

TO BE PUBLISHED IN THE GAZETTE OF PAKISTAN
EXTRA ORDINARY, PART-II

National Electric Power Regulatory Authority

NOTIFICATION



Islamabad, the 22nd day of July, 2026

S.R.O. 1161 (I)/2026.- In pursuance of sub-section (7) of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (XL of 1997), NEPRA hereby notifies the Decision of the Authority dated June 22, 2026 in the matter of Mechanism/Guidelines for procurement of Imported Coal in Case No. NEPRA/TRF-UTC/2013.

2. While effecting the Decision, the concerned entities including Central Power Purchasing Agency Guarantee Limited shall strictly comply with the orders of the courts (if any) notwithstanding this Decision.

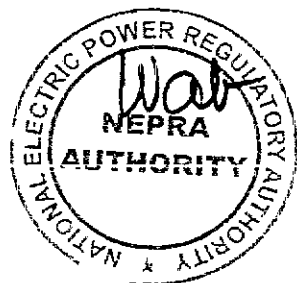

(Wasim Anwar Bhinder)
Registrar



MECHANISM / GUIDELINES FOR PROCUREMENT OF IMPORTED COAL

1. BACKGROUND

- 1.1. The Authority vide its decision dated June 26, 2014 determined upfront tariff for coal power projects. The Authority vide its decision dated September 23, 2016 prescribed revised fuel price adjustment mechanism for coal power projects. The Terms & Conditions of the said decision provides that the pricing mechanism shall be reviewed after three years when the actual coal price, quality, quantity, source etc, is available. It can be reviewed earlier if it is noted that current mechanism leads to a coal price that is unrealistic and detrimental to both the interest of consumers and the project sponsors.
- 1.2. Some of the coal power projects started providing electricity to the grid in 2017 and subsequently achieved CODs. The fuel price adjustment requests of these power plants were processed in accordance with the prescribed mechanism. By application of the mechanism it was realized that some revisions are required in the mechanism to make it more clear and transparent. Furthermore, the Authority hired Argus Media as a coal consultant in February 2018 to review the fuel price adjustment mechanism. Argus Media submitted its report on June 25, 2018.
- 1.3. Accordingly, notice of proceedings was published in leading newspapers on April 16, 2019 and intimation letters were also sent to relevant stakeholders inviting comments in the matter on following:
 - i. Potential new indices to be introduced in the mechanism on the basis of country of origin:
 - a. For Columbian coal, API-10 for NAR 6000 kcal/kg.
 - b. For Russian coal, Vostochny for NAR 6000 kcal/kg and NAR 5,500 kcal/kg.
 - ii. Potential new indices to be introduced in the mechanism on the basis of Calorific Value:
 - a. For South African Coal, API4 for ≥ 5850 kcal/kg.
 - b. For South African Coal, API3 or any other suitable index for ≥ 5300 kcal/kg.
 - c. For South African Coal, IHS or any other suitable index for calorific value < 5300 kcal/kg.
 - d. For Indonesian Coal, if the coal is around GAR 250 kcal/kg below the ICI3 index, then the use of ICI4 or any other suitable index.



- e. For Australian Coal, any other suitable index for calorific value < 5300 kcal/kg.
 - iii. For marine freight calculation, basis for the time charter rate:
 - a. BSI Tess 58 average time charter rate of all routes, or
 - b. BES Asia Tess 58 average time charter rate of all routes, or
 - c. Any other suitable time charter rate.
 - d. Suitable time charter rates for vessels other than Supramax.
 - iv. For marine freight calculations, basis for the bunker fuel rate:
 - a. For South African Coal, Platts 380 CST rate at Fujairah.
 - b. For Indonesia/Australia, Platts 380 CST rate at Singapore.
 - v. For marine freight calculation, computation of voyage days and port days.
 - vi. Inclusion of PDA charges as part of marine freight.
 - vii. Appropriate benchmark for L/C charges.
 - viii. Appropriate exchange rate for conversion of coal price in PKR.
 - ix. Any other matter pertinent to coal fuel pricing mechanism
- 1.4. In response to the advertisement and individual notices, comments from following stakeholders were received:
- i. IHS Markit
 - ii. Argus Media
 - iii. FFBL Power Company Limited (FPCL)
 - iv. Port Qasim Electric Power Company (Pvt) Limited (PQEPCL)
 - v. China Power Hub Generation Company Private Limited (CPHGC)
 - vi. Huaneng Shandong Ruyi (Pakistan) Energy (Private) Limited (HSR)
 - vii. Pakistan National Shipping Corporation (PNSC)
 - viii. PT Makmur Energy Resources
 - ix. MJM Energy Resources



x. CMC Coal Marketing

- 1.5. In order to further deliberate the matter, Sierra Vista Resources Pte, Ltd (SVR) was hired as a consultant through Asian Development Bank (ADB) in August 2020. The consultant submitted its report on October 11, 2021.

2. ISSUES FRAMED FOR HEARING

- 2.1. Based on the recommendations of the Consultant, following issues were framed and approved for the hearing:

- i. Whether the procurement of coal through tendering is justified?
- ii. Whether procurement of 10% - 20% coal from spot market is justified?
- iii. Whether the use of API-4 index for South African coal having CV ≥ 5850 (RB1) kcal/kg is justified?
- iv. Whether the application of published price differentials (discounts) of 5700 (RB2), 5500 (RB3) and 4800 to API 4 for South African coal having CV < 5850 is justified?
- v. Whether the use of average of M50 and ICI-3 indices for Indonesian coal of CV ≥ 4600 kcal/kg (NAR) instead of ICI-3 is justified?
- vi. Whether the use of average of M42 and ICI-4 indices for Indonesian coal of CV $< 4,600$ kcal/kg instead of ICI-3 is justified?
- vii. Whether the use of gC NEWC for Australian coal having CV ≥ 5850 kcal/kg and with appropriate discount for CV between < 5850 and 5600 kcal/kg is justified?
- viii. Whether the use of API 5 for Australian coal having CV between < 5600 and 5300 kcal/kg and with appropriate discount for < 5300 is justified?
- ix. Any other relevant issue arising during the proceedings.

3. HEARING

- 3.1. Public Hearing in the matter was scheduled on February 28, 2022. Accordingly, Notice of Hearing was published on February 09, 2022 inviting stakeholders to file comments/intervention. Hearing was held as per schedule and was attended by the representatives of CPPA-G, PPIB, IPPs, Argus Media and IHS Markit, among others.
- 3.2. Re-hearing in the matter was scheduled on September 21, 2023. Accordingly, notice of re-hearing was published on September 19, 2023. Hearing was held as per schedule and was attended by the representatives of CPPA-G, PPIB, IPPs, Argus Media and IHS Markit, among others.



4. COMMENTS FROM STAKEHOLDERS

4.1. In response to the notices of hearing, comments received from stakeholders are summarized hereunder:

Argus Media:

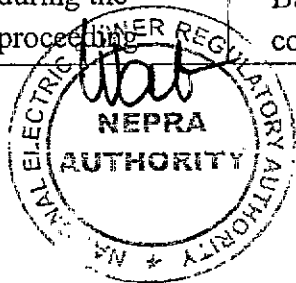
Issues Framed	Comments
Issues No. i & ii	- The method of procurement of coal is the decision of the regulator and commercial entities. - What is important is that the coal is procured on a price relevant to the market, using established benchmarks for the various different grades and origins
Issue No. iii	- The API 4 index is based on NAR 6000 kcal/kg South African coal with a minimum CV of NAR 5,850 kcal/kg. - Recent tight supply globally has caused physical South African coal to price at a significant premium to the API 4 but it remains the key benchmark for South Africa.
Issue No. iv	- Application of the published differentials for these coals is justified. - The differentials we assess accurately reflect the levels at which these grades of coal are trading relative to API 4. - Counterparties are expressing an interest in using these prices alongside API 4 in their contracts to capture changing fair value in a very volatile market. - Use of the differential prices would allow NEPRA to capture the different values between the different grades of coal more accurately over a sustained period of time.
Issue No. v	- ICI 3 is the preeminent benchmark for 4,600 kcal/kg (NAR) Indonesian export tonnes. - We are not aware of M50 being used to price any physical Indonesian coal and ICI 3 has been accepted as the market benchmark for this grade of coal. - Therefore there is no justification to switch from ICI 3 to M50.
Issue No. vi	- ICI 4 is the established market accepted benchmark for 3,800 kcal/kg (NAR) Indonesian export tonnes. - M42 (IHS's equivalent to ICI 4) has not been accepted by the market, - We haven't heard of using any counterparties the average of M42 and ICI4, but we have heard of instances where the average of ICI 4 and ICI 3 has been used. - In fact there are many cases of averaging ICI3 and ICI4 to price Indonesian coal of between NAR 3800 and NAR 4600, such as NAR 4200. - Indonesian coal of CV between NAR 4200 and 4600 is normally priced at a discount to ICI3.
Issue No. vii	Australian coals in the NAR 5600-5850kcal/kg range are usually priced relative to gC Newc.



Issues Framed	Comments
	• However Argus publishes a range of prices that would provide better alternatives. Argus publishes the NAR 5,800 fob Newcastle price which has been in existence for over 2 years. • Argus also publishes the API 5 price for NAR 5,500 kcal/kg exports from Newcastle. This could be used with an appropriate premium to price these types of coals.
Issue No. viii	• API5 is widely accepted throughout the market to price Australian coal with CV of NAR 5,500 kcal/kg with a premium or discount depending on the key specifications such as cv, ash, moisture content etc.

IHS Markit:

Issues Framed	Comments
Issue No. iii	• We agree that the API-4 index is justified
Issue No. vi	• We agree that these price differentials are justified. • We suggest that the most applicable source for these differentials is the Argus/McCloskey Coal Price Index Report
Issue No. v	• We agree that the average of the M50 and ICI-3 indices is justified. • The M50 is used to price physical Indonesian coal contracts globally and is the sole index used for the procurement of coal of this quality by Malaysian power generator Tenaga Nasional Berhad (the largest publicly-listed power company in Southeast Asia). • We also understand that this index is being extensively used by Chinese power generators for the same purpose. • We also suggest that the M50 could be used solely for the pricing of this quality of coal. • It has been audited to a "reasonable" level as recommended by the International Organization of Securities Commissions (IOSCO).
Issue No. vi	• We agree that the average of the M42 and ICI-4 indices is justified. • The M42 has become the Indonesian benchmark for the only traded futures market for this quality of coal, which is on the Singapore Exchange (SGX). • It has been audited to a "reasonable" level as recommended by the International Organization of Securities Commissions (IOSCO). • This index is also used to price physical contracts. • We also suggest that the M42 could be used solely for the pricing of this quality of coal.
Issues No. viii	• We agree that the API 5 index is justified
Any other matters arising during the proceeding	• Assurance reviews for the McCloskey Indonesian (4,200 kc GAR) FOB marker (M42), the McCloskey Indonesian sub-bituminous FOB marker (M50), McCloskey Richards Bay FOB marker (API 4*), Australia (5,500 kc NAR) FOB marker (API 5*) were conducted by independent professional services firm PriceWaterhouseCoopers (PwC)



Issues Framed	Comments
	and examined the / 3 policies, processes and controls that the McCloskey coal team unit to establish price benchmarks for thermal coal. • These policies, processes and controls are designed to ensure compliance with the principles for price reporting agencies (PRAs) set out by IOSCO. • An Audit carried out by an independent external auditor is an annual requirement under the IOSCO Principles (2.21) and therefore been embedded in IHS McCloskey's compliance framework. • Considering the maturity and transparency of the Indonesian market we believe that the highest levels of compliance and independence are appropriate for any end-user. • The McCloskey Indonesian (4,200 kc GAR) FOB marker (M42) and the McCloskey Indonesian sub-bituminous FOB marker (M50) are the only Indonesian coal prices indices, cited above, to have passed external assurance reviews to a "reasonable" level against the IOSCO principles for Price Reporting Agencies. • A number of IHS Markit markers are components of the API indices that are published in the Argus/McCloskey Coal Price Index Report.

PQEPCL

Issues Framed	Comments
Issue No. iii & iv	• PQEPCL is against the application of price differentials on the coal price index without consultation and it violates the established policy of NEPRA • As per discussion with traders, miners and consultants, the application of price differentials on coal price index, is not considered a correct estimation for coal pricing. • Coal suppliers have confirmed that price differentials are not in line with the actual market conditions and they cannot supply coal in case the price differentials are applied.

CPHGCL

Issues Framed	Comments
Issue No. iii & iv	• The limiting of API-4 to only RB1 coal of NCV $\geq 5,850$ Kcal/kg is not a justifiable option as the actual import of NCV of power plants have already a price adjustment formula duly instructed by NEPRA under the tariff Decision dated September 23, 2016. • RB1 coal is exceptional quality and its trading is mostly done at "API4 + premium". • The differentials reported by Argus Agency are based on the data collected from general market coal trades and do not account for the specific long term coal supply contracts. The same has been clarified by the representatives of Argus during the hearing session. • The differentials of API-4 do not account for the quality parameters, availability of coal despite any economic scenario, delivery of coal within a specific time limit as defined by the power plants, LDs and penalties on the coal supplier in case of non-performing under the long-term CSA

Issues Framed	Comments
	• It is suggested to further elaborate the Argus data collection and its publication mechanism, before any decision. • Consensus from the renowned international coal supplying companies, market experts should be sought on API-4 differential applicability on long term agreement(s). • Conditions of the power purchase agreement should be reviewed in line with the availability and technical design aspects.
Issue No. v & iv	• It is an international commodity market trade practice to apply ICI-3 on the coal of GAR ≥ 4600 kcal/kg. • The ICI provides indicative prices for the five most referenced grades of Indonesian coal. • ICI has drawn strong attention and support from the Indonesian government and the Indonesian Coal Mining Association (ICMA) as well as from the international market.
Additional Issues	Exchange Rate: • The exchange loss suffered by the company due to the difference between the exchange rate allowed by NEPRA and the LC settlement rate. • In recent years, due to massive devaluation of PKR against US\$, the company has suffered a net loss to the tune of PKR 7 Billion which is against the spirit of FCC being a pass-through item. LC Charges: • Moreover, the Authority should consider the actual LC charges paid to the bank by the company rather than allowing upto US\$ 0.1/Ton • As per general practice in vogue in the banking industry of Pakistan, most bank charges @ 0.1% of the CFR value of the shipment. Establishment of Agency for Procurement of Coal • For the uninterrupted supply of coal to power plant, Government of Pakistan is suggested to establish an agency for the procurement of coal with the same model as LNG supply in Pakistan, to have "the centralized procurement and supply chain". Existing Price Mechanism: • Based on the existing price mechanism of NEPRA, our company is already suffering huge losses in the form of exchange rate, LC charges, freight price and slow recovery. Any revision in the coal pricing mechanism shall make the operations impossible in this volatile economic situation where the commodity prices are fluctuating and there is a shortage of coal availability. Suo Moto Review Proceedings: • Comprehensive information shall be shared with IPPs for comments before amending the decision of the Authority regarding the Suo Moto review proceedings dated September 23, 2016.

5. CONSIDERATION OF THE VIEWS OF THE STAKEHOLDERS, ANALYSIS AND DECISION ON IMPORTANT ISSUES

- 5.1. The issue wise discussion, submissions of stakeholders, analysis and decision are provided in the succeeding paragraphs:

6. WHETHER THE PROCUREMENT OF COAL THROUGH TENDERING IS JUSTIFIED?

- 6.1. The consultant (Sierra Vista Resources) submitted that in the commodity market, tendering is utilized by many participants to either procure or sell different commodities. Importantly, tendering provides the buyer or seller the option to dictate the terms of the tender, which include the process, procedures, and participants in the auction along with any other special conditions that may apply, including price targets, volumetric requirements, delivery parameters (Incoterms), floor/ceiling price mechanisms, and many other commercial and structural parameters. Importantly, these tenders can be deployed either by a single party (i.e. - Power producer) or jointly as a group (i.e. - Group of Power producers) to leverage the scale of the group in terms of participation and volume of commitment. Listed below are some important objectives that a Power producer could achieve when conducting a tender for supply of Thermal coal:

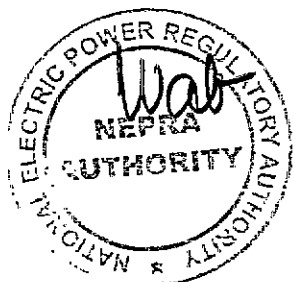
- Price transparency (when specified) in the marketplace for the specific product, tenor, volume, and terms for auditing (i.e. - announcing the tender awards to the market).
- Increasing the Pool of Potential Suppliers (i.e. - Producers, Banks, and Physical Traders) to achieve the best offer price, quality of product, volume commitment, and contractual terms.
- Developing a procurement relationship with a wider group of Suppliers; thusly, increasing the Power producer's network and knowledge of the marketplace.
- Employing best practices in procurement processes with the Power producer's company.
- Building a portfolio of contracts for supply with different tenors, qualities, origins, and delivery terms.
- Enhancing the overall speed and efficiency of procurement through the use of new auction methods, including e-tenders and other mechanisms to aid the Power producer.

- 6.2. The submissions of the consultant have been examined. Tendering ensures transparency, audit trail, improves quality, enhances competition and efficiency in the procurement process, create value for money and brings cost savings. Tendering is always considered as a tool to bring cost reductions.



6.3. Accordingly, the Authority has decided that the procurement of coal (spot, medium and long term) shall be made through tendering / bidding. Following general guidelines for tendering / bidding shall be applicable:

- i. The process to procure coal shall be transparent and the buyer shall ensure that it reaches out to maximum number of suppliers (international and local) through advertised publications with sufficient time given to suppliers, at least seven (07) days, to ensure a competitive process.
- ii. The bidding process shall be in compliance with all applicable laws and in accordance with best international practices. The buyer shall ensure that the entire bidding process and the execution of the coal supply agreement is carried out:
 - a) Prudently and on the basis of commercially reasonable terms and conditions. While determining prudence and commercial reasonability due regard shall be given to prevailing market conditions and best practices.
 - b) Uniformly, consistently, and in a non-discriminatory manner with respect to all prospective bidders.
- iii. The entire bidding process shall be comprehensively documented to ensure fairness, accountability and shall be fully traceable, i.e. through publication / execution of relevant documents, at every stage of the bidding.
- iv. The currency of the coal supply agreement for local coal supplier shall be in Pak Rupees and for foreign coal suppliers shall be in US Dollar, Pak Rupees or any other permitted currency.
- v. The Request for Proposal (RFP) document shall include the grievance redressal procedure for the tender/bid participants.
- vi. The coal specifications shall be prescribed by each buyer as per its requirements.
- vii. The price cap shall be API-4 $\pm$ applicable published price differentials. Marine freight, marine insurance, port handling charges, taxes & duties, other incidental charges and inland freight, if any, shall be as per existing practice.
- viii. Discount on the coal price index shall be included as a major evaluation criterion in the RFP.
- ix. While ensuring compliance with these guidelines, the parties shall enter into the coal supply agreement directly. However, the Authority may disallow any fuel cost exceeding the approved benchmark, costs arising from imprudent practices, or costs that are incurred as a consequence of violation of these guidelines, notwithstanding the execution or subsistence of the coal supply agreement.

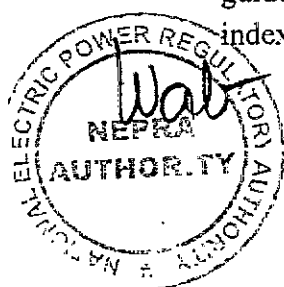




- x. The Authority may conduct an ex-post facto review of the bidding process. In case of a violation, the Authority may take appropriate action including, but not limited to, the imposition of a penalty and / or declaration of the coal supply agreement as void.

7. WHETHER PROCUREMENT OF 10% - 20% COAL FROM SPOT MARKET IS JUSTIFIED?

- 7.1. According to the consultant, a large variety of different thermal coal buyers were examined for their different portfolio procurement practices. By understanding these market practices, this aids in determining a suitable mix of procurement tenors that the buyers could use in their portfolio. Buyers have a variety of options when it comes to building their procurement portfolio.
- 7.2. According to the consultant, different levers can be employed to ensure that the buyer has developed a diversified portfolio as well as managing various performance (volume/quality), pricing, and country risks. In addition, the buyers can further delineate their procurement strategies by considering both the quality (Branded vs. Generic) and the utility of the coal (i.e. – Straight burn vs. blending). In this way, the buyers have developed more optionality and risk mitigation into their overall portfolio
- 7.3. The consultant submitted that in most cases, both the Medium and Long-term tendering were considered as part of the same category as some utilities preferred to be able to spread their tonnage through the medium-term period (i.e. - 6 – 12 months forward) and multi-year contracts (> 6 months) in this category. The definition of Spot tonnage ranged from current to six (6) months forward, dependent upon the utility.
- 7.4. The consultant submitted that for Medium and Long-term procurement (> 6 months to multi-year contracts), this percentage should be fixed somewhere in the 75 – 95% of full demand to the plants. This provides security of supply and doesn't expose the Buyers unnecessarily to variances in market pricing or supply reliability. For the spot portion of the tonnage, a range of 10% - 20% is recommended for the buyers to allow them the ability to purchase tonnages to properly balance their existing demand profile as well as procuring tonnages at opportune times (i.e. – when the price is attractive).
- 7.5. The submissions of the consultant have been examined. The consultant recommended that 10%–20% of the total coal requirement may be procured through spot purchases. The existing PPAs of coal-based power plants provide flexibility to procure up to 10% through spot purchases and more than 10% with prior approval of the power purchaser. Accordingly, the Authority has decided to maintain the mechanism for spot procurement as provided in the PPAs.
- 7.6. The procurement of spot coal from international market shall also be made under the above guidelines and the mechanism for imported coal shall be applicable i.e. average coal price index of the Bill of Lading month $\pm$ published price differentials, marine freight, etc.



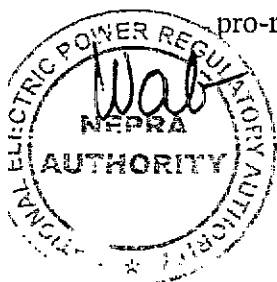


However, for procurement of spot coal from local market, the guidelines dated January 02, 2023 shall remain applicable.

8. WHETHER THE USE OF API-4 INDEX FOR SOUTH AFRICAN COAL HAVING CV $\geq$ 5850 (RB1) KCAL/KG IS JUSTIFIED?

WHETHER THE APPLICATION OF PUBLISHED PRICE DIFFERENTIALS (DISCOUNTS) OF 5700 (RB2), 5500 (RB3) AND 4800 TO API 4 FOR SOUTH AFRICAN COAL HAVING CV $<$ 5850 IS JUSTIFIED?

- 8.1. In accordance with the decision dated September 23, 2016, API-4 coal price index has been used to determine price of coal imported from South Africa for all quality grades of coal. The API-4 index is based on NCV of 6,000 Kcal/Kg. IPPs have mostly imported coal from South Africa having NCV $<$ 5,850 Kcal/Kg.
- 8.2. The consultant submitted that the coal qualities that are typically delivered to Pakistan are usually less than the minimum quality of the API-4 Index specification (i.e. – 5,850 NAR min qualities). A small sample of South African cargoes delivered to Pakistan had the following quality: ~ 5,620 kcal/kg NAR, 0.67% Sulphur, 18.1% Ash, 7.7% Total Moisture, and 22.7% Volatile Matter quality.
- 8.3. According to the consultant, if this average quality of a sample of imports from Richards Bay is compared, the quality of the API#4 Index is much better when considering the minimum CV requirement for its assessment at 5,850 kcal/kg NAR. The differential between the average CV procured and the minimum CV in the API-4 Index is fairly large, which cannot be captured solely in a simple pro-rate CV adjustment, which doesn't account for the other quality differences versus the API-4 Index specification. Therefore, this should be taken into consideration with the implementation of a discount to the CV adjusted API-4 Index price when comparing the index to lower quality material (i.e. – below the minimum specifications in the API#4 Index).
- 8.4. The consultant further submitted that having a specification difference doesn't preclude the use of API-4 Index as a pricing mechanism, other than taking into effect that the relationship in overall prices between the API-3 and the API-4 index is not linearly related. Rather it is related by a linear pro-ration coupled with a relative discount, dependent if the CV is either 5,700 NAR or 5,500 NAR kcal/kg. Therefore, when the Power plants are negotiating their Coal Supply Agreements (CSA), they need to be mindful of the appropriate discounts to be applied to their pricing formulas in addition to the CV pro-rata adjustments.
- 8.5. According to the consultant, as for the application of the different indices, in general the RB1 physical specification, which most closely aligns with the API-4 Index specification would be applied from $\geq$ 5,800 kcal/kg NAR. However, the API-4 Index can be used for lower grade thermal coal (i.e. - $\geq$ 5,300 kcal/kg NAR) if the appropriate discounts (along with a pro-rata CV adjustment) are applied to reflect the true value of these coals.





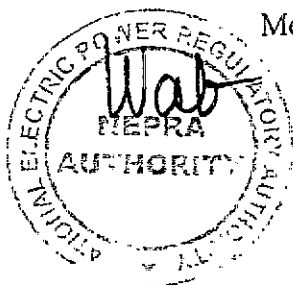
- 8.6. With respect to use of API-3 index, the consultant submitted that the use of the API-3 Index is not widespread in the physical marketplace as the vast majority of the physical tonnes that are index linked are priced versus the API-4 Index. In some situations, the Suppliers may insist on utilizing the API-4 Index as this index has more liquidly traded in the market and it helps them to organize supply (as a Trader) from their Ultimate Seller (i.e. – Miner) or as a Supplier selling into the marketplace. Some Suppliers may insist on an API-4 Index basis when selling their Thermal coal into the international seaborne market.
- 8.7. According to the consultant, the average specifications of coal procured are well within the specification of the API#3 Index. Most of the differentials are within an acceptable range; however, the Ash differential is larger given that the typical coal procured into Pakistan is lower in terms of both Ash and Total Moisture versus the API-3 Index maximum limits. Therefore, there is not a perfect fit with the API-3 Index; however, the CV and Sulphur look to be well within the specification parameters. Some suppliers may insist on an Ash premium if the sales are linked to an API-3 Index. Even though it seems like the coal procured fits nicely within an API-3 Index specification, it may still be difficult to recommend pricing on this basis as it could fundamentally change the pricing scheme for these types of coals that were originally sold on an API-4 Index basis, including simple CV pro-ration
- 8.8. Accordingly, the consultant recommended that the API-4 Index is sufficient for a wide variety of coals < 5,850 kcal/kg NAR with an appropriate discount applied for the appropriate coal quality. According to the consultant, the price reporting agencies report on the various quality differentials on a daily basis and these can be applied to the API-4 Index (with the appropriate CV adjustment) to better understand the absolute price of the coal. For any coals that are < 5,700 NAR, the 5,500 NAR or 4,800 NAR published discount (representing the spot discount for the corresponding grade of coal) can be utilized as a starting point and then adjusting the prices further as necessary. However, when taking all of this into consideration, it would be preferable to match the thermal coal index with the physical coal procured to minimize the basis risk. However, this would be dependent upon the underlying liquidity in the index instrument.
- 8.9. With respect to application of published discounts, the consultant recommended that in order to ensure there is full transparency in the process of estimating the various prices for 5,700 NAR; 5,500 NAR; and 4,800 NAR products, the published discounts to the API-4 Index should be used to determine the appropriate price. However, due to these prices approximating the 'spot' market (i.e. - next 60 day period), an additional adjustment will need to be made given the volatility over time with the price discounts relative to the API-4 Index price. The price will need to be further adjusted as follows for the appropriate price band:

Spot Period (0 – 6 months)

Use the McCloskey Differential $\times$ 85%

Medium Period (7 – 12 months)

Use the differentials above $\times$ 75%



Long Period (> 12 months)

Use the differential above $\times 50\%$

8.10. The consultant provided following reasons for further adjustment of price:

- Expectation that the power producers are partially successful in negotiating discounts with the suppliers given their leverage in the discussion
- The acceptance that a supplier will fight hard to keep their original pricing scheme in the contracts given the precedence that has been set with the power producers
- Pakistan is a smaller market; therefore, this might disadvantage a shipowner if they deliver into Pakistan for their next ballast voyage location
- It is hard to obtain the published discounts that are displayed on the forward curves for longer dated supply (i.e. – greater than 4 or 5 months dated)
- Different suppliers value the discounts differently; therefore, there is not one clear answer to price these coals

8.11. The consultant further submitted that the discounts do swing around quite a lot; therefore, it is hard to apply a simple rule to this pricing. At this point, it is better to try utilizing the published discounts to determine the appropriate price differential in the near term and adjusted as per IPPs discussion with suppliers. This methodology will need to be adjusted over time to ensure that the calculation is robust and fit for purpose. The methodology should be applied with caution and informed judgment, as there is no precise way to predict outcomes of long-term negotiations.

8.12. PQEPCL vide letter No. PQEPC/NEPRA/2022-6 dated February 22, 2022 submitted that the application of price differentials on the coal price index to calculate a fixed price without consultation with the plant, coal suppliers and other relevant parties is against the spirit and practice. Pursuant to NEPRA's established tariff policy, PQEPCL signed coal supply and transportation agreement with coal suppliers according to which the payment is made as per the applicable coal price index and does not provide for any differential.

8.13. According to PQEPCL, as per its discussion with traders, miner and consultant, the application of price differentials on the coal price index, proposed by NEPRA for South African and Indonesian coal is not considered a correct estimation for coal pricing which in turn will result in discrepancies between the fixed price calculated after accounting for price differentials and actual transaction price.

8.14. PQEPCL further submitted that coal suppliers have also confirmed that the price differentials adopted by NEPRA as per the decision of NEPRA in the matter of fuel price adjustment for January 2022 are not in line with the actual market conditions and therefore, they cannot supply coal in case the price differentials are applied to the coal pricing index.

- 8.15. According to PQEPCL, it has no profit in the fuel cost component, and has been on the verge of capital chain rupture on account of huge delayed payments from the power purchaser. This in turn has resulted in the company suffering huge exchange losses, even in instances without any deductions in fuel price adjustment. NEPRA has unilaterally changed the tariff adjustment mechanism on account of applying the price differentials on the coal price index which has resulted in undue deduction in fuel price adjustment of January 2022 for the company. This shall further aggravate the loss of the company having a serious impact on operations and power generation and would further pose a threat to Pakistan's energy security.
- 8.16. In view of the above, PQEPCL requested NEPRA to take into consideration the actual market conditions and adjust the fuel cost as per the applicable coal price index without the application of price differentials in order to allow recovery of coal price on actual basis.
- 8.17. CPHGCL vide letter CPHG-NEPRA/HOL-REG/0165 dated October 03, 2023 submitted that limiting of API-4 to only RB1 coal of NCV $\geq 5,850$ is not justifiable option as the actual coal import NCV of power plants already have a price adjustment formula duly instructed by NEPRA under the tariff decision of Authority regarding the Suo Moto review proceeding dated September 22, 2016. It is pertinent to mention that RB1 coal is exceptional quality and its trading is mostly done at "API4 + premium". Therefore, sourcing of RB1 coal for constant supply is not a viable option. Furthermore, our long-term coal supply contracts do not have provisions to allow premium to coal suppliers.
- 8.18. According to CPHGCL, Argus is a very reputable index publication agency and their data represents the general market perspective, however, the IPPs have the regulatory requirements under the power purchase agreements, in order to ensure the availability of power plants, the coal sourcing contracts with international coal suppliers have been entered upon specific terms and conditions rather than the generic commodity trades. Hence, the differentials reported by Argus agency are based on the data collected from general market coal trades and do not account for long term coal supply contracts. The same has been clarified by the representative of Argus during the hearing session.
- 8.19. CPHGCL further submitted that the differentials of API-4 do not account for quality parameters, availability of coal despite any economic scenario, delivery of coal within a specific time limit as defined by the power plants, LDs and penalties on the coal supplier in case of non-performing under the long-term coal supply agreement.
- 8.20. The submissions of the consultant and power plants have been reviewed. It would be pertinent to mention that Argus Media and IHS Markit have supported application of published price differential. Argus Media vide email dated February 22, 2022 submitted following comments:

"We believe that application of the published differentials for these coals is justified. The differentials we assess for NAR 5,700 kcal/kg (min), 5,500 kcal/kg and 4,800 kcal/kg

accurately reflect the levels at which these grades of coal are trading relative to API 4, and there is general interest across the industry in having this additional transparency. While API 4 remains the preeminent benchmark for South African coal, there is less and less of the grade it is assessing (NAR 6,000 kcal/kg). Given the off specification grades all predominantly trade relative to API 4 (rather than on a flat price basis), the differential prices are key to understanding dynamics in these different but closely related markets. Furthermore, counterparties are expressing an interest in using these prices alongside API 4 in their contracts to capture changing fair value in a very volatile market. Use of the differential prices would allow NEPRA to capture the different values between the different grades of coal more accurately over a sustained period of time."

8.21. IHS vide email dated February 24, 2022 submitted following comments:

"We agree that these price differentials are justified. We suggest that the most applicable source for these differentials is the Argus/McCloskey Coal Price Index Report."

8.22. As provided in Para No. 8.9, the consultant proposed an adjustment to the price differentials. However, the suggested methodology may result in a price that is higher than the price derived from a simple linear (pro-rata) adjustment based on NCV. Accordingly, the same has not been considered.

8.23. It is important to highlight that, since December 2023, IPPs have been procuring coal under both spot and long-term agreements from local and international suppliers. All such agreements contain provision for the application of price differentials in cases where the actual NCV of coal is less than 5,850 kcal/kg. In addition to that, most of these agreements also include a discount on the coal price index.

8.24. Considering the foregoing in view, it is evident that the market has already accepted the price differentials for lower quality of coal and a simple pro-rata CV adjustment is not reflective of actual value of the coal. Accordingly, the Authority has decided that API-4 coal price index along with applicable price differentials shall be used for South African coal for NCV <5,850 kcal/kg. No price differential shall be applicable for coal having NCV $\geq$ 5,850 Kcal/kg.

9. WHETHER THE USE OF AVERAGE OF M50 AND ICI-3 INDICES FOR INDONESIAN COAL OF CV $\geq$ 4600 KCAL/KG (NAR) INSTEAD OF ICI-3 IS JUSTIFIED?

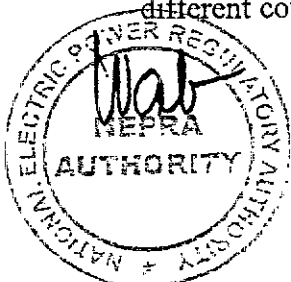
WHETHER THE USE OF AVERAGE OF M42 AND ICI-4 INDICES FOR INDONESIAN COAL OF CV < 4,600 KCAL/KG INSTEAD OF ICI-3 IS JUSTIFIED?

9.1. The Authority in its decision dated September 23, 2016 decided to use ICI-3 index for coal imports from Indonesia. Primarily, PQEPCIL has been importing Indonesian coal having CV $\pm$ 4,600 Kcal/Kg (NAR). Moreover, the only other approved index for Indonesian coal for



lesser CV is ICI-5 for 3,000 Kcal/Kg (NAR) lignite coal in case of Lucky Electric. In case of FFBL, ICI -2 was also approved for CV 5,500Kcal/Kg (NAR).

- 9.2. According to the consultant, for the Indonesian sub-bituminous market, there are only two index providers that are recognized for pricing cargoes, McCloskey and Argus. The 5,000 kcal/kg GAR indices consist of the McCloskey's M50 index and the Argus/PT Coalindo's ICI-3 index. For reference, Argus partners with PT Coalindo, which is an Indonesian company, whereby the Argus and PT Coalindo indices are averaged to produce the 'ICI' suite of Thermal coal indices in Indonesia.
- 9.3. According to the consultant for the Indonesian market, there is a definite distinction between the qualities of a respective 5,000 GAR kcal/kg product and a 4,200 GAR kcal/kg product. However, having said this, when looking at the price differentials over time between these indices, the index differentials on an outright basis are very small when compared over time and for reference, the differentials between the M-50 and ICI-3 averaged ~ \$ (0.17)/mt since 2017 and the differential averaged \$ 0.20/mt from 2019 to year-to-date. Similarly, the differentials between the M-42 and ICI-4 averaged ~ \$ (0.12)/mt since 2017 and the differential averaged \$ (0.07)/mt from 2019 to year-to-date.
- 9.4. According to the consultant the importance here is where to make the separation between the use of the 5,000 kcal/kg GAR products and the 4,200 kcal/kg GAR products. For reference, the minimum specification for consideration for the M50 index is $\geq 4,800$ kcal/kg GAR and the same is true for the Argus index; however, there is no minimum specification for the ICI-3. In reality, suppliers will base their pricing on the 5,000 GAR index for coal that falls slightly below the 4,800 kcal/kg GAR min specification for the M-50 and Argus specifications.
- 9.5. Accordingly, taking this into consideration, the consultant recommended to use an average of the existing 5,000 kcal/kg GAR indices for both the McCloskey M50 and the Argus/PT Coalindo ICI-3 indices for any coals procured $\geq 4,600$ kcal/kg GAR. Moreover, the consultant recommended to use an average of the existing 4,200 kcal/kg GAR indices of both the McCloskey M42 and the Argus/PT Coalindo ICI-4 for coal assessments $< 4,600$ kcal/kg GAR.
- 9.6. CPHGCL vide letter CPHG-NEPRA/HOL-REG/0165 dated October 03, 2023 submitted that it is an international commodity market trade practice to apply ICI-3 on the coal of GAR ≥ 4600 kcal/kg. The ICI provides indicative prices for the first five most referenced grades of Indonesian coal. The ICI is the driver for official Indonesian HBA (or known also as Indonesia Coal Price Reference, ICPR). According to CPHGCL, ICI has drawn strong attention and support from the Indonesian government and the Indonesian Coal Mining Association (ICMA) as well as from the international market. Companies in more than 30 different countries currently subscribe and procure coal based on the ICI indices.



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- 9.7. Argus in its comments submitted that ICI 3 is the preeminent benchmark for 4,600 kcal/kg (NAR) Indonesian export tonnes and that they are not aware of M50 being used to price any physical Indonesian. ICI 3 has been accepted as the market benchmark for this grade of coal, therefore, there is no justification to switch from ICI 3 to M50. Argus further submitted that ICI 4 is the established market accepted benchmark for 3,800 kcal/kg (NAR) Indonesian export tonnes. M42 has not been accepted by the market. According to Argus they haven't heard of using any counterparties the average of M42 and ICI4, but they have heard of instances where the average of ICI 4 and ICI 3 has been used. In fact there are many cases of averaging ICI3 and ICI4 to price Indonesian coal of between NAR 3800 and NAR 4600, such as NAR 4200. Indonesian coal of CV between NAR 4200 and 4600 is normally priced at a discount to ICI3.
- 9.8. Contrary to Argus, IHS Markit submitted that the average of the M50 and ICI-3 indices is justified and that the M50 is used to price physical Indonesian coal contracts globally and is the sole index used for the procurement of coal of this quality by Malaysian power generator Tenaga Nasional Berhad (the largest publicly-listed power company in Southeast Asia). Further they also understand that this index is being extensively used by Chinese power generators for the same purpose and also suggest that the M50 could be used solely for the pricing of this quality of coal. It has been audited to a "reasonable" level as recommended by the International Organization of Securities Commissions (IOSCO). IHS further submitted that the average of the M42 and ICI-4 indices is justified. The M42 has become the Indonesian benchmark for the only traded futures market for this quality of coal, which is on the Singapore Exchange (SGX). Both M50 and M42 have been audited to a "reasonable" level as recommended by the International Organization of Securities Commissions (IOSCO). M42 is also used to price physical contracts and suggested that M42 could be used solely for the pricing of this quality of coal.
- 9.9. The submissions of the consultant, CPHGCL, Argus and IHS have been examined. Considering the nominal price difference between the two indices (Argus and McCloskey), as indicated by the Consultant, the Authority has decided that following coal price indices shall be applicable for Indonesian coal:
- ICI-2 for coal having CV 5,500 Kcal/kg (NAR).
 - ICI-3 for coal having CV $\geq$ 4,200 Kcal/kg (NAR).
 - ICI-4 for coal having CV $<$ 4,200 Kcal/kg (NAR).
 - ICI-5 for Lignite coal having CV 3,000 Kcal/Kg (NAR).



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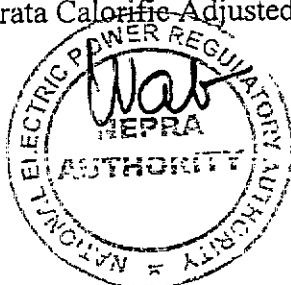


10. WHETHER THE USE OF GC NEWC FOR AUSTRALIAN COAL HAVING CV $\geq$ 5850 KCAL/KG AND WITH APPROPRIATE DISCOUNT FOR CV BETWEEN <5850 AND 5600 KCAL/KG IS JUSTIFIED?

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WHETHER THE USE OF API 5 FOR AUSTRALIAN COAL HAVING CV BETWEEN <5600 AND 5300 KCAL/KG AND WITH APPROPRIATE DISCOUNT FOR <5300 IS JUSTIFIED?

- 10.1. The Authority in its decision dated September 23, 2016 decided to provide an option to IPPs to choose either NEWC or API-5 or both indices. It would be pertinent to mention that till dated only one shipment of 51,003 tons has been procured by PQEPCL from Australia on the basis of NEWC coal price index.
- 10.2. According to the consultant, thermal coal that is sourced out of Australia is primarily priced on the globalCOAL (gC) NEWC Index, which is a formulaic index calculation, which is based on bids, offers, and transactions on globalCOAL's trading platform. This thermal coal index values coals that are usually $\geq 5,850$ kcal/kg NAR exported out of the Port of Newcastle in Australia. However, the gC NEWC index has been used to price lower grades (lower CV coals) not only out of Australia, but also out of Indonesia, including sub-bituminous grades of Thermal coal. The gC NEWC index is the only liquidly traded index in the financial market in Asia. Most of the Thermal coals exported out of Australia fall within the 5,500 – 6,000 kcal/kg NAR Calorific Value specification. Therefore, dependent upon which export market is considered and what quality they require, this will usually dictate the markets where the gC NEWC index is used.
- 10.3. The consultant further submitted that when considering which index to utilize for pricing thermal coals, the gC NEWC Index can be used for a wider variety of thermal coals if it includes a pro-rata adjustment and an additional discount to bring this price in parity with the lower grade quality in the API#5 index. The challenge with the gC NEWC Index is that it can be influenced to a large extent by seasonal demand phenomena like the April – March Annual Japanese Term Price negotiations. Usually during the 1st quarter of the year and sometimes the month of April, the gC NEWC Index can strengthen considerably; therefore, this can pose risks when linking this Bituminous index to lower grade markets either in Australia or other markets. During this time, the discount to apply to the pro-rata CV adjusted gC NEWC Index to bring it into parity with the API#5 Index increases, in some cases, substantially.
- 10.4. Accordingly, the consultant recommended that for Bituminous coals ($\geq 5,850$ kcal/kg NAR), the gC NEWC index should be used. For coals that sit between 5,700 to 5,850 kcal/kg NAR Calorific Value, the gC NEWC Index can be used only if there is an appropriate discount to a pro-rata Calorific Adjusted gC NEWC Index.



COAL HAVING CV BETWEEN 5600 - 5300 KCAL/KG

- 10.5. According to the Consultant, for Australian coals that are delivered < 5,700 kcal/kg NAR, the product specifications should be compared to the API#5 Index, which is an index based on an average of assessments between both McCloskey and Argus. This index assesses coals with a typical Calorific Value of 5,500 kcal/kg NAR, a minimum CV of 5,300 kcal/kg NAR, a Sulphur level of 1.0% max, and an Ash level up to 24%. This type of product quality is typically demanded from the Chinese market; however, it is becoming more widely accepted in other developing markets.
- 10.6. Accordingly, the consultant recommended that for lower grade coals (< 5,600 kcal/kg NAR), API#5 Index be used down to the minimum CV of 5,300 kcal/kg NAR. This particular index brings in not only the pro-rata CV adjustments, but also the discounts applied to a higher Sulphur and Ash thermal coal.

COAL HAVING CV <5300 KCAL/KG

- 10.7. The consultant recommended that for coals < 5,300 kcal/kg NAR, an API#5 Index should be used with the appropriate discount (after applying a pro-rata CV adjustment) to account for quality specifications that fall outside of the API#5 Index. In addition, it is recommended to monitor the progress of exports out of new basins like the Galilee Basin (i.e. – Carmichael project), whereby lower grades of Thermal coal (~ 4,600 kcal/kg NAR) will be exported into the market. In the future, this will provide a good pricing point for lower grade Australian thermal coals.
- 10.8. The recommendations of the consultant have been examined. The Authority already approved gC NEWC and API-5 for Australian coal, however, considering the suggestions of the Consultant, the Authority has decided to modify relevant part of the earlier decision to the extent of following:
 - i. gC NEWC coal price index shall be used for Australian coal having NCV $\geq$ 5,850 Kcal/Kg.
 - ii. gC NEWC coal price index along with published price differential, if any, shall be used for Australian coal having NCV between 5,700 to 5,850 Kcal/Kg.
 - iii. API-5 coal price index shall be used for Australian coal having NCV less than 5,700 to 5,300 Kcal/Kg.
 - iv. API-5 coal price index along with published price differential, if any, shall be used for Australian coal having NCV < 5,300 Kcal/Kg.



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11. ANY OTHER RELEVANT ISSUE ARISING DURING THE PROCEEDINGS.

11.1. Following issues were also discussed during the proceedings

i. EXCHANGE RATE

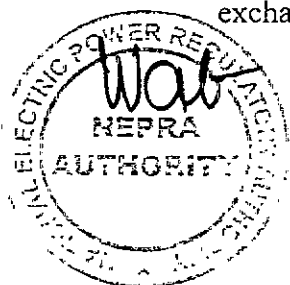
11.2. IPPs have requested to allow actual payment date exchange rate for conversion of coal price in PKR instead of average exchange rate for the month of Bill of Lading (B/L) as per existing mechanism. The comments submitted by various stakeholders in this respect are summarized hereunder:

FPCL

- If payment of LC is within 30 days of B/L issuance date than actual LC retiring exchange rate should be used, otherwise average of the B/L month exchange rate to be used.
- FFBL in its tariff modification petition dated December 23, 2021 submitted that the Authority has allowed average PKR to US\$ exchange rate for the bill of lading month in the determination of imported fuel cost component. The average time from bill of lading to payment to supplier is approximately 30 days whereas the bank charges actual PKR to US\$ exchange rate prevailing on the transaction date which varies upward/downward from average exchange rate allowed by the Authority. Resultantly, the power producer bears the impact of variation in PKR to US\$ exchange rate which is not justified on the premise of actual cost reimbursement to the power producer. The petitioner requested the Authority to allow the actual PKR to US\$ exchange rate on which the transaction is carried out through banking channel, so that actual cost as prudently incurred by the Petitioner is recovered.

CPHGCL:

- According to CPHGCL, power producers of the country are suffering huge losses due to the current practice of NEPRA of using exchange rate for the month of Bill of Lading date. Considering the consistent devaluation of Rupee against US Dollar and absence of US Dollar Forwards, exchange rate risk has become one of the biggest concern
- CPHGCL suggested that NEPRA should set-up a mechanism through which any exchange losses realized by the power producer in a specific period should be recoverable from the power purchaser in the form of pass through invoice. NEPRA can verify such amount on periodic basis.
- CPHGCL would like to draw the attention of the Authority towards the issue of exchange losses suffered by the company due to difference between the exchange rate allowed by NEPRA (average rate of exchange for the month having B/L date) and the LC settlement exchange rate. For clarification, LC settlement rate means the actual exchange rate



charged as per the debit invoice issued by the bank and not the rate available as per NBP rate sheet on that date because no bank is willing to trade on the rate as per NBP rate sheet except as per their own rates. In recent years, due to massive devaluation of PKR against US\$, the company has suffered a net loss to the tune of PKR 7 Billion which is against the true spirit of FCC being a pass-through item (no gain no loss) under Upfront Tariff Determination by NEPRA & PPA. Therefore, it is requested to devise a mechanism for adjustment of the aforementioned losses and to allow the exchange rate of LC settlement date to be used as benchmark exchange rate for conversion prospectively.

PQEPCL:

- According to PQEPCL it is suffering loss due to depreciation of PKR as it normally takes five to six months from settlement of coal suppliers, to fuel price adjustment and payment by the Power Purchaser. Therefore, in order to reduce exchange rate losses it proposed following measures:
 - ✓ NEPRA shall adopt exchange rate of the initial payment date on which the coal supplier is paid (based on payment evidence) or it should use exchange rate of the last date of the previous month when application was submitted.
 - ✓ CPPA shall set up a compensation mechanism for losses due to exchange rate and interest rates resulting during the period from the fuel price determination date to the payment date.

LEPCL:

- LEPCL in its motions for leave for review against monthly FPA decisions for the months March 2022 onwards submitted that Paragraph 10.2 of the Power Policy 2015 clearly defines Fuel Cost Component to be taken as the delivered fuel price at the power plant. However, the fuel price indexation mechanism adopted by the Authority does not appear to be in line with the Power Policy 2015. The Authority applies an average exchange rate of Bill of Lading month to determine fuel price. In reality delivered fuel price is determined on the basis of actual exchange rate prevailing at the time of retirement of LC/remittance of funds by the bank to coal supplier. Under the pass-through concept of Energy Price Tariff, the Power Producer is not supposed to absorb the exchange rate exposure on settlement of Imported Fuel price.
- LEPCL submitted that as per current foreign currency regulations it cannot hedge its foreign currency exposure due to non-availability of forward cover on imports. Further, the country is currently going through severe devaluation phase where there is a huge fluctuation in exchange rate on almost daily basis. Moreover, the availability of FX is also being regulated by the SBP considering the precarious exchange reserve situation which has impacted LEPCL's ability to discharge its FX obligations, in particular relating

to the Coal Supplier which shall not strictly be faced by the Company considering the availability of FX guarantee provided under the Implementation Agreement. Therefore, the rules framed previously, under the conceptual model of pass-through mechanism, for determining PKR value of fuel cost components, stands invalid under the present circumstances where hyper devaluation of currency is happening.

- According to LEPCL, the Authority while determining imported RFO price considers the actual cost incurred by the importer and accordingly allows the fuel price indexation (Narowal Power Plant fuel price indexation). LEPCL requested the Authority to allow this mechanism to power plants importing coal for its operation.

11.3. The consultant in its report submitted that following timing suggestions were put forward as part of NEPRA's feedback on the appropriate FX rate timings to apply to the costs. Some suggestions have been made with regards to how to establish the most appropriate FX rate for foreign currency translation as follows:

- Month Bill of Lading (B/L) Date
- Month in which the costs are incurred or revenues recognized
- Date on which the Supplier is Paid
- Last Date on which the FPA application was submitted
- Actual LC retiring exchange rate (assuming the LC is within 30 day of the B/L date).

11.4. According to the consultant in all these cases, there are differing opinions on how the FX rate should be established. Given the ease of application and the avoidance of complicating the FX calculation, it is proposed to stay with the average for the Month of Bill-of-Lading for the Coal shipment. Much of the volatility that was present from 2017 and 2018 has not been present in the last twelve (12) months in the Pakistani Rupee vs. US Dollar currency pair. If there are still issues with FX risks, the Power producer could theoretically look into managing this through Currency hedging only if there is sufficient liquidity, accessibility, and economics in hedging. In case the Power producers are not familiar with Risk Management, it is advised that the Power Producer seeks advice from their Financial Institution to assist them with hedging to see if this may be a plausible solution in the future.

11.5. The consultant recommended to keep the rate pegged to the B/L Date. This way, it is easy to know or estimate what the FX Rate will be for the purposes of establishing the final costs in terms of the Fuel Price Adjustment (FPA) calculation. For references to obtain the appropriate FX rate, these prices should be referenced from the government's central bank that report and post these prices on a regular basis: State Bank of Pakistan (PKR/USD FX rate).



- 11.6. The submissions of the IPPs and the consultant have been examined. The IPPs have persistently raised this issue over time, including through motions for leave for review and tariff modification petition(s). The Authority observed that the matter pertains to the coal pricing mechanism and that proceedings for its revision have already been initiated. Accordingly, the Authority decided that the issue shall be addressed and determined as part of the revised mechanism.
- 11.7. The consultant submitted that significant exchange rate volatility was observed during 2017–2018. However, it is noted that similar volatility was again experienced during 2022–2023, indicating that exchange rate fluctuation is a recurring phenomenon. Furthermore, the use of a monthly average exchange rate instead of the actual exchange rate payment rate will always result in a difference between the allowed and actual cost. Therefore, it would be prudent to allow the actual exchange rate prevailing at the time of payment for determining the price of each shipment. However, allowing the actual exchange rate without any time cap would not be in the interest of consumers, as it may expose them to cost of delays in payments.
- 11.8. As per the SBP's FE Manual, Letter of credits and similar undertaking may provide for presentation of shipping documents at issuing's bank's counter within a period not exceeding 30 days from the date of shipment (B/L date). Banks approximately take 5 days to make payment in normal course of business.
- 11.9. Accordingly, the Authority has decided to allow the actual exchange rate applied for retirement of the Letter of Credit (LC) or settlement made through other permissible modes. Provided, however, that such rate shall not pertain to a date later than thirty-five (35) days from the date of the Bill of Lading for the relevant shipment. Where the actual date of payment occurs after the expiry of thirty-five (35) days from the Bill of Lading date, the exchange rate prevailing (National Bank of Pakistan) on the thirty-fifth (35th) day shall be deemed applicable.

ii. LC CHARGES

- 11.10. CPHGCL vide letter CPHG-NEPRA/HOL-REG/0165 dated October 03, 2023 submitted that the Authority should consider the actual charges (LC Charges) being paid to the bank by the company (all payment evidences are being shared with NEPRA) against opening of an LC rather than allowing upto US\$ 0.1/Ton against the same. As per general practice in vogue in the banking industry of Pakistan, most bank charge @ 0.1% of the CFR value of the shipment. Calculation of LC charges as such amounts maximum upto US\$ 0.1/Ton when the price is below or equal to US\$ 100/Ton but whenever is the price is more than US\$ 100/Ton, LC Charges as such amounts to more than US\$ 0.1/Ton. Resultantly, the company has contested only those deductions in LC Charges wherever NEPRA has capped the same at US\$ 0.1/Ton rather than allowing 0.1% of CFR which is market practice and actually paid by the company. Therefore, it is requested to not make such deductions as being against the



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true spirit of FCC being a pass-through item (No Gain No Loss) under Upfront Tariff Determination by NEPRA & PPP and allow the same as per actual payment by the company.

- 11.11. The consultant recommended to keep the current rate at US \$ 0.10/mt for the time being until it is shown that most of the buyers are paying more than this level on a regular basis.
- 11.12. The submissions of CPHGCL and the consultant have been examined. It was provided in the decision dated September 26, 2016 that the Authority may review the mechanism in case it results in unrealistic coal pricing that is detrimental to both consumers and the project.
- 11.13. In the recent past, significant volatility has been observed in the API-4 coal price index, particularly during 2022–2023, wherein the index exceeded US\$ 300/Ton and has recently declined to around US\$ 100/Ton. It has been observed that banks charge LC commissions as a percentage of the CFR value of coal. therefore, fixing the LC cap as an absolute amount would not enable IPPs to recover their actual costs in most instances.
- 11.14. Considering the volatility in coal prices, it is prudent to cap LC charges as a percentage of the CFR value of coal as it provides a flexible mechanism that adjusts in line with changes in the coal price. Accordingly, the Authority has decided to revise the maximum cap of LC charges to 0.1% of the CFR value.

ORDER

- I. In accordance with the Terms & Conditions contained in the decision of the Authority dated September 23, 2016 in the Matter of Suo Moto Review Proceedings in the Price Adjustment Mechanism Determined in Upfront Coal Tariff, the Authority mandated the pricing mechanism shall be reviewed after every three (03) years when the actual coal price, quality, quantity, source etc. is available. Accordingly, this review process was initiated in 2019, and after thorough deliberations, the Authority has passed this Order, however, provided that any prior directions / orders passed by the Authority or mechanism implemented by the Authority prior to the issuance of this Order, vis à vis the deduction of price differentials shall remain intact.
- II. The instant decision is issued in partial modification of the decision dated September 23, 2016. However, in case of any ambiguity or inconsistency between the instant decision and the earlier decision dated September 23, 2016, the instant decision shall prevail.
- III. Para 56, subsection xxv page 33 of the Authority's decision dated June 26, 2014 may be replaced with the following:

Fuel Cost Component (FCC):

During the tariff period the FCC shall be calculated according to the following formula on monthly basis:



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Fuel Cost Component (South African Coal):

$$FCC = \left(CP_{(D)} \times \frac{HR}{HV_{(A)}} \right)$$

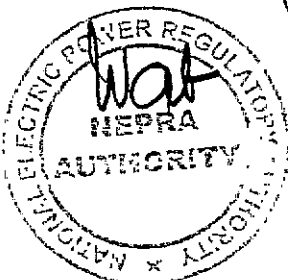
$$CP_{(D)} = \left(\left((CP_{(I)} - PD - Discount) \times \frac{HV_{(A)}}{HV_{(B)}} \right) + Ft_{(M)} + MI + OC \right) \times FC_{(Exch)}$$

- $CP_{(D)}$ = Actual Weighted Average Delivered Coal Price of all shipments consumed during the month on the basis of Opening Inventory of coal and purchases of coal till the month immediately preceding the invoice month.
- $CP_{(I)}$ = The average API-4 coal price index for the month in which the date of the Bill of Lading falls for each shipment.
- PD = Published price differentials corresponding to the actual quality (NCV) of the coal for each shipment
- $HV_{(A)}$ = Actual Heating Value (LHV) in Btu/kg of the coal imported from South Africa for each shipment
- $HV_{(B)}$ = Base Heating Value (LHV) in BTU/Kg of the coal imported from South Africa
- HR = Heat Rate in Btu/kWh
- $Ft_{(M)}$ = Actual marine freight computed on the basis of approved mechanism for each shipment
- OC = Other Charges to include port charges, PDA, custom duties etc. for each shipment
- MI = Marine Insurance in for each shipment
- $FC(Exch)$ = The actual exchange rate applied for retirement of the LC or settlement through other permissible modes. The applicable exchange rate shall not be later than 35 days from the Bill of Lading date. If payment occurs after 35 days, the exchange rate prevailing on the 35th day (NBP) shall apply.

Fuel Cost Component (Indonesian Coal):

$$FCC = \left(CP_{(D)} \times \frac{HR}{HV_{(A)}} \right)$$

$$CP_{(D)} = \left(\left((CP_{(I)} - Discount) \times \frac{HV_{(A)}}{HV_{(B)}} \right) + Ft_{(M)} + MI + OC \right) \times FC_{(Exch)}$$



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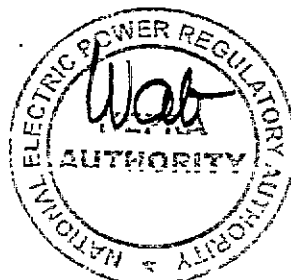
- $CP_{(D)}$ = Actual Weighted Average Delivered Coal Price of all shipments consumed during the month on the basis of Opening Inventory of coal and purchases of coal till the month immediately preceding the invoice month.
- $CP_{(I)}$ = The average ICI-2/ICI-3 /ICI-4/ICI-5 coal price index for the month in which the date of the Bill of Lading falls for each shipment.
- $HV_{(A)}$ = Actual Heating Value (LHV) in Btu/kg of the coal imported from Indonesia for each shipment
- $HV_{(B)}$ = Base Heating Value (LHV) in BTU/Kg of the coal imported from Indonesia
- HR = Heat Rate in Btu/kWh
- $Ft_{(M)}$ = Actual marine freight computed on the basis of approved mechanism for each shipment
- OC = Other Charges to include port charges, PDA, custom duties etc. for each shipment
- MI = Marine Insurance in for each shipment
- $FC_{(Exch)}$ = The actual exchange rate applied for retirement of the LC or settlement through other permissible modes. The applicable exchange rate shall not be later than 35 days from the Bill of Lading date. If payment occurs after 35 days, the exchange rate prevailing on the 35th day (NBP) shall apply.

Fuel Cost Component (Australian Coal):

$$FCC = \left(CP_{(D)} \times \frac{HR}{HV_{(A)}} \right)$$

$$CP_{(D)} = \left(\left((CP_{(I)} - PD - Discount) \times \frac{HV_{(A)}}{HV_{(B)}} \right) + Ft_{(M)} + MI + OC \right) \times FC_{(Exch)}$$

- $CP_{(D)}$ = Actual Weighted Average Delivered Coal Price of all shipments consumed during the month on the basis of Opening Inventory of coal and purchases of coal till the month immediately preceding the invoice month.
- $CP_{(I)}$ = The average gC NEWC / API-5 coal price index for the month in which the date of the Bill of Lading falls for each shipment.
- PD = Published price differentials, if any, corresponding to the actual quality (NCV) of the coal for each shipment
- $HV_{(A)}$ = Actual Heating Value (LHV) in Btu/kg of the coal imported from Australian for each shipment



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HV _(B)	=	Base Heating Value (LHV) in BTU/Kg of the coal imported from Australian
HR	=	Heat Rate in Btu/kWh
Ft _(M)	=	Actual marine freight computed on the basis of approved mechanism for each shipment
OC	=	Other Charges to include port charges, PDA, custom duties etc. for each shipment
MI	=	Marine Insurance for each shipment
FC(Exch)	=	The actual exchange rate applied for retirement of the LC or settlement through other permissible modes. The applicable exchange rate shall not be later than 35 days from the Bill of Lading date. If payment occurs after 35 days, the exchange rate prevailing on the 35 th day (NBP) shall apply.

Fuel Cost Component (Local):

$$FCC = \frac{(CP_{(Local)} + Ft_{(Inland)}) \times HR}{HV_{(Local)}}$$

HR	=	Heat Rate in Btu/kWh
Ft _(Inland)	=	Inland freight expressed in Rs. / Kg
HV _(Local)	=	Heating Value (LHV) in Btu/Kg
CP _(Local)	=	Local coal price in Rs. /Kg determined by relevant / competent agency

Marine Freight

Marine freight shall be computed on the basis of following formula:

$$\text{Freight} = ((\text{Delivery Days} \times \text{Time Charter Rate}) + (\text{Bunker Consumed} \times \text{Bunker Price} \times \text{Bunker Adjustment})) / \text{Cargo Quantity}$$

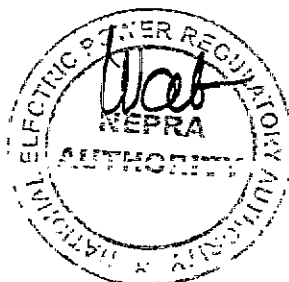
Where:

Delivery days is the vessel travel days in addition to loading and unloading days

Time Charter rates are the relevant vessel rate indicated in the Baltic Time Charter (TC) rates

Bunker Price is the price indicated in the Platts Bunker Price

Bunker Adjustment is to be mutually agreed between the parties of the CSA reflective of the market.





The detailed calculation of voyage days, port days, applicable Time Charter rate and applicable Bunker Price are provided in the monthly fuel price adjustment decision(s).

IV. Terms & Conditions:

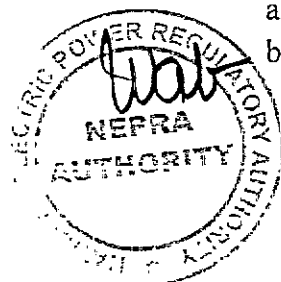
- a. The procurement of coal (spot, medium and long term) shall be made through tendering / bidding. The guidelines provided in Para No. 6.3 of the instant decision shall be complied with.
- b. The procurement of spot coal from international market shall also be made under the guidelines provided in Para No. 6.3 and the mechanism for imported coal shall be applicable i.e. average coal price index of the Bill of Lading month $\pm$ published price differentials, marine freight, etc.
- c. The procurement of spot coal from local market shall be in line with the guidelines dated January 02, 2023.
- d. For South African coal, API-4 coal price index along with corresponding published price differential shall be used.
- e. For Indonesian coal, following coal price indices shall be applicable:
 - i. ICI-2 for coal having CV 5,500 Kcal/kg (NAR).
 - ii. ICI-3 for coal having CV $\geq$ 4,200 Kcal/kg (NAR).
 - iii. ICI-4 for coal having CV $<$ 4,200 Kcal/kg (NAR).
 - iv. ICI-5 for Lignite coal having CV 3,000 Kcal/Kg (NAR).
- f. For Australian coal, following coal price indices shall be applicable:
 - i. gC NEWC for coal having NCV $\geq$ 5,850 Kcal/Kg.
 - ii. gC NEWC along with published price differential, if any, for coal having NCV between 5,700 to 5,850 Kcal/Kg.
 - iii. API-5 for coal having NCV less than 5,700 to 5,300 Kcal/Kg.
 - iv. API-5 along with published price differential, if any, for coal having NCV $<$ 5,300 Kcal/Kg.
- g. No premium shall be allowed over and above the benchmark index price.



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- h. Marine Insurance shall be allowed at 0.1% of the CFR price or actual whichever is lower. For this purpose, IPP shall submit all the relevant documents, including insurance invoice, etc.
- i. Other Charges shall include port/terminal charges, L/C charges, common jetty cost if any, wharfage, custom duties & cess, PDA charges, inspection charges, inland freight charges etc. associated with the import of coal. This shall be adjusted as per actual based on the submission of authentic documentary evidence.
- j. LC charges shall be allowed at 0.1% of the CFR price or actual, whichever is lower on the basis of documentary evidence.
- k. Coal losses shall be calculated at a maximum of 2% on delivered coal price and 1% of local coal.
- l. The actual exchange rate used for retirement of the Letter of Credit or settlement through other permissible modes shall be applied. Provided, however, that such rate shall not pertain to a date later than thirty-five (35) days from the date of the Bill of Lading for the relevant shipment. Where the actual date of payment occurs after the expiry of thirty-five (35) days from the Bill of Lading date, the exchange rate prevailing (National Bank of Pakistan) on the thirty-fifth (35th) day shall be deemed applicable
- m. IPP will have the option to procure coal in any combination of the above loading regions, i.e. South Africa, Australia and Indonesia. In this regard fuel cost component shall be adjusted based on actual weightage
- n. For the coal destined for upcountry, IPP shall ensure a minimum calorific value of coal of 5500 kCal/kg (NAR).
- o. IPP shall justify the choice of coal to the satisfaction of the Authority
- p. The pricing mechanism shall be reviewed if it is noted that current mechanism leads to a coal price that is unrealistic and detrimental to both the interest of consumers and the project sponsors.
- q. Bill of lading will be used as date of coal procurement.
- r. In case Thar coal is utilized for non-mine mouth power plant in full or in part, the price of Thar coal shall be determined by the Thar Coal Energy Board/Relevant Agency and fuel price will be determined based on the weightage average actual percentage of coal i.e. Thar and imported coal.
- s. It is once again reiterated that the Federal Government may take the initiative to establish an imported coal pricing agency for the purpose of prescribing a coal pricing mechanism based on the international best practices. Therefore, in the absence of imported coal





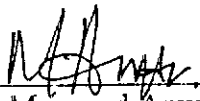
pricing mechanism, and till such time a coal pricing mechanism is put in place, this adjustment mechanism as approved in this decision shall be used.

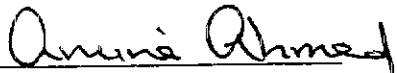
- V. Para 56 subsection xx (d) of the decision dated June 26, 2014 may be deleted.
- VI. Para 56 subsection III page 34 of the determination dated June 26, 2014, "Central Power Purchasing Agency (CPPA)" may be replaced with "Central Power Purchasing Agency (CPPA) itself or through internationally recognized reputable third party firm".

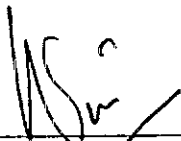
NOTIFICATION

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

AUTHORITY


Engr. Maqsood Anwar Khan
Member


Amina Ahmed
Member


Waseem Mukhtar
Chairman







REGISTRAR

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Islamic Republic of Pakistan

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No. NEPRA/TRF-100/Notifications/ 13215-17

July 22, 2026

The Manager
Printing Corporation of Pakistan Press (PCPP)
Khayaban-e-Suharwardi,
Islamabad

Subject: **NOTIFICATIONS REGARDING DECISIONS OF THE AUTHORITY**

In pursuance of sub-section 7 of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (XL of 1997); enclosed please find herewith notifications in respect of the following Decisions of the Authority for immediate publication in the official Gazette of Pakistan:

S. No.	Decision	Issuance No. and Date
1.	Decision of the Authority in the matter of reimbursement of Pass-Through withholding tax on dividends for Laraib Energy Limited	10373-10377 22-06-2026
2.	Decision of the Authority in the matter of Mechanism/Guidelines for procurement of Imported Coal	10379-10383 22-06-2026

2. Please also furnish ten (10) copies of the Notifications to this Office after its publication.

Encl: 02 Notifications


(Wasim Anwar Bhinder)

CC:

1. Chief Executive Officer, Central Power Purchasing Agency (Guarantee) Limited, 73 East, AK Fazl-e-Haq Road, Block H, G-7/2, Blue Area, Islamabad
2. Syed Mateen Ahmed, Deputy Secretary (T&S), Ministry of Energy – Power Division, 'A' Block, Pak Secretariat, Islamabad