Section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997).
3. The Order of the Authority's approval is to be notified in the official Gazette.

Enclosure: As above

  
070621  
( Syed Safer Hussain )

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

CC:

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



**National Electric Power Regulatory Authority**

**(NEPRA)**

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**Approval of**

**Power Acquisition Request Filed by ✓**

**K-Electric Limited**

**For Purchase of upto 4 MW from International Industries Limited**

**under**

**NEPRA Interim Power Procurement (Procedures & Standards) Regulations 2005**

**(No: NEPRA/PAR-179)**

**Islamabad**

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**1. Introduction**

- 1.1. International Industries Ltd. (IIL) is a public limited company located at Landhi Industrial Area, Karachi. The company claims to be the Pakistan's largest manufacturer of steel, stainless steel and plastic pipes with annual manufacturing capacity of 750,000 tons. IIL owns a captive power plant with the installed capacity of 4.38 MW comprising 4 x 1.09 MW GE Jenbacher gas engine. This is a cogeneration facility where the waste heat from the generator produces 2.7 tons of steam per hour through use of a locally produced DDFC waste heat boiler and the hot water from the water jacket of engines is passed through an absorption chiller made in China, to give 380 tons of chilled water to fulfill factory cooling requirements. The Company has a Gas Supply Agreement with SSGC. On full supply of gas at 1.22 MMCFD at ISO conditions, the unit can generate up to 4 MW Gross. The power plant is currently dedicated for supply of power to the manufacturing facility and surplus power export to K-Electric.
- 1.2. The Authority granted Generation License No. SGC/60/2010 dated 30<sup>th</sup> July 2010 to IIL for a period of 10 years which was expired on 29<sup>th</sup> July 2020. IIL vide letter dated 18<sup>th</sup> May 2020 submitted LPM in respect of extension of Generation License for a term of ten years i.e. 2029. The Authority modified the Generation License of IIL on May 28, 2021
- 1.3. K-Electric Limited (KE) and IIL entered into a Power Acquisition Contract on 18th April 2009 for sale and purchase of surplus power of up to 4 MW on take and pay basis for a period of five years. After the expiry of PAC in April 2014, First Addendum was executed on 26th May 2014 thereby extending the PAC for a period of 3 years with similar terms and conditions.
- 1.4. Upon expiry of First Addendum in April 2017, a Second Addendum was signed on 18th April 2017 for further period of 3 years and a copy of the same was submitted to NEPRA vide KE's letter dated 30th May 2017. NEPRA, vide letter dated 15 September 2017 directed KE to file a Power Acquisition Request under the IPPR-2005 for approval of PPA as well as approval of the extension of the PPA. Approval of PAR was issued vide decision dated 26<sup>th</sup> February 2019 wherein the Authority approved the following reference tariff:

**Reference Tariff**

Description	Rs./kWh	Indexation/Adjustments
Fuel Cost Component	5.9068	Variation in gas prices
Total O&M Cost Component:	1.6504	
Variable O&M	0.6600	CPI every two years
Fixed O&M	0.4966	CPI every two years
ROE	0.3871	
Insurance	0.1067	
<b>Total</b>	<b>7.5572</b>	



1.5. KE was directed to incorporate the same in the PAC and submit the same in line with the Regulation 5(1) of the IPPR-2005. KE vide letter dated 25<sup>th</sup> August 2019 submitted PAC for approval of the Authority. NEPRA vide letter dated 16<sup>th</sup> December 2019 issued approval of PAC between KE and IIL for three years from 18<sup>th</sup> April 2017 to 17<sup>th</sup> April 2020.

## 2. Filing of Fresh PAR

2.1. KE vide letter No. SBD/AR/NEPRA-0773/2020-0806 dated 6<sup>th</sup> August 2020 submitted the PAR seeking permission to procure power from IIL for another 3 years under Interim Power Procurement Regulation 2005 (IPPR-2005) w.e.f 18<sup>th</sup> April 2020. The Authority admitted the subject PAR on 15<sup>th</sup> September 2020.

2.2. KE requested the Authority to approve:

- i. The proposed power acquisition by K-Electric from IIL under IPPR 2005;
- ii. Review and approve the proposed Reference Tariff as provided in the Power Sale proposal which is same as the reference tariff for the sale of electricity by IIL to K-Electric on Take and Pay basis determined by NEPRA through its tariff decision No. NEPRA/PAR/179/KE(IIL)-2018/3269-3271 dated 26<sup>th</sup> February 2019.
- iii. Provide approval of PAC between KE and IIL, which will be submitted by KE after NEPRA's tariff determination and PAR approval.

2.3. KE further submitted that because of high demand for power in Karachi, KE and IIL have provisionally continued the power supply on the terms and conditions of the NEPRA approved PAC which expired on 17<sup>th</sup> April 2020. The parties also agreed to retrospectively apply the decision of the Authority in relation to this PAR as soon as the same is available.

## 3. Analysis and Recommendations

3.1. The tariff in respect of the subject power plant was determined following due process of law and providing an opportunity of hearing to the stakeholders. Since Power Acquisition Request (PAR) was submitted on the same terms & conditions and tariff, therefore, the Authority has decided to approve the same for further three years w.e.f. 18<sup>th</sup> April 2020.

3.2. According to the existing indexation mechanism applicable to IIL, the O&M components of tariff are required to be indexed after every two years. The last indexation was on the basis of CPI of 240.99 of March 2019 against the reference CPI of 220.25. Accordingly, the applicable indexed variable and fixed O&M components are Rs. 0.7221/kWh and Rs. 0.5434/kWh, respectively. Pakistan Bureau of Statistics has discontinued the publication of CPI for base year 2007-08 and replaced the same with CPI for base year 2015-16. In the light of that, the Authority has decided to re-fix the indexed variable and fixed O&M components as reference components which shall



be subject to future indexations after every two years on the basis of reference NCPI of 119.46 of March 2019.

3.3. Similarly the previous fuel cost component was worked out on reference HHV gas price of Rs. 600/MMBtu. The applicable HHV gas price is Rs. 1,021/MMBtu. Accordingly, the fuel cost component works out Rs. 10.0514/kWh and the same is being approved. As per the decision of the Supreme Court of Pakistan dated August 13, 2020 the application of Gas Infrastructure Development Cess has been discontinued w.e.f. 1<sup>st</sup> August 2020. The application of GIDC w.e.f. 18<sup>th</sup> April 2020 till 31<sup>st</sup> July 2020 shall be on the basis of actual payment, if any, to the gas supplier and fuel cost component shall be revised accordingly.

#### 4. Summary of Tariff

4.1. The summary of tariff is as under:

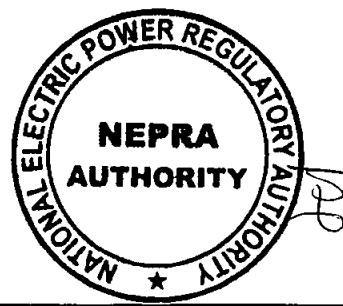
Description	Tariff Rs./kWh	Indexation/ Adjustment
Fuel Cost Component	10.0514	Gas Price
Variable O&M	0.7221	NCPI (General)
Fixed O&M	0.5434	NCPI (General)
ROE	0.3871	
Insurance	0.1067	
<b>Total</b>	<b>11.8106</b>	
<b>Reference Values:</b>		
Gas Price (Rs./MMBtu)	1,021.00	
NCPI (General) for the month of March 2019	119.46	

#### 5. Order.

5.1. The Authority hereby approves the following take and pay tariff for the purchase of gas based surplus power by K-Electric Limited from International Industries Limited with effect from 18<sup>th</sup> April 2020:

##### Reference Tariff

Description	Tariff Rs./kWh	Indexation/ Adjustment
Fuel Cost Component	10.0514	Gas Price
Variable O&M	0.7221	NCPI (General)
Fixed O&M	0.5434	NCPI (General)
ROE	0.3871	
Insurance	0.1067	
<b>Total</b>	<b>11.8106</b>	
<b>Reference Values:</b>		
Gas Price (Rs./MMBtu)	1,021.00	
NCPI (General) for the month of March 2019	119.46	



### Tariff Adjustments/Indexations

5.2. The reference tariff is subject to following indexations

#### Adjustment on Account of Gas Price

5.3. The fuel cost component shall be subject to gas price variation as notified by OGRA or any other body for captive power producers from time to time according to following mechanism:

$FCC_{(Rev)}$	=	$FCC_{(Ref)} \times GP_{(Rev)}/GP_{(Ref)}$
Where:		
$FCC_{(Rev)}$	=	Revised Fuel Cost Component applicable for the billing cycle
$FCC_{(Ref)}$	=	Reference FCC on Gas is Rs. 10.0514/kWh
$GP_{(Rev)}$	=	Revised Ex-GST HHV gas price applicable for the billing cycle as notified by OGRA for captive power plants
$GP_{(Ref)}$	=	Reference Ex-GST HHV Gas Price is Rs. 1,021/MMBtu

#### Adjustment on Account of Inflation

5.4. The O&M cost shall be subject to indexation every two years in the month of April on the basis of NCPI (General) as published by Pakistan Bureau of Statistics for the preceding month of March as per the following mechanism

$O\&M_{(Rev)}$	=	$O\&M_{(Ref)} \times CPI_{(Rev)}/CPI_{(Ref)}$
Where:		
$O\&M_{(Rev)}$	=	Revised Variable and Fixed Variable O&M components of tariff
$O\&M_{(Ref)}$	=	Reference Variable and Fixed O&M components of tariff of Rs. 0.7221/kWh and Rs. 0.5433/kWh respectively
$CPI_{(Rev)}$	=	Revised NCPI(General) index as published by Pakistan Bureau of Statistics
$GP_{(Ref)}$	=	Reference NCPI (General) of 119.46 for March 2019

5.5. As per the decision of the Supreme Court of Pakistan dated August 13, 2020 the application of Gas Infrastructure Development Cess has been discontinued w.e.f. 1<sup>st</sup> August 2020. The application of GIDC w.e.f. 18<sup>th</sup> April 2020 till 31<sup>st</sup> July 2020 shall be on the basis of actual payment, if any, to the gas supplier and fuel cost component shall be revised accordingly.

5.6. Fixed cost has been assessed on the basis of 9 months plant operation, in case of plant operation in three non-gas months; the power producer will be entitled only the fuel cost component and variable O&M.

5.7. The term of the contract shall be three (03) years with effect from 18<sup>th</sup> April 2020.

5.8. K-Electric is directed to incorporate the same in the Power Acquisition Contract and submit the same in line with the Regulation 5(1) of the IPPR-2005 for approval.



**6. Notification**

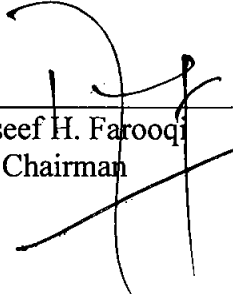
- 6.1. The above order is to be notified in the official gazette in accordance with the provisions of Section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act 1997.

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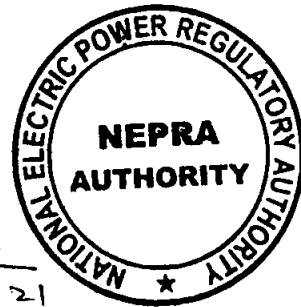
**AUTHORITY**

Rehmatullah Baloch  
Member

Engr. Rafique Ahmed Shaikh  
Member



Tauseef H. Farooqi  
Chairman



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