



**National Electric Power Regulatory Authority**  
**Islamic Republic of Pakistan**

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No. NEPRA/TRF- SCCPECPP-2017/13566-13568

August 3, 2017

Subject: **Decision of the Authority in the matter of Induction of Security Cost for the CPEC Projects in the Power Tariff to Ensure Security Sustainability**

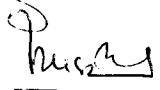
Dear Sir,

Please find enclosed herewith the subject Decision of the Authority along with Annex-I (11 pages).

2. The Decision is being intimated to the Federal Government for the purpose of notification in the official gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

3. The Order of the Authority along Annex-I is to be notified in the official Gazette.

Enclosure: As above

  
03 08 17  
( Syed Safer Hussain )

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

CC:

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



**DECISION OF THE AUTHORITY IN THE MATTER OF INDUCTION OF SECURITY COST FOR THE CPEC PROJECTS IN THE POWER TARIFF TO ENSURE SECURITY SUSTAINABILITY**

**1. BACKGROUND**

- 1.1. MW&P vide its letter No. IPPs-1(12)2016 dated 10<sup>th</sup> October 2016 submitted following decision of the ECC of the Cabinet under Case No. ECC-117/19/2016 dated 23<sup>rd</sup> September 2016 for implementation:

*“the Economic Coordination Committee of the Cabinet considered the Summary dated 22nd September 2016, submitted by the Ministry of Water and Power regarding “Induction of security Cost for the CPEC Projects in the Power Tariff through NEPRA to ensure the Security Sustainability” and approved the proposal contained in Para-4 of the Summary.”*

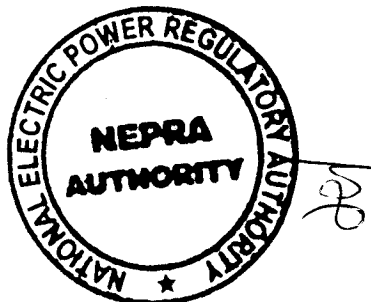
- 1.2. Para-4 of the Summary is as under:

*“CPEC Projects which have achieved Financial Close and for the CPEC early harvest projects where Financial Close is still pending as well as new addition to the CPEC Projects under Implementation Agreement, ECC of the Cabinet may approve and allow issuance of a policy directive to NEPRA to allow 1% of the Capital Cost net of aforementioned US\$ 150,000/- amount on account of security to be distributed annually starting from the construction period till the term of the Power Purchase Agreement.”*

- 1.3. Considering the decision of the ECC, details of CPEC power projects were sought from MW&P vide NEPRA Letter No. NEPRA/SAT-I/ECC-01/14688 dated 27<sup>th</sup> October 2016 for initiation of proceedings to include subject security cost in the tariff of the power projects under CPEC. Reminder in the matter was also issued on 9<sup>th</sup> December 2016. MW&P vide its letter No. IPPs-I(12)/2016 received on 6<sup>th</sup> February 2017 provided the list of CPEC power projects along with the status of each project.

**2. INITIATION OF PROCEEDINGS**

- 2.1 The Authority decided to initiate suo moto proceedings in the matter. Notice of proceedings was published in the leading national newspapers on 18th March 2017 inviting comments from the stakeholders. Individual notices were also sent to various stakeholders on 22nd March 2017. The list of CPEC projects along with the capital cost was also made available on the web. Hearing in the matter was scheduled on 4th April 2017.



*[Handwritten marks]*

### 3. COMMENTS

3.1. In response to the notice of suo moto proceedings in the matter, written comments were received from the following stakeholders:

- i. Zonergy
- ii. Hydro Dawood
- iii. UEP Wind
- iv. SK Hydro
- v. Syed Akhtar Ali
- vi. Anwar Kamal Law Associates

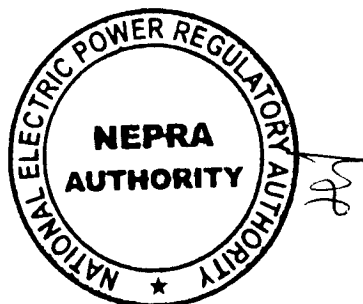
#### Zonergy

3.2. The summary of comments submitted by the commentator is as under:

- Tariff for our three SPVs namely Appolo, Best & Crest have already been approved which covers several items but there is nothing mentioned or included about the recovery of security cost i.e. Project Security Cost.
- It is pertinent to mention here that in project related documents i.e. EPA & IA, security cost has been imposed on Government of Pakistan and in this regards, we are reproducing section 5.4 (Security Protection) of the Implementation Agreement provides inter alia, that:

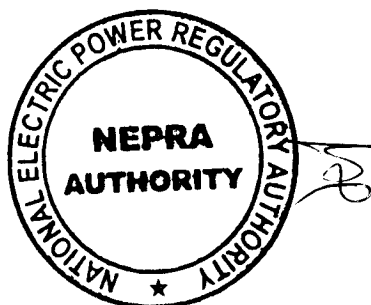
"...From time to time, the Seller may request additional security forces from the GOP to meet unusual security requirements. All such additional security forces shall remain under the exclusive control and direction of the GOP. All reasonable out-of-pocket expenses incurred by the GOP in providing such security forces requested by the Seller shall be reimbursed to the GOP (through AEDB) by the Seller within twenty one (21) Days of such expenditure having notified by the AEDB, provided however, that, in no event shall the Seller have an obligation to reimburse such expenses in excess of US\$150,000 in any year, which amount shall be increased by three percent (3%) per year commencing with the commercial operations date."

- Zonergy has never requested for the security and the same is not liable to pay security cost of USD 150,000/-. Moreover this is not investor's responsibility.





- Zonergy's 9x100MW solar power project is under CPEC early harvest projects and under Article 10 of the CPEC Agreement "The Pakistani Party shall take the necessary measures to ensure the safety of Chinese personnel and projects".
- This is not investor's responsibilities to make security arrangements outside of the solar park, but on every occasion, we have tried hard to facilitate. Therefore, security cost shall be borne by the Government of Pakistan and relevant agencies.
- Zonergy has hired the FIST Security (Pvt) Ltd for the security of solar power project and FIST is also an approved security services provider as recognized by the Home Department Punjab. If Authority will impose the Security Cost in the Power Tariff of CPEC Energy Projects i.e. USD 150,000 per annum from the date of construction till the term of Energy Purchase Agreement, the Zonergy will remove the FIST Security (Pvt) Ltd forthwith in any manner whatsoever. And the same will be a huge disaster for the Energy Sector.
- In order to prompt investor's interest, especially for CPEC projects, the cost of all security arrangements should be declared as pass through or may be imposed the same on Government of Pakistan and relevant agencies. In furtherance to the above said, it is also reiterated that the captioned requirement of security cost would fall under Article 10 of the CPEC Agreement and other treaties that clearly states that it is an obligation of the GOP to provide and undertake all necessary measures to ensure the safety of Chinese personnel and projects.
- Requested that Suo Moto Proceedings on account of Security Cost in the Power Tariff of CPEC Energy Projects i.e. USD 150,000 per annum from the date of construction till the term of Energy Purchase Agreement may be dropped and consequentially, it may also be determine that the Government of Pakistan and relevant agencies may also be directed to bear whole cost of security instead of claiming the same from the CPEC investors in any manner whatsoever.
- It is further prayed that keeping in view of the overriding concern of Pakistan security, both internal and external, Authority may consider and allow Zonergy security cost for solar power projects as pass through item. Any other relief, which the Authority may deems fit and appropriate in these circumstances may also be granted.



### Hydro Dawood Power

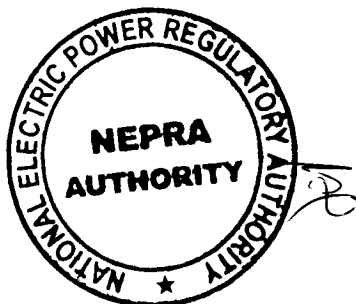
3.3. The summary of comments submitted by the commentator is as under:

- The burden of the Security Cost should not be on the shoulders of the Projects i.e. the cost agreed should be first pay to the projects in the form of tariff and then disbursed to the relevant department in arrears.
- The amount agreed to be included in tariff should be sufficient to cover extra costs if any supposed to be paid by the Project i.e. accommodation, meals, transportations etc.
- The projects should be protected from tax consequences arising on payment of security costs to Government Institutions.
- In no case the Security Cost burden on the projects should be more than the amount included in the tariff as security cost.

### UEP Wind

3.4. The summary of comments submitted by the commentator is as under:

- The authority responsible for recovering security cost from the project companies should be defined.
- The responsibility to bear the withholding tax on income should be on the designated authority or it should be exempt from withholding of income tax.
- The payment of security cost should be in arrears to ensure project is not borrowing for such cost and bearing additional interest cost. An advance payment may impact on project's capability for paying lenders as first priority.
- The project should be allowed to restrict payment of security cost to the designated authority to the extent of proportion that it has received from CPPA.
- The security cost should ideally included all expenses for security agencies including police, rangers, army etc. Practically project companies are bearing the cost of accommodation, meals vehicles, fuel, utilities etc. from their own pocket and such costs are not part of tariff or not allowed to recover as pass-through item.



- Additional security under Article 5.4 of IA is a separate matter and it should not be factored in while calculating the security cost.
- 1% of capital cost less USD 150,000 will give different figure for each project and will make it difficult to include a certain number into the tariff.
- Instead of calculation method mentioned above, we suggest estimating the security cost and distribution it among CPEC projects based on their installed capacity or any other reasonable basis. The project should be allowed to recover such cost as a pass-through item and shall pay it to the designated authority subject to its realization from CPPA.

### **SK Hydro**

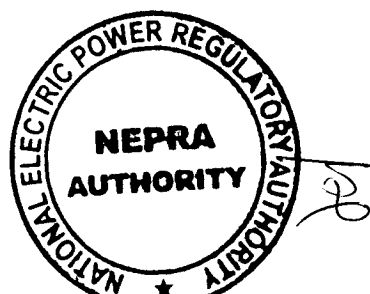
3.5. The summary of comments submitted by the commentator is as under:

- The provision of security to CPEC projects is the responsibility of the Government and should be financed through Government budget.
- The proposal for charging intending security costs directly to the electricity consumers may be considered so as to avoid additional financing costs to IPPs, NTDC and distribution companies.
- The relevant Power Policy and the Power Purchase Agreements need to be modified.
- The financing of these costs are possible only through equity and NEPRA should allow ROE and ROEDC on such financing in the reference tariff.
- As regards the security cost for the operation period, the operating costs of the project may be enhanced equal to the security cost plus financing cost thereon for each year.

### **Anwar Kamal Law Associates**

3.6. The summary of comments submitted by the commentator is as under:

- Security is the responsibility of the Government and cannot be added on to the cost of electricity.
- With the inclusion of the proposed security cost, the consumer end tariff will go even higher and this will affect the cost of manufacturing in the country



and will thus increase inflation locally and result in lower exports from Pakistan.

- Non-CPEC projects may also demand this cost and it may not be possible to deny them as it may lead to discrimination.

**Syed Akhtar Ali**

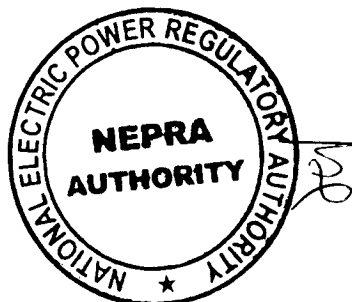
- 3.7. According to the commentator, security payments be made on actual cost basis or it may be 1% CAPEX as a total security expenditure.

**4. HEARING**

- 4.1. The hearing in the matter was held on 4th April 2017 wherein representatives of PPIB, NTDC, PPDB, BOI, EAD Port Qasim Electric Power Company Limited, TCB-I, Sachal Energy, CPHGC, Zonergy, Habib Bank Limited and other IPPs, media and general public were present.

**5. ANALYSIS OF THE ISSUE**

- 5.1. Article 10 of the CPEC Agreement provides as "The Pakistani Party shall take the necessary measures to ensure the safety of Chinese personnel and projects". Keeping in view the internal and external security threats, GOP's responsibility under the CPEC Agreement and the importance of the CPEC project, GOP has decided to establish a special security force/division of armed forces to ensure security of the CPEC projects.
- 5.2. Most of stakeholders particularly the CPEC IPPs objected that the provision of security is the responsibility of the state and should not be charged to the electricity consumers.
- 5.3. Under the IA all the IPPs have agreed that in case of extra security requirement, all reasonable out of pocket expenses shall be borne by the IPPs subject of maximum of US\$ 150,000/annum. By the same principle, it seems reasonable to charge the amount exceeding US\$ 150,000/annum to the generation cost of the same project. Even if the government bears the cost of extra security arrangement, it has to be allocated from the budget which is public money and the development budget has to be cut short to the equivalent amount. Since this cost is specific to the CPEC projects, it is more appropriate to charge this cost to the respective project. These preventive security



measures shall enable the smooth operation of the CPEC energy projects and shall better protect the interest of the electricity consumers.

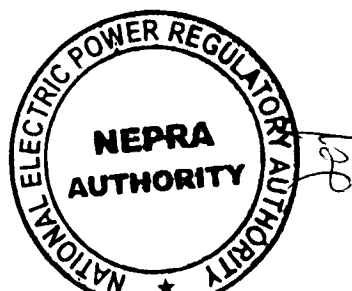
- 5.4. The more important aspect of the issue is that 10 out of 19 projects have zero financial impact, 3 projects have a financial impact of less than 1 Paisa/unit and 6 projects have financial impact of less than 1/2 Paisa/unit. Further, this financial impact shall become lesser and lesser with the annual indexation of 3% to the amount of US\$ 150,000/annum to be contributed by the IPP under the IA.
- 5.5. Some of the stakeholders raised the issue that the extra security arrangement for CPEC projects only is discrimination to other non CPEC projects. The contention of the stakeholders is not correct. Under the Security Protection Clause of IA, each project can ask for the extra security arrangements which shall be provided by the Government and all reasonable out of pocket expenses shall be borne by the project company subject to maximum of US\$150,000/annum. The same mechanism is applicable to CPEC projects without having any discrimination.
- 5.6. M/s Zonergy has specifically submitted that it has never requested for the security and it is not liable to pay security cost of USD 150,000/- and moreover this is not investor's responsibility. Since this has been agreed in the CPEC Agreement by both the governments, it will be reasonable to construe that the request has been made by M/s Zonergy and the payment mechanism as agreed in the Security Protection clause of IA shall be enforced.

## 6. DECISION OF THE AUTHORITY

- 6.1. On the basis of the analysis of the issue in the preceding paragraphs, the Authority has decided to allow 1% capital cost of the project reduced by US\$ 150,000/annum (subject to 3% indexation for each year after the 1st year from COD) as security cost in respect of each CPEC power project in accordance with the approved payment mechanism and the same shall be treated as pass-through item. The details of the 1% security cost for each project is provided at **Annex-I**.

## 7. APPROVED PAYMENT MECHANISM

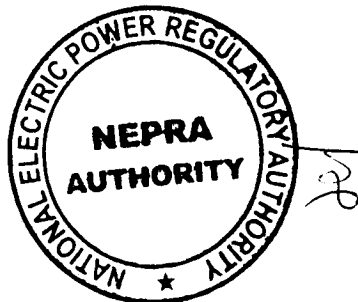
- i. IPPs of CPEC projects shall pay US\$ 150,000/annum, subject to 3% indexation for each year after the 1st year from COD, as required under security protection clause of the IA directly to the relevant Ministry/Agency designated for the purpose during the construction period as well as during the operation period.







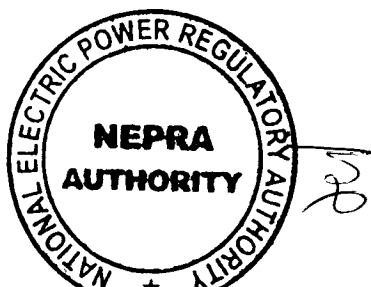
- ii. During the operation period, IPPs of CPEC projects shall include in the monthly capacity invoice a separate charge on account of security cost. The capacity charge for security cost shall be calculated on the basis of determined annual security cost of the respective project, reduced by US\$ 150,000/annum for the 1st year from COD and thereafter @3% indexation for each succeeding year, divided by net annual output in kilowatt hours assuming reference exchange rate of Rs. 105/US\$. The subject security cost component of capacity charge shall be indexed on the basis of exchange rate of the last available day of the preceding quarter. The IPPs shall sought its approval from NEPRA quarterly in accordance with other tariff components of the capacity charge. IPPs shall pay the invoiced amount immediately to the relevant Ministry/Agency designated for the purpose.
- iii. CPPA shall pay the invoiced amount in accordance with the other components of capacity charge.
- iv. In case the annual security cost of a project is less than US\$ 150,000/ subject to applicable indexation, IPPs shall not include security cost in the capacity charge invoice and CPPA shall not pay any amount on account of security cost for the respective project.
- v. The determined security cost for each year of the construction period in lump sum with arrears, if any, shall be paid by the IPPs to the relevant Ministry/Agency designated for the purpose and the same shall be included in the capital cost of the project at the time of COD adjustment.
- vi. In case the agreed construction period under the PPA is less than the allowed construction period under the tariff determination, IPPs shall ensure that the total amount paid to relevant Ministry/Agency on account of security cost during the construction period is equal to the total amount for the construction period assessed under the tariff determination.
- vii. In future, if the overall security situation improves and GOP considers that special security arrangement are no longer needed and the special security force/division is released from this responsibility, no payment shall be made by the power purchaser on account of special security arrangement.
- viii. CPPAG shall submit a report every five (5) years regarding the status and implementation of the decision in the matter.





**8. ORDER**

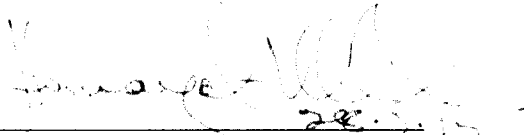
- I. The Authority has decided to allow 1% capital cost of the project reduced by US\$ 150,000/annum (subject to 3% indexation for each year after the 1st year from COD) as security cost in respect of each CPEC power project in accordance with the approved payment mechanism and the same shall be treated as pass-through item.
- II. The approved payment mechanism is as under:
- i. IPPs of CPEC projects shall pay US\$ 150,000/annum, subject to 3% indexation for each year after the 1st year from COD, as required under security protection clause of the IA directly to the relevant Ministry/Agency designated for the purpose during the construction period as well as during the operation period.
  - ii. During the operation period, IPPs of CPEC projects shall include in the monthly capacity invoice a separate charge on account of security cost. The capacity charge for security cost shall be calculated on the basis of determined annual security cost of the respective project, reduced by US\$ 150,000/annum for the 1st year from COD and thereafter @3% indexation for each succeeding year, divided by net annual output in kilowatt hours assuming reference exchange rate of Rs. 105/US\$. The subject security cost component of capacity charge shall be indexed on the basis of exchange rate of the last available day of the preceding quarter. The IPPs shall sought its approval from NEPRA quarterly in accordance with other tariff components of the capacity charge. IPPs shall pay the invoiced amount immediately to the relevant Ministry/Agency designated for the purpose.
  - iii. CPPA shall pay the invoiced amount in accordance with the other components of capacity charge.
  - iv. In case the annual security cost of a project is less than US\$ 150,000/ subject to applicable indexation, IPPs shall not include security cost in the capacity charge invoice and CPPA shall not pay any amount on account of security cost for the respective project.
  - v. The determined security cost for each year of the construction period in lump sum with arrears, if any, shall be paid by the IPPs to the relevant Ministry/Agency designated for the purpose and the same shall be included in the capital cost of the project at the time of COD adjustment.
  - vi. In case the agreed construction period under the PPA is less than the allowed construction period under the tariff determination, IPPs shall ensure that the

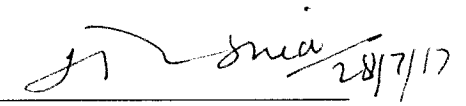



total amount paid to relevant Ministry/Agency on account of security cost during the construction period is equal to the total amount for the construction period assessed under the tariff determination.

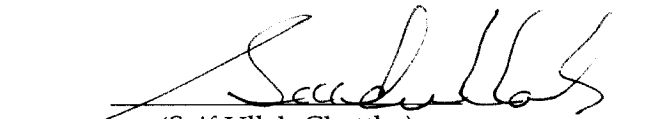
- vii. In future, if the overall security situation improves and GOP considers that special security arrangement are no longer needed and the special security force/division is released from this responsibility, no payment shall be made by the power purchaser on account of special security arrangement.
  - viii. CPPAG shall submit a report every five (5) years regarding the status and implementation of the decision in the matter.
9. The above Order along with Annex-I is to be notified in the official gazette in accordance with the provisions of Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act 1997.

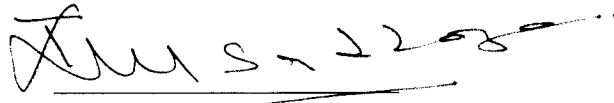
**Authority**

  
(Himayat Ullah Khan)  
Member

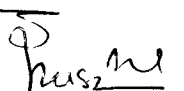
  
(Maj (R) Haroon Rashid)  
Member

  
(Syed Masood-ul-Hassan Naqvi)  
Member

  
(Saif Ullah Chattha)  
Vice Chairman 1.8.2017

  
Brig (R) Tariq Saddozai  
Chairman



  
P. Hussain  
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## DETAILS OF ANNUAL SECURITY COST

Sr. No.	Project Name	Gross Capacity	Type	Construction Period as per Tariff Determination	Operational Period as per Tariff Determination	Capital Cost	1% of Capital Cost as Security Cost	Annual Security Cost
		MW		Years	Years	Million US\$	Million US\$	Million US\$
1	Huaneng Shandong Ruyi (Pakistan) Energy (Pvt) Limited	1320 MW	Coal	4.00	30.00	1,597	15.97	0.47
2	Port Qasim Electric Power Company (Pvt) Limited	1320 MW	Coal	4.00	30.00	1,597	15.97	0.47
3	China Power Hub Generation Company Limited	1320 MW	Coal	4.00	30.00	1,597	15.97	0.47
4	Thar Coal Block-I Power Generation Company (Pvt) Ltd.	1320 MW	Coal	4.00	30.00	1,597	15.97	0.47
5	Engro Powergen Thar (Pvt) Limited	660 MW	Coal	3.33	30.00	849	8.49	0.25
6	ThalNova (Pvt) Limited	330 MW	Coal	3.33	30.00	424	4.24	0.13
7	Thar Energy Limited	330 MW	Coal	3.33	30.00	424	4.24	0.13
8	Karot Power Company (Pvt) Limited	720 MW	Hydro	5.00	30.00	1,439	14.39	0.41
9	S. K. Hydro (Pvt) Limited	870 MW	Hydro	6.00	30.00	1,455	14.55	0.40
10	Kohala Hydro Power Project	1100 MW	Hydro	6.00	30.00	1,973	19.73	0.55
11	Mitiari-Lahore Transmission Line Project	4000 MW	Transmission	2.25	25.00	1,513	15.13	0.56
12	Appolo Solar Development Pakistan Limited	100 MW	Solar	1.00	25.00	145	1.45	0.06
13	Best Green Energy Pakistan Limited	100 MW	Solar	1.00	25.00	145	1.45	0.06
14	Crest Energyt Pakistan Limited	100 MW	Solar	1.00	25.00	145	1.45	0.06
15	UEP Wind Power (Pvt) Limited	99 MW	Wind	1.50	20.00	228	2.28	0.11
16	Sachal Energy Development (Pvt) Limited	49.5 MW	Wind	1.50	20.00	118	1.18	0.05
17	Hydrochina Dawood Power (Pvt) Limited	49.5 MW	Wind	1.50	20.00	114	1.14	0.05
18	Three Gorges Second Wind Farm (Pvt) Limited	49.5 MW	Wind	1.50	20.00	100	1.00	0.05
19	Three Gorges Third Wind Farm (Pvt) Limited	49.5 MW	Wind	1.50	20.00	100	1.00	0.05

