

PPCO
CENTRAL POWER GENERATION CO. LTD.
 (GENCO-II)



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OFFICE OF THE
 CHIEF EXECUTIVE OFFICER
 THERMAL POWER STATION,
 GUDDU.

Date: 16/04/2010

No. CPGL/CEO/PA/NEPRA/17063

Registrar
 National Electric Power Regulatory Authority
 2nd Floor, OPF Building
 Shahrah-e-Jamhuriat
 G-5/2, Islamabad

Dear Sir:

Central Power Generation Company Limited: Application for Tariff Approval - 50MW (Net) capacity, as corrected to Mean Site Condition, Near Naudero, Sindh (the "Project")

Appended herewith is the Central Power Generation Company Limited's (the "Company") Petition for the determination and approval of the generation tariff for the Project pursuant to Rule 3 of the National Electric Power Regulatory Authority (Tariff Standards and Procedure) Rules, 1998.

We would be grateful if the learned Authority could expeditiously finalize the tariff determination process to enable Company to move ahead with the Project in accordance with the nature of this fast track project. We would be pleased to provide any further information and/or documents that may be required by the learned Authority prior to or during the course of the hearing.

Yours sincerely,

Chief Executive Officer
 Central Power Generation Company Limited

Signature
 16/4/10

AD (MR)

to process it
 quickly

20/4

cc: Chairman
 Member (T)
 Member (EC)
 Member (SBP)
 Member (CA)

(Original Draft No 357915 for the
 amount of Rs: 934000/- is forwarded)

To Mr (Finance)

(1)

4384
 20-4-10

BEFORE THE NATIONAL ELECTRIC POWER
REGULATORY AUTHORITY

PETITION FOR TARIFF DETERMINATION

ON BEHALF OF
CENTRAL POWER GENERATION COMPANY LIMITED
50 MW NET RENTAL POWER PROJECT

16 APRIL 2010

Legal Consultants
Rizvi. Isa, Afridi & Angell
Advocates & Corporate Counsellors
68, Nazimuddin Road, F-8/4, Islamabad
Tel: 051-111-LAWYER, Fax: 051-2850444
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LIST OF DOCUMENTS

PART I

Application and Basic Accompanying Documents

Particulars of the Petitioner

Application for Tariff Determination (with annexes)

Affidavit

Resolution of the Board of Directors

PART II

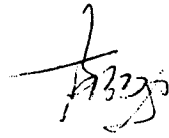
The Proposed Reference Tariff (Schedule-I).

The Schedule of Tariff (Schedule-II)

Petitioner's Operational Data and Calculation of Energy Purchase Price (Schedule-III).

Petitioner's Calculation of Capacity Purchase Price (Schedule-IV)

Petitioner's Financial Calculation (Schedule-V)



WPI intends to establish on a fast track basis a rental power project (the "RPP") of 50MW (Net) capacity, as corrected to Mean Site Condition, near Naudero, Sindh (the "Project"), for the Petitioner. The rental period shall be five (5) years from the commercial operations date (the "COD") and the Petitioner shall pay to the Rental Power Supplier on a monthly basis a pre-determined Rental Service Fee (the "Monthly Rental Service Fee").

The Project shall be a turn-key project which includes all activities necessary for to mobilization, import, transportation, erection, installation, commissioning, operation and maintenance, de-mobilization and re-export of the equipment including switchyard for interconnection at 132kV level. The plant will consist of two (2) General Electric LM 5000 natural gas turbines and shall become operational within 180 days of determination by NEPRA and fulfilling of other conditions precedent in terms of the rental services contract (the "RSC").

On 14 January 2009, WPI submitted an unsolicited proposal to Private Power and Infrastructure Board (the "PIB") which was forwarded to the Minister of Water & Power (who is the Chairman, PIB) vide its letter dated 20 January 2009 who directed Pakistan Electric Power Company (the "PEPCO") to initiate negotiations with WPI to, *inter alia*, finalize tariff, site power interconnection arrangement and RSC on an urgent basis.

Based upon detailed negotiations and availability of generation equipment the WPI revised its aforesaid proposal and finally on 4 March 2010, WPI submitted its revised proposal to Petitioner (RSC) which was accordingly forwarded to the Ministry of Water and Power for its approval.

Through its letter dated 16 March 2010 the Ministry of Water & Power approved the aforesaid proposal and directed the Petitioner as follows:

"considering the acute shortage of energy in Pakistan and the federal Government's EC directives including the EC decision dated January 2010 relating to the Bankom Package Central Power Generation Company limited (GENCO-1) is directed to immediately approach NEPRA for tariff approval. The terms and conditions contained in the Rental Services Agreement (RSA), signed on 4 March 2010 by GENCO-1 and the directives of the EC/Federal Government, should be the basis of the tariff petition -"

NEPRA may be requested to refer the tariff contained in the RSA to facilitate the

This Project is a part of the Government of Pakistan's (the "GOP") efforts to alleviate power crisis of country. The GOP is seeking to attract private investment through rental power projects with an aim to prevent, *inter alia*, (a) the loss to the economy in particular being suffered by the industrial and commercial sectors due to load shedding, which according to certain estimates are in the range of PKR 219 Billion per annum in industrial sector; (b) the loss of more than 400,000 jobs and; (c) loss of exports of approximately PKR 75 Billion. The Project is being set up to assist the GOP in its power acquisition program in emergency situations and reduce the adverse impact of crises.

Unlike typical independent power projects (the "IPs"), the rental projects are fixed price contracts that assume all risks of availability of fuel, guaranteed availability, operation and maintenance as well as financing of the project thus eliminating GOP's exposure in situation like restoration events, currency convertibility and project financing etc. In addition, if the availability of the rental projects falls short of the contracted level, then a penalty equivalent to 1.5 times the rental per kWh is imposed upon them.

As per its policy for Rental Power Projects, the GOP had initially agreed to make seven percent (7%) of the total rental charges as down payment along with an irrevocable confirmed Standby Letter of Credit (the "SBLC") to be established by the Petitioner for the balance amount guaranteeing payments by the Petitioner. However, due to the inability of the Petitioner/GOP to establish SBLC, the GOP decided to support the Petitioner through provision of a GOP guarantee instead of an SBLC for the sake of larger public interest.

It is pertinent to mention that a confirmed SBLC of rental charges in US\$ for a five (5) years period is a preferable option for the project sponsors for raising 100% debt-financing as opposed to the offered GOP guarantee (the "GOP Guarantee") along with fourteen (14%) advance payment. The SBLC is readily encashable in the international financial markets, while the sovereign guarantee is not a very attractive security for the international financial community for such financial transactions. The advance payment is backed by an Advance Payment Guarantee, encashable in case of Seller's default in achieving Commercial Operation of the Project. In case of abandonment of the Project by the Project Sponsors, the Petitioner has the right to terminate the RSC and recover outstanding amounts due to it from encashment of Advance Payment Guarantee as well as other assets of the Project.

Substitution of the SBLC with the GOP Guarantee also adversely affects the Project's ability to raise debt financing for the project. While the SBLC is immediately encashable upon request without any contestation by the Petitioner, the GOP Guarantee requires at least forty-five (45) days mitigation period before any payments, or upon full and final determination by an arbitral tribunal in case dispute is raised by the GOP/Petitioner. In addition, its enforcement can be deferred indefinitely in case of any arbitration proceedings, till a final award.

The RSC provides a robust mechanism setting out the rights and liabilities of the Rental Power Supplier and the Petitioner. As per the Agreement, the Petitioner is not bound to accept the Project unless the Rental Power Supplier achieves the agreed contract capacity. In case the Rental Power Supplier reduces its contract capacity it would *pro-rata* also reduce the rental charges payable to it. Under the Agreement, the Petitioner shall have security in the form of payables for at least sixty (60) days rental payments, which can be set off against any operational failures. Actual availability is calculated on an annual basis. In the event the availability drops below 92%, the Rental Power Supplier pays the penalties through a credit note. Further the Project equipment cannot be removed from site since the Petitioner is the consignee and its prior permission is required.

The RSC is governed by the laws of Pakistan. It means that it is subject to all conditions prescribed under the Import Policy Order 2009 which prescribe implementation of specialized third party pre-shipment inspection regime for specified old and used plant and machinery with adequate safeguards for ensuring serviceability and significant residual value.

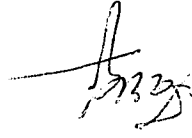
The Project provides three (3) types of securities to the Petitioner to ensure COD on target date i.e. an advance payment guarantee (the "Advance Payment Guarantee") which is encashable to recover the advance payments in case of failure of the Seller to construct the Project, the performance guarantee (the "Performance Guarantee") which is encashable in full upon delay in the achievement of COD and that the penalties which can be imposed in specified circumstances and recoverable from monthly rental charges.

TARIFF SUMMARY

On 4 March 2010, the Petitioner and the Rental Power Supplier executed the RSC, in light of the revised proposal approved by the Ministry of Water & Power.

The Seller is required to install the power generation equipment and dispatch power generated in accordance with the term and conditions as applicable under the terms of the RSC. However, the rental charges payable can be translated into a per kWh charge which is analogous to the Capacity Charge in case of IPPs.

Recognizing the role of Regulator, the terms of the aforesaid RSC has been made subject to NEPRA's approval.



The Petitioner proposes a two part tariff i.e. Capacity Purchase Price (the "CPP") and Energy Purchase Price (the "EPP") and seeks the approval of following tariff.

a)	Capacity	50MW Net at Mean Site Condition
b)	Equipment	Two LM 5000 GE Gas Turbines
c)	Fuel	Natural Gas
d)	Heat Rate	10,353 ¹ BTU/kWh LHV maximum.
e)	Guaranteed Availability	92%
f)	Gas consumption	15 MMCFD already allocated by the
g)	Efficiency	32.96% initially, increasing @ 0.75 % per annum for the next five years.
h)	Term (Duration)	60 Months
i)	Tariff for Capacity and O&M/kWh	US\$ 0.04
j)	Total Contract Value	US\$80.592 million

The proposed tariff covers the project cost and other technical and commercial parameters.

Attached with this Tariff Petition, as its integral part is:

- (a) The Proposed Reference Tariff (Schedule-I).
- (b) The Schedule of Tariff (Schedule-II)
- (c) Petitioner's Operational Data and Calculation of Energy Purchase Price (Schedule-III).
- (d) Petitioner's Calculation of Capacity Purchase Price (Schedule-IV)
- (e) Petitioner's Financial Calculation (Schedule-V)

7. GENERAL ASSUMPTIONS

The Petitioner's proposed tariff has been worked on the basis of following assumptions – any change in relation thereto will require an appropriate adjustment in the proposed tariff:

- (a) Annual plant availability of 92%
- (b) Annual Heat Rate deterioration factor of 0.75% per annum.
- (c) Mobilization Advance shall be free of any interest charges.
- (d) Appropriate adjustment for Heat Rate upon partial dispatch of the Complex.
- (e) One time period of 30 days for major overhaul of each turbine during the term of the period of the RSC. The reduced availability during this period shall not be counted towards imposition of liquidated damages.
- (f) Any modifications or additions required by the Petitioner that are not considered in the Project will be treated as pass-through or will result in necessary adjustment in the tariff.

¹ maximum heat rate, subject to actual heat rate at the time of testing of equipment.

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Dated: 16th April 2010

Central Power Generation Company Limited
Through Chief Executive Officer

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16/4/10

The Petitioner would be pleased to provide any further information, clarification or explanation that may be required by the Authority during its evaluation process. In light of the foregoing submissions, the learned Authority is kindly requested to approve the Petitioner's requested tariff together with the pertinent indexations to remain effective for a period of 5 years from the COD.

B. DETERMINATION SOUGHT

- (g) All incentives (i) offered to the buyer of rental power services and (ii) available under the 2002 Power Policy, insofar they are relevant, are available to the Petitioner.
- (h) All invoicing and payment terms are assumed to be in accordance with the RSC.
- (i) Any payment on account of Supplemental Charges & Pass-through Items shall be pass through to NTDC.

Structure of Reference Tariff

Reference Tariff has been proposed in two (2) parts i.e. Capacity Purchase Price (CPP) and Energy Purchase Price (EPP). Moreover, Supplemental Charges / Pass-Through Items have also been proposed to be charged to Central Power Purchasing Agency (CPA). The proposed Reference Tariff comprises of the following two parts and each part has also two components;

a) Capacity Purchase Price (CPP)

- o Escalable Component
- o Non-Escalable Component

b) Energy Purchase Price (EPP)

- o Fuel Cost Component

c) Supplemental Charges & Pass – Through Items

Capacity Purchase Price (CPP)

❖ Escalable Component

Escalable Component of Capacity Purchase Price (CPP) would cover the following O&M Cost:

- Rental Payments
- Financial cost on payments
- Consultancy Fee
- Administration Cost
- Generation License Renewal Fee, Tariff Petition Fee and indexation Charges

❖ Non – Escalable Component

Non-Escalable Component of Capacity Purchase Price (CPP) would cover the following fixed Cost:

- Cost of Working Capital Financing.

Energy Purchase Price (EPP)

❖ Fuel Cost

Supplemental Charges & Pass-through Items

Any actual payment on account of the following and like nature shall be pass-through to NTDC.

- Actual Income / Turnover Tax
- General Sale Tax
- Any other Duties / Taxes etc
- Variation in Fuel Price
- Electricity Duty on In-house consumption of Energy
- Variation in Foreign Exchange Rate
- Variation in Interest Rate Charges

SCHEDULE OF TARIFF

Year 1 Year 2 Year 3 Year 4 Year 5

Capacities (MW)

Net capacity (MW) at MSC	50	50	50	50	50
Generation %age of Capacity	92%	92%	92%	92%	92%
Unavailable Capacity	8%	8%	8%	8%	8%

Efficiency and Heat Rate

Fuel Price - Gas (Rs./MMBTU)	382.37	382.37	382.37	382.37	382.37
Heat Rate - Net (BTU/KWh) LHV	10353	10431	10509	10588	10667
Calorific Value Gas (BTU - HHV)	900	900	900	900	900

Total Generation

Net Generation - Gas (GWh)	402.960	402.960	402.960	402.960	402.960
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Calculation Cost

Variable Cost Component

Fuel Cost / KWh Gas LHV	3.9587	3.9884	4.0183	4.0484	4.0788
Fuel Cost / KWh Gas HHV	4.3506	4.3832	4.4161	4.4492	4.4826
Fuel Cost Gas on LHV (Million Rs.)	1595.19	1607.15	1619.21	1631.35	1643.59
Fuel Cost Gas on HHV (Million Rs.)	1753.11	1766.26	1779.51	1792.85	1806.30

Fixed Cost Component (Escalable Component)

Rent for Rental Block	1386.18	1386.18	1386.18	1386.18	1386.18
Financial cost on Telegraphic Transfer	2.47	1.40	1.40	1.40	1.40
Consulting Fee	2.50	0.00	0.00	0.00	0.00
Administration Cost	10.00	10.00	15.00	15.00	20.00
NEPRA Fees	5.00	1.00	1.00	1.00	1.00
Total Fixed O&M Cost	1406.16	1398.58	1403.58	1403.58	1408.58

Debt Services (Non-Escalable Component)

Financing Cost	157.17	143.22	103.47	64.07	24.67
Total CPP	1563.33	1541.80	1507.05	1467.65	1433.25

Calculation of Energy / Capacity Purchase Price

CPP-FOM charge (Rs./KWh/Month)	2832.12	2793.12	2730.16	2658.79	2596.46
Total Capacity Charges (Million Rs.)	1563.33	1541.80	1507.05	1467.65	1433.25
CPP Rs. / KWh	3.8796	3.8262	3.7399	3.6422	3.5568
EPP Rs. / KWh (HHV)	4.3506	4.3832	4.4161	4.4492	4.4826
Total Average Tariff (Rs. / kWh)	8.2302	8.2094	8.1560	8.0914	8.0394
US Cents / KWh	9.5700	9.5458	9.4838	9.4086	9.3481

Reference Exchange Rate US DOLLAR Rate = Rs.86/-

Consolidated Tariff for 5-Years

4.00
0.34
4.34
5.14
9.48

Rental Rate USCent/KWh
Additional Cost USCent/KWh
Total CPP USCent/KWh
Total EPP USCent/KWh
Total Tariff USCent/KWh

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CENTRAL POWER GENERATION COMPANY LIMITED

OPERATIONAL DATA AND CALCULATION OF ENERGY PURCHASE PRICE

50MW RENTAL POWER PLANT AT NAUDERO-II

Year 1 Year 2 Year 3 Year 4 Year 5

Net Capacity at (MSC)	50	50	50	50	50
Heat Rate (BTU) LHV	10353	10431	10509	10588	10667
Unavailable Capacity	8.00%	8.00%	8.00%	8.00%	8.00%
Generation %age of Capacity	92.00%	92.00%	92.00%	92.00%	92.00%
Fuel Price - Gas (Rs./MMBTU)	382.37	382.37	382.37	382.37	382.37
Calorific Value of Gas (BTU - HHV)	900	900	900	900	900
Net generation - Gas (GWh)	402.960	402.960	402.960	402.960	402.960
Fuel Cost /kWh Gas LHV	3.9587	3.9884	4.0183	4.0484	4.0788
Fuel Cost /kWh Gas HHV	4.3506	4.3832	4.4161	4.4492	4.4826
Fuel Cost Gas on LHV (Million. Rs.)	1,595.19	1,607.15	1,619.21	1,631.35	1,643.59
Fuel Cost Gas on HHV (Million. Rs.)	1,753.11	1,766.26	1,779.51	1,792.85	1,806.30

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CENTRAL POWER GENERATION COMPANY LIMITED
CALCULATION OF CAPACITY PURCHASE PRICE
50MW Rental Power Plant, NAUDERO-II

	Year 1	Year 2	Year 3	Year 4	Year 5
Non-Escalable Component:					
Fixed O&M Cost:	Min. Rs.	Min. Rs.	Min. Rs.	Min. Rs.	Min. Rs.
Rental Charges	1,386.18	1,386.18	1,386.18	1,386.18	1,386.18
Consultancy Fee	2.5				
Financial cost on Telegraphic Transfer(11)	2.47	1.40	1.40	1.40	1.40
Administration Cost	10.00	10.00	15.00	15.00	20.00
NEPRA Fees	5.00	1.00	1.00	1.00	1.00
Total Fixed O&M Cost	1,406.16	1,398.58	1,403.58	1,403.58	1,408.58
CPP:COM charge (Rs./kW/Month)	2,547.386	2,533.664	2,542.722	2,542.722	2,551.780
Return on Equity (Min. Rs.)	-	-	-	-	-
Return on Assets (Min. Rs.)	-	-	-	-	-
CPP:ROE charge (Rs./kW/Month)	-	-	-	-	-
Total CPP-Non-Escalable (Rs./kW/Month)	2,547.386	2,533.664	2,542.722	2,542.722	2,551.780
Escalable Component					
Debt Service:	Min. Rs.	Min. Rs.	Min. Rs.	Min. Rs.	Min. Rs.
Interest Charge	157.17	143.22	103.47	64.07	24.67
Total Debt Servicing	157.17	143.22	103.47	64.07	24.67
Total CPP-Escalable (Rs./kW/Month)	284.7315	259.4557	187.4417	116.0633	44.6849
Total CPP (Rs./kW/Month)	2,832.12	2,793.12	2,730.16	2,658.79	2,596.46
Less: Other Revenue	Min. Rs.	Min. Rs.	Min. Rs.	Min. Rs.	Min. Rs.
	0.00	0.00	0.00	0.00	0.00
Net Total CPP (Rs./kW/Month)	2,832.12	2,793.12	2,730.16	2,658.79	2,596.46
Total Capacity Charge (Min. Rs.)	1563.33	1541.80	1507.05	1467.65	1433.25
Generation plant factor	402.96	402.96	402.96	402.96	402.96
92%					
CPP Rs./kWh	3.8796	3.8262	3.7399	3.6422	3.5568
EPP Rs./kWh	4.3506	4.3832	4.4161	4.4492	4.4826
Total Average Tariff Rs. /kWh	8.2302	8.2094	8.1560	8.0914	8.0394
US Cents / kWh	9.5700	9.5458	9.4838	9.4086	9.3481

Reference Exchange Rate US Dollar Rate = Rs.86/-

INITIATIVE Repayment Plan of NATIONAL TRANSMISSION AND DESPATCH COMPANY (Rs in Millions) Attachment - V
For 50MW Rental Power Project, Naudero-II

		927,079,944			17.0%
Loan Amount					
Tenor (Years)		5.0			16.0
Grace Period (Years)		1.0			57,942,497
Facility Effective Date	01-Apr-10				365.00
		Mark Up*			No of Days/Year
		38,861,159	38,861,159	90	39,241,944
		39,724,741	39,724,741	92	40,106,435
		39,724,741	39,724,741	92	40,106,435
		38,861,159	38,861,159	90	39,241,944
		97,235,446	97,235,446	91	98,106,935
		95,184,441	95,184,441	92	96,042,930
		92,701,645	92,701,645	92	93,564,925
		89,868,018	89,868,018	91	91,379,920
		87,412,209	87,412,209	91	89,194,915
		85,253,256	85,253,256	92	87,019,910
		82,770,459	82,770,459	92	84,844,905
		79,801,899	79,801,899	90	82,669,900
		77,588,971	77,588,971	91	80,494,895
		75,322,071	75,322,071	92	78,319,890
		72,839,274	72,839,274	92	76,144,885
		70,086,609	70,086,609	90	73,969,880
		67,765,734	67,765,734	91	71,794,875
		65,390,885	65,390,885	92	69,619,870
		62,908,089	62,908,089	92	67,444,865
		60,371,319	60,371,319	90	65,269,860
	Total	1,419,672,125	1,419,672,125	90	1,419,672,125

*22.0% is Markup Rate Used for Calculation of Purchase Price (20% + 2.0% Margin)
 Actual Markup Rate will be 6 Month Kibor + 2.0% as detailed in the STFA





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Office of the
Chief Executive Officer
GENCO-II, T.P.S, GUDDU
Date: 16/04/2010

To Whom It May Concern:

EXTRACTS OF MINUTES OF 50th BOD MEETING
Agenda Item No. 6 – 50 MW Rental Power Project, Naudero-II

Subject:

The Board of Directors, Central Power Generation Company Limited (GENCO-II), in its 50th Meeting held on March 17, 2010 has considered the Agenda regarding 50 MW Rental Power Project, Naudero-II and resolved as under:

“RESOLVED UNANIMOUSLY that Chief Executive Officer be and is hereby authorized to apply for amendment in Generation License and file Tariff Petition as per Rental Services Contract dated March 4, 2010 for 50 MW Rental Power Project, Naudero-II.

FURTHER RESOLVED UNANIMOUSLY that Chief Executive Officer be and is hereby authorized to provide the documents & information that may be required by NEPRA in this connection and to appear before NEPRA in the matter.

FURTHER RESOLVED UNANIMOUSLY that Chief Executive Officer be and is hereby authorized to proceed further in the matter.”

MUHAMMAD IMRAN
Company Secretary