



Riali Hydro Power Company (Pvt) Ltd

SAAD

Ref No: RHPCO/2015/340

Dated: 30 April 2015

The Registrar
National Electric Power Regulatory Authority (NEPRA)
NEPRA Tower, Ata Turk Avenue (East)
Sector G-5/1, Islamabad

Subject: Motion for Leave for Review Under Rule 16(6) of NEPRA (Tariff Standards and Procedure) Rules, 1998 in Relation to the Determination of NEPRA in the Matter of Upfront Tariff for Small Hydro Power Generation Projects - Case No. NEPRA/UTH-01/4744-4746 dated April 2, 2015 (the "Determination").

Dear Sir:

Reference above captioned subject, please refer to your letter dated 29 April 2015 (Ref: NEPRA/R/TRF-100/UTH/6535) in response to our letter dated 10-04-2015 seeking certain revisions in the Determination as per Rule 16(6) of NEPRA (Tariff Standards and Procedure) Rules, 1998 ("Rules") which allows motion for leave for review.

While we appreciate that the Determination has already been issued, we are of the considered view that there are certain plausible grounds (as explained in our earlier letter dated [09-04-2015] copy attached) based on which it is expedient to make certain adjustments in the Determination which are in the interest of all the stakeholders in particular the project developers such as Riali Hydro Power Company which are in advance stages and require a commercially viable tariff so as to obtain 'letter of support' and achieve financial close in the shortest possible time.

In view of the above, we request you to allow us in explaining our position on the Determination through 'Motion for Leave for Review' as per the Rules.

We look forward for your positive response and assure you to provide our best possible cooperation and support. We shall be pleased to provide you any further information or clarification in this regard.

Yours truly

(Syed M. Hussain Gardezi)
Director Development

Encl: As above.

Cc:

- Master File.

For information & W.A.
- SAT-I
- SA (Tech)
- D/Rep-1/TA
- M/C
cc: chairman
VC/M (CA)
M(T)
M(M&E)
to check P/S
Havn't
the review
Pctm submit
earlier?

Registrar
4842
Dy No.....
Dated 04-05-15

Senior Advisor Tariff-II
Diary No: 2263
Date: 5-5-15
Senior Advisor Tariff-I
Dy No: 4842
Date: 5-5-15



RHPCO

Riali Hydro Power Company (Pvt) Ltd

Ref No: RHPCO/2015/334

Dated: 9 April 2015

The Registrar
National Electric Power Regulatory Authority (NEPRA)
NEPRA Tower, Ata Turk Avenue (East)
Sector G-5/1, Islamabad

Subject: Motion for Leave for Review in relation to the determination of NEPRA in the matter of Upfront Tariff for Small Hydro Power Generation Projects – Case No. NEPRA/UTH-01/4744-4746 dated April 2, 2015 (the “Determination”)

Dear Sir:

We refer to your decision under letter no: NEPRA/UTH-01/4744-4786 dated 2 April 2015 issuing the determination of National Electricity Power Regulatory Authority in the matter of upfront tariff for small hydropower projects up to installed capacity of 25 MW (installed capacity) (“Upfront Tariff”).

Please accept our sincere appreciation for taking this initiative which was long overdue and shall be a major hallmark for the development of small renewal energy power projects including 6.6 MW Riali – II Hydropower Project being developed by us at 17 KMs upstream of Muzaffarabad, Azad Jammu & Kashmir (“Project”) as per the 2002 Power Policy.

While we fully appreciate the Upfront Tariff, it would be expedient to make certain modifications with a view to ensure bankability of the projects. In relation to this, please review / consider the following:

Having participated on dated 25th July 2014 at Lahore as an intervener in the Upfront tariff proceedings and being aggrieved by the Determination, Riali - II Hydro Power Company (Pvt.) Limited (RHPCO) (the “**Company**”) submits through this letter and enclosure thereto, its Motion for Leave for Review (the “**Motion**”) with the learned Authority under Rule 16(6) of the NEPRA (Tariff Standards & Procedure) Rules, 1998 read with Regulations 3(1), 3(2) and 3(3) of the NEPRA (Review Procedure) Regulations, 2009. The Motion is being filed in light of the discovery of new and important evidence, particularly for high-head small hydro projects, and on account of other matters apparent on the face of the record. The Authority is requested to review and modify the Determination on the following grounds:

Submissions:

1. EPC Costs: The Upfront Tariff does not offer a commercially viable solution from the perspective of potential contractors having such repute which are acceptable to international lenders; it is extremely difficult to seek interest of any international contractor to accept the cost of US\$ 1.8 million per MW. Based on our various interactions with well reputed contractors and the prevailing prices being charged by such contractors in the case of projects which are being commissioned in the country or EPC base contract awarded, we are of the considered view that the best possible price which can be negotiated and agreed with the contractors and (which could be acceptable to international lenders as well) shall be no less than US\$ 2.8 million per MW.
2. However for high-head projects, the assumed EPC cost of around \$1.88 million per MW is taken exactly the same as for the 17 MW Ranolia HPP being undertaken in the public sector in KPK in 2011. The EPC contract for Ranolia was executed by PHYDO on June 28, 2011 and is now almost four years old. The Determination does not provide for any escalation in this benchmark cost nor any information's for its completion cost at COD, even though hydro projects primarily comprise civil work costs which can change dramatically in Pakistan due to uncertainty in every sector.
3. The Authority seems to have inadvertently ignored recent, relevant and directly comparable benchmarks in its Determination. Both benchmarks are from high-head small hydro projects that were tendered through a competitive process by PHYDO, as was the case with Ranolia four years ago. As shown in the table below, recent confirmed EPC costs for such projects are in the range of \$2.77-3.27 million per MW (and contract awarded accordingly). As such, the EPC cost assumed in the Determination is inadequate and un-violable and it is therefore earnestly requested to be reconsidered.

Project / Size	Location	Contract Execution Date	EPC Cost (Rs. billion)	EPC Cost (US\$ million)	EPC Cost (US\$ / MW)
10.2 MW Jabori HPP	District Mansehra, KPK	November 13, 2014	2.78	28.22	2.77
11.8 MW Karora HPP	District Shangla, KPK	November 12, 2014	3.8	38.58	3.27
(The Contract Awarded)					
100 MW Gulpure	Kotli AJ&K	April 2015 EPC Mobilized	-	250	2.5

Gulpur

(Installed Capacity 100, MW) EPC cost US\$ 250 Million cost per MW 2.5 Million, and its EPC stage Tariff being approved by NEPRA Authority US\$ 9.744 cents. (Levelized) this is an example for authority to re-visit the issue, the Small Hydros, almost taking same time for its development, with similar development cost, same risk but with Less Energy as compare to large Hydro Power Projects, kindly refer 1995 GOP Policy, which elaborate and allows 20% higher Upfront Tariff for Small Hydro Projects as compare with large Hydros US\$ 4.7 Cents and US\$ 5.47 Cents respectively. Therefore a comprehensive due-diligence is required on fast track basis.

Note: Based on exchange rate of 1 US\$: 98.5 PKR

- ✓ 4. Critically, the Determination does not provide any mechanism for indexation of civil work costs, which is allowed as standard practice in cost-plus hydropower tariff determinations. In effect, the Determination assumes that sponsors shall be able to set up and commission small hydro projects four to five years from now (i.e. around 2015-2020) at the same cost as assumed today, which itself is based on an EPC cost from 2011. The Authority would appreciate that the lack of an indexation mechanism poses a very significant risk to sponsors, particularly as small hydro projects opting for the upfront tariff shall not be eligible for other cost openers available under the cost-plus regime.
- ✓ Accordingly, it is requested that the Determination may be modified to include a one-time indexation adjustment at COD as in precedent determinations (e.g. Patrind) and Gulpur. This adjustment would not be project-specific and would be based on the generalized benchmarks assumed by the Authority and variation in exchange rate and officially published indices for steel, cement, diesel and labour. The suggested mechanism is as follows:
- ✓ a) 40% of the assumed EPC cost shall be adjusted for exchange rate variation over 36 months starting from the date of financial close. This adjustment shall only apply for projects funded through local currency debt.
- ✓ b) 60% of the EPC cost shall be adjusted for variations in civil costs as per the formulas:

$$P_n = 0.51 + 0.10*(C_n/C_0) + 0.09*(S_n/S_0) + 0.17*(F_n/F_0) + 0.13*(L_n/L_0)$$

Where;

P_n is the adjustment factor to be applied for civil works;

C_n is the index value for the relevant month for Cement as per the Wholesale Price Indices published as part of the Monthly Review on Price Indices by the Pakistan Bureau of Statistics;

S_n is the index value for the relevant month for Steel Bar & Sheets as per the Wholesale Price Indices published as part of the Monthly Review on Price Indices by the Pakistan Bureau of Statistics;

F_n is the index value for the relevant month for Diesel Oil as per the Wholesale Price Indices published as part of the Monthly Review on Price Indices by the Pakistan Bureau of Statistics;

L_n is the index value for the relevant week for Mason (Raj) for Rawalpindi as per the Wage Rates published as part of the Weekly Sensitive Price Index by the Pakistan Bureau of Statistics; and

C_0 , S_0 , F_0 and L_0 are the reference values of the cost indices for Cement, Steel Bar & Sheets, Diesel Oil and Mason (Raj) as of the date of the tariff determination.

c) Other non-EPC components of the project cost shall be adjusted based on the revised EPC cost.

- ✓ 5. The Determination assumes local financing at KIBOR + 3%, which is a major deviation from KIBOR + 3.5% allowed in various other recent upfront tariff determinations for wind, solar and coal. Commercial banks will not consider financing small hydro projects at a lower spread as the construction period and complexity are significantly higher than wind or solar projects. The Authority is requested to keep the spread over KIBOR at least the same as in the wind, solar and coal upfront tariffs.
- ✓ 6. It appears that the Determination is based on a debt: equity ratio of 80:20, which again does not reflect current financing trends and is inconsistent with the more realistic 75:25 ratio assumed by the Authority in the upfront wind, solar and coal tariffs. It is requested that the debt: equity ratio in the Determination may be modified as per established precedent.
- ✓ 7. Similarly, in line with the arguments above, financing fees & charges should be based on 3.5% of the total debt worked out at 75% of the project cost as already allowed in other upfront tariffs, the same may be allowed.
- ✓ 8. The Authority's decision to enhance IRR for small hydro projects to 20% is highly appreciated as it acknowledges the various complexities in developing a small hydro project in comparison to other power generation projects. However, it is respectfully pointed out that if the IRR is increased to 20%, but other important assumptions related to project cost and financing parameters are unrealistic or adverse compared to other tariffs, then the effective IRR will be much lower than the notional 20% figure. In fact, if there were a choice between the current tariff and a revised tariff with standard IRR but more realistic tariff parameters, the Company would choose the latter. Sponsors cannot earn the IRR assumed by the Authority if the tariff itself is not viable for setting up a project.
9. The Authority has developed a fair, detailed and commendable mechanism for adjustment of plant factor as per actual for projects that opt to transfer the hydrological risk to the power purchaser. However, the Determination does not include a table illustrating the tariff

for various plant factors. Instead, the Determination is based on the lowest possible plant factor of 50%, which has the effect of artificially inflating the tariff. Most high-head projects will likely have higher plant factors and hence significantly lower tariffs as estimated in the table below. Including such a table in the Determination would communicate complete information to investors as well as the general public and avoid any misconceptions on account of the low base plant factor.

Plant Factor	Estimated levelized tariff for high-head projects (Rs/kWh)	
	Foreign Financing	Local Financing
50%	7.62	9.99
55%	6.93	9.09
60%	6.35	8.33
65%	5.86	7.69
70%	5.44	7.14

To further illustrate this point, the plant factors for various high-head projects under development by PHYDO in KPK are provided below. Several projects have plant factors substantially higher than the assumed 50%. While the figure of 50% should be retained as the minimum threshold, the Determination should stipulate the tariff for a range of plant factors.

Project	Stage	District	MW	Plant Factor
Ranolia	Under construction	Kohistan	17	67.5%
Jabori	- do -	Mansehra	10.2	79.6%
Karora	- do -	Shangla	11.8	69.1%
Ghorband	Feasibility	Shangla	20.6	61.7%
Nandihar	- do -	Battagram	12.3	64.7%
PatrakShringal	- do -	Dir	22	56.6%

10. The inclusion of Annexure-II in the Determination as a standard template for certification of plant capacity and hydrology is an excellent initiative to streamline processing of small hydro projects. However, it is recommended that a small change be made to Annexure-II to ensure that the template achieves the desired results.

As per established practice for small hydro, the relevant provincial / AJK agency issues certifications for feasibility study approval on behalf of the Panel of Experts after the Experts have reviewed the study and given their approval. The wording of Annexure-II instead places the certification directly on the Experts themselves in their individual and collective capacity. The Experts will likely shy away from this, as they perform their role in an advisory capacity and are otherwise full time employees of other public sector departments and agencies, e.g. irrigation, environment, public works, CPPA, WAPDA, etc.

→ Instead, the relevant agency should itself sign and issue the certificate after having completed its scrutiny including review by the Panel of Experts. The references in Annexure-II to signatures and dates of each member of the Panel of Experts should be deleted, so that the designated signatory is the agency as per its mandate and not voluntary individuals.

11. Para xvii) on page 57 of the Determination currently provides that all pass-through items including water use charges shall be reimbursed by the power purchaser over a twelve month period. It is submitted that water use charges shall be a regular monthly or quarterly payment by the company and spreading the reimbursements for these over twelve months shall lead to recurring liquidity issues. Accordingly, it is requested that the language be modified so that pass-through water use charges are payable as and when incurred by the company and subject to the same payment cycle as the sale of electricity under the power purchase agreement.

Similarly, since any taxes and duties assessed on the company prior to COD are payable by the company when imposed but can only be invoiced to the power purchaser post-COD, adding another twelve months for payment of the same would pose a financial burden on the company. The Authority may please consider spreading the reimbursement in this case over a six month period instead.

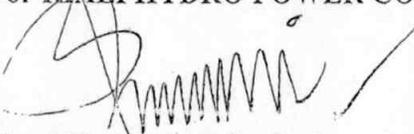
12. The Determination currently stipulates a validity of 12 months, following which financial close has to be achieved within 18 months. It is submitted that it can routinely take up to six months or more to have a draft feasibility study approved by the relevant agency after multiple rounds of changes and reviews. The emphasis placed on proper certification of the feasibility in the Determination will likely increase the timelines. It is requested that the two timelines be reversed, so that validity period of the tariff is 18 months and subsequent time for financial close is 12 months. This change would enable maximum number of sponsors to opt for the upfront tariff.

13. It is requested that the validity period for the Determination be counted from the date of the Authority's decision in the matter of this and any other motions for leave for review.
14. It is pointed out that ECC-approved standardized hydropower security documents already exist for hydropower; so many months of delays due to drafting of new documents as in other cases can be avoided. The documents were prepared by PPIB, which has been acting as the coordinating agency for larger hydropower IPPs generally, as well as for small hydro projects in AJK. Accordingly, it is suggested that AEDB and PPIB may jointly be tasked with expeditiously finalizing any minor changes required in the standardized hydropower documents in consultation with project sponsors. The Authority may please also note in the Determination that any unnecessary redrafting should be avoided on this account and lenders will not accept, or in case if they accept, there due-diligence shall take longer period.
15. For the sake of Upfront / Transparent clarity, the Authority may please also confirm the following:
- ✓ a) The tariff granted to projects located in AJK through NTDC under the Interim Power Procurement (Procedures and Standards) Regulations, 2015 shall be notified in the official gazette and that all indexations and adjustments in the tariff shall be directly determined by NEPRA from then onwards.
 - ✓ b) The net annual plant factor is based on energy generated at the plant's bus bar as per the Grid Code, Distribution Code and established precedent;
 - ✓ c) Standard allowance for scheduled and forced outages shall be incorporated in the power purchase agreement as per established benchmarks for other hydropower IPPs
 - ✓ d) The insurance adjustment mechanism for exchange rate variation at xix)(b) on pages 60-61 shall only apply in case the power producer petitions for it and otherwise no project-specific adjustment on this account shall be made.

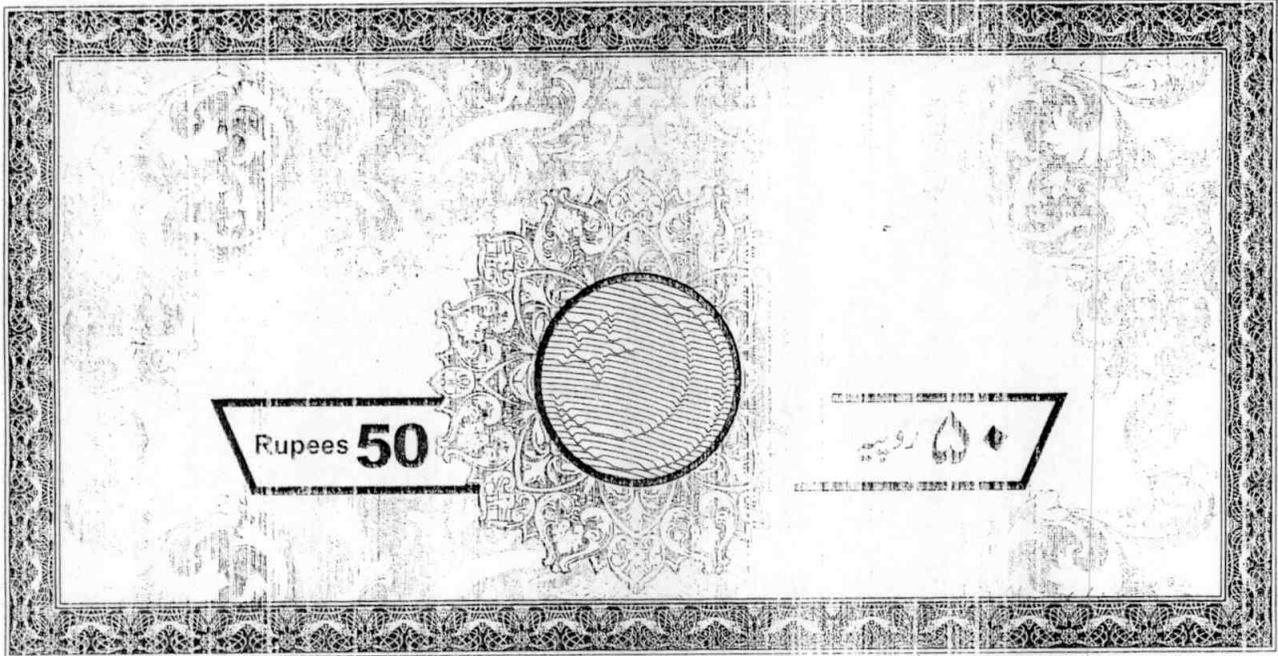
I would be grateful for timely admission and consideration of this motion and remain at the Authority's disposal in case any further information or clarification is required in support thereof.

Yours truly,

For **BIALI HYDRO POWER COMPANY (PVT.) LIMITED (RHPCO)**


(Syed M. Hussain Gardezi)
Director Development

Encl: Affidavit in support of Motion for Leave for Review



BEFORE THE NATIONAL ELECTRIC POWER REGULATORY AUTHORITY "NEPRA"

Motion for Leave for Review in relation to the determination of NEPRA in the matter of Upfront Tariff for Small Hydro Power Generation Projects – Case No. NEPRA/UTH-01/4744-4746 dated April 2, 2015 (the "Determination")

AFIDAVIT of Syed Mahmood Hussain Gardezi S/O Syed Luqman Hussain Shah, Pakistani National having CNIC # 61101-3473746-1, age 65 years, Director Development of M/S Riali Hydro Power Company (Pvt.) Ltd. (RHPCO) having registered office at 59-E, Street 7, I-10/3, Islamabad, Pakistan

I, the above named deponent, do hereby solemnly affirm and declares as under:

1. I am authorized representative of M/S Riali Hydro Power Company (Private) Limited.
2. That I have filed the accompanying Intervention request together with supporting documents before the learned Authority, and the contents of the same may kindly be read as an integral part of this affidavit.
3. That the contents of the accompanying documents are true and correct to the best of my knowledge, belief and information and that nothing has been concealed.
4. That all further documentation and information to be provided by me in connection with the accompanying documents shall be true to the best of our knowledge, belief and information.

Deponent

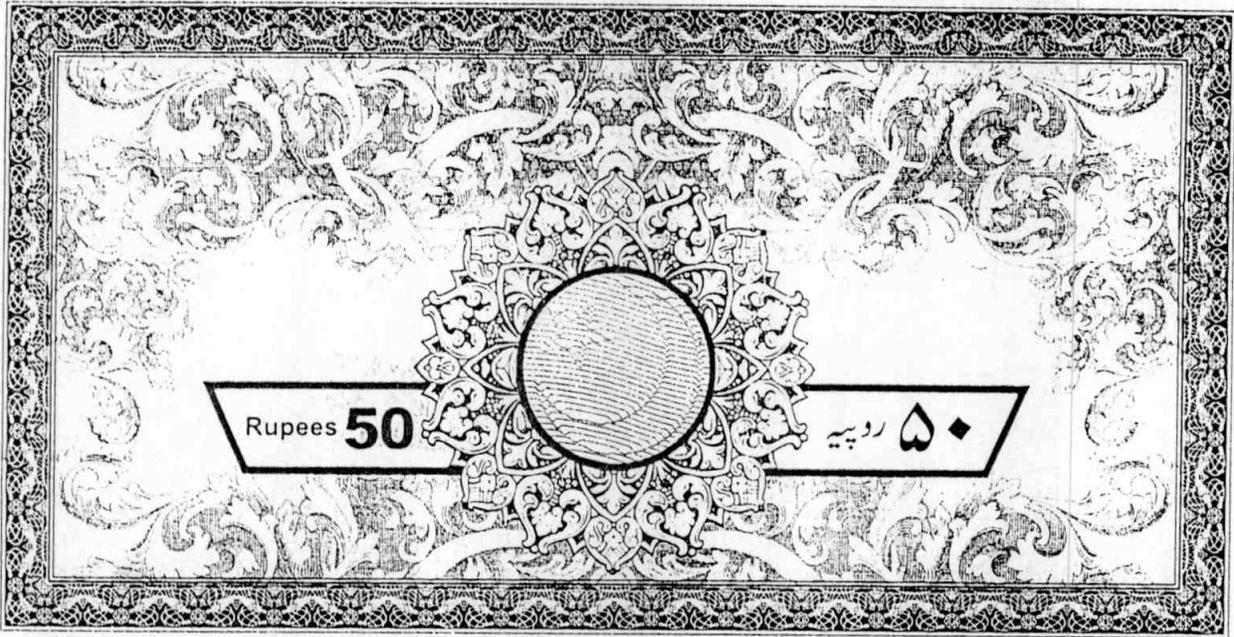
Syed Mahmood Hussain Gardezi

Verification

Verified on oath this 10th day of April, 2015 that the contents of this affidavit are true and correct to the best of my knowledge and belief.

Deponent

Syed Mahmood Hussain Gardezi



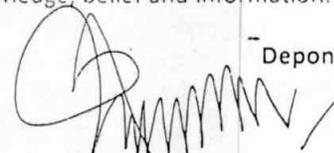
BEFORE THE NATIONAL ELECTRIC POWER REGULATORY AUTHORITY "NEPRA"

Motion for Leave for Review Under Rule 16(6) of NEPRA (Tariff Standards and Procedure) Rules, 1998 in Relation to the Determination of NEPRA in the Matter of Upfront Tariff for Small Hydro Power Generation Projects – Case No. NEPRA/UTH-01/4744-4746 dated April 2, 2015 (the "Determination").

AFIDAVIT of Syed Mahmood Hussain Gardezi S/O Syed Luqman Hussain Shah, Pakistani National having CNIC # 61101-3473746-1, age 65 years, Director Development of M/S Riali Hydro Power Company (Pvt.) Ltd. (RHPCO) having registered office at 59-E, Street 7, I-10/3, Islamabad, Pakistan

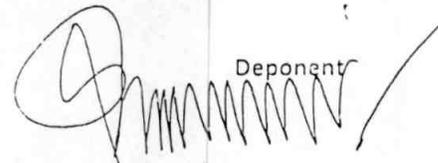
I, the above named deponent, do hereby solemnly affirm and declares as under:

1. I am authorized representative of M/S Riali Hydro Power Company (Private) Limited.
2. That I have filed the accompanying review request together with supporting documents before the learned Authority, and the contents of the same may kindly be read as an integral part of this affidavit.
3. That the contents of the accompanying documents are true and correct to the best of my knowledge, belief and information and that nothing has been concealed.
4. That all further documentation and information to be provided by me in connection with the accompanying documents shall be true to the best of our knowledge, belief and information.


Deponent
Syed Mahmood Hussain Gardezi

Verification

Verified on oath this 10th day of April, 2015 that the contents of this affidavit are true and correct to the best of my knowledge and belief.


Deponent
Syed Mahmood Hussain Gardezi