

REGISTERED No. M - 302
L.-7646



EXTRAORDINARY
PUBLISHED BY AUTHORITY

ISLAMABAD, MONDAY, MAY 30, 2022

PART II

Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN
NATIONAL ELECTRIC POWER REGULATORY AUTHORITY

NOTIFICATION

Islamabad, the 27th May, 2022

S. R. O. 663(I)/2022.—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 in the matter of Application filed by Central Power Purchasing Agency Guarantee Ltd. (CPPA-G) for Adjustment in Components of Tariff pursuant to Signing of Master Agreement with Harappa Solar (Pvt.) Ltd. (HSPL) in Case No. NEPRA/TRF-350/HSPL-2016.

2. While effecting the Decision, the concerned entities including Central Power Purchasing Agency Guarantee Limited (CPPAGL) shall keep in view and strictly comply with the orders of the courts notwithstanding this Decision.

[No. NEPRA/TRF-350/8201.]

SYED SAFEER HUSSAIN,
Registrar.

1245 (1—6)

Price : Rs. 10.00

[7910 (2022)/Ex. Gaz.]



*Decision of the Authority in the Matter of Application Filed by CPPAGL
for Adjustment in Components of Tariff Harappa Solar Private Limited*

**DECISION OF THE AUTHORITY IN THE MATTER OF APPLICATION FILED BY CENTRAL POWER
PURCHASING AGENCY FOR ADJUSTMENT IN COMPONENTS OF TARIFF PURSUANT TO
SIGNING OF MASTER AGREEMENT WITH HARAPPA SOLAR (PRIVATE) LIMITED**

1. Introduction

- 1.1. The Committee for Negotiations, notified by the Government of Pakistan through notification number F.No.IPPs-1(12)/2019-20 dated 3rd June 2020, following successive rounds of discussions with the Independent Power Producers (IPPs) and other power sector stakeholders, signed Memorandum of Understanding (MOUs) with 47 IPPs.
- 1.2. Government of Pakistan through notification number F.No.IPPs-1(12)/2020 (Vol-II) dated October 07, 2020, constituted the Implementation Committee, inter-alia, to convert the MOUs into a binding agreement between the Parties.
- 1.3. The report of the Implementation Committee along with the payment mechanism and initialed agreements were considered by Economic Coordination Committee of the Cabinet in case No. ECC 45/05/2021 dated February 08, 2021 and approved the same.
- 1.4. Central Power Purchasing Agency (Guarantee) Limited (CPPAGL) and Harappa Solar (Private) Limited (HSPL) signed Master Agreement on February 19, 2021. As per clause 2.1 of the agreement, the parties have jointly developed a tariff adjustment application to be submitted to NEPRA as a necessary condition for bringing into effect the agreed contractual amendments.
- 1.5. HSPL is an 18 MWp solar PV project that was awarded upfront tariff by the Authority on February 26, 2016. Upon achievement of Commercial Operations Date (COD) on October 14, 2017, HSPL's tariff was adjusted vide decision of the Authority dated November 20, 2018 (COD tariff decision).

2. Filing of Application

- 2.1. Pursuant to the Master Agreement, CPPAGL vide letter No. CPPA/CEO/2021/8234 dated February 24, 2021, filed application for adjustment in components of tariff of HSPL, approved vide COD tariff decision.
- 2.2. The application was filed by CPPAGL as motion for leave for review, pursuant to rule 16(6) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, read together with Regulation 3(2) of the NEPRA (Review Procedure) Regulations, 2009 and Section 31 of the NEPRA Act, while requesting for the following:
 - i. Reduce the Return on Equity (ROE) component to 13%, with Withholding Tax (WHT) Dividend as a pass-through item.
 - ii. Reduce O&M components by 15%.
 - iii. Reduce cap for insurance during operations amount to 0.5% of the EPC cost.
 - iv. Tariff sharing with the power purchaser of 50% of the applicable tariff for the monthly energy in excess of the net annual plant factor of 19%.





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- v. Provision for future reduction in foreign debt component upon successful conclusion of debt renegotiations with the company's lenders.
- vi. Approve the tariff adjustments to become effective as provided in the Master Agreement and notified accordingly.

3. Admission of the Application

- 3.1 The Authority admitted the subject application on February 25, 2021 and decided to hold hearing in the matter on March 03, 2021. Accordingly, Notice of Admission/Hearing was published in the national newspapers on February 28, 2021, inviting comments from the stakeholders. Individual notices were issued on February 27, 2021. Hearing was held on March 03, 2021 through video link on Zoom and was attended by representatives of CPPAGL and IPPs.

4. Analysis and Decision of the Authority

- 4.1 The discussion with respect to each parameter/component of tariff, as requested by CPPAGL for revision and decision of the Authority is as follows:

i. Return on Equity & Withholding Tax

The Authority in the COD tariff decision of HSPL approved reference ROE component of Rs. 3.9921/kWh, including Return on Equity during Construction (ROEDC) component of Rs. 0.2182/kWh. The said component was worked out on the basis of rate of return of 17% (USD based). CPPAGL has requested to revise the equity return downward to 13%, with WHT on dividend as pass through. During the proceedings of the subject Application, CPPAGL through letter dated March 16, 2021, clarified that the mechanics used to compute the ROEDC component in the tariff application of thermal power projects be used for HSPL. Accordingly, with the negotiated rate of 13%, the revised ROE component of HSPL works out to be Rs. 3.0600/kWh, including ROEDC of Rs. 0.1740/kWh, which is hereby approved. Additionally, the Authority has also decided to approve the withholding tax on dividends, as pass-through item, for HSPL.

ii. Operations & Maintenance Cost

The Authority in the COD tariff decision of HSPL approved O&M-Local and O&M-Foreign of Rs. 1.3100/kWh and Rs. 0.5614/kWh, respectively. In the subject Application, CPPAGL has requested to revise the aforesaid O&M costs downward by 15%. Accordingly, the revised local and foreign components come out to be Rs. 1.1135/kWh and Rs. 0.4772/kWh, respectively, which are hereby approved.

iii. Insurance during Operations

The Authority, in the COD tariff decision of HSPL, approved the maximum limit of 1% of EPC cost, subject to actual, in respect of annual insurance cost. In the subject Application, CPPAGL has requested to revise the said limit of 1% to 0.5% of the EPC cost approved for HSPL. The Authority has considered this request and decided to change the limit of annual insurance to 0.5% of the EPC cost of HSPL.





*Decision of the Authority in the Matter of Application Filed by CPPAGL
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iv. Tariff Sharing Mechanism

The Authority, in the COD tariff decision of HSPL, calculated the tariff at net annual plant factor of 17% and for annual energy beyond 17%, following tariff sharing mechanism (producer's share of applicable tariff) was approved:

Net Annual Plant Capacity Factors	% of Prevalent Tariff
Above 17% to 18%	80%
Above 18% to 19%	90%
Above 19%	100%

CPPAGL in the subject Application has requested to revise the aforesaid mechanism to the following:

Net Annual Plant Capacity Factors	% of Prevalent Tariff
Above 17% to 18%	80%
Above 18% to 19%	90%
Above 19%	50%

The Authority has considered the aforementioned and decided to approve the tariff sharing mechanism as requested by CPPAGL.

v. Debt Renegotiations

The Authority, in the COD tariff decision of HSPL, worked out the approved tariff based on debt to equity ratio of 75:25. The share of foreign and local debt were divided in the ratio of 47:53. The foreign debt was approved at LIBOR + 4.5%, to be serviced in 10 years from COD, on equal annuity basis. The local loan (concessionary loan from State Bank of Pakistan) was also allowed to be serviced in 10 years, from COD of HSPL, based on fixed interest rate of 6%. The Authority noted that following has been decided in Master Agreement with HSPL:

HSPL has agreed to make all efforts, in coordination with State Bank of Pakistan and, with its lenders and subject to CPPAGL's support and assistance to give effect to replace its foreign debt with local commercial debt and to extend the outstanding debt tenor by 5 years at KIBOR plus 2.25%, at maximum, and pass on any net savings arising out of these changes to the Purchaser. It has further agreed that any spread lower than 2.25% over KIBOR shall be shared in the ratio of 60:40 between the Purchaser and HSPL, respectively.

HSPL further agreed that in case it is unable to comply with the above, it will make all efforts to extend the outstanding debt tenor of foreign debt by 5 years and reduce its spread over LIBOR by 50 – 75 basis points provided that HSPL shall pass on all savings arising out of these changes to the Purchaser and any further reduction in spread of LIBOR by 50 – 75 basis shall be shared in the ratio of 60:40 between the Purchaser and HSPL.

In the Tariff Application, CPPAGL, while referring the above, stated that the debt renegotiations shall require time and necessary approvals and requested the Authority to





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include a provision in the tariff terms and conditions for HSPL to subsequently apply for tariff reduction as and when the debt renegotiations are finalized with its lenders.

The Authority considered the said request of CPPAGL and decided to include the provision of debt renegotiation in this Decision. The Authority also directs CPPAGL to continuously pursue with HSPL on this matter.

vi. Effective Date

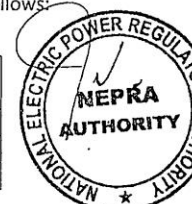
The Authority noted that Clause 2.2 of the Master Agreement signed with HSPL provides that the revised tariff shall be effective on the date when the last instalment under the Payment Mechanism has been paid to the Company. Further, Clause 2.3 of the Master Agreement provides that, subject to the terms of this Agreement, after the determination of the revised tariff in line with the Tariff Adjustment Application and payment of the first instalment under the Payment Mechanism, and till Revised Tariff Effective Date, the Parties agree that the Company shall commence giving discount in invoices consistent with the notified tariff and this Agreement. From and after the Revised Tariff Effective Date, billing and invoicing shall be as per the revised tariff. The Authority has considered the said clauses and decided to approve the same through this Decision.

5. ORDER

The Authority hereby reviews the COD tariff Decision of Harappa Solar Private Limited issued on November 20, 2018, to the extent of following:

- ROE Component of Rs. 3.9921/kWh has been revised to Rs. 3.0600/kWh.
- ~~Withholding Tax on Dividend shall be considered as pass-through item.~~
- O&M Component of Rs. 1.8714/kWh has been revised to Rs. 1.5907/kWh.
- The cap of 1% in respect of annual insurance has been revised to 0.5% of the EPC cost of HSPL.
- The energy, beyond annual net plant factor of 17%, shall be charged as follows:

Net Annual Plant Capacity Factor	% of Prevalent Tariff to HSPL
Above 17% to 18%	80%
Above 18% to 19%	90%
Above 19%	50%



- HSPL is directed to make all efforts for debt renegotiations on the terms, as agreed in the Master Agreement. Once achieved, the tariff of HSPL shall be adjusted to reflect the negotiated terms. CPPAGL is directed to continuously pursue with HSPL on this matter.



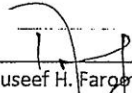
*Decision of the Authority in the Matter of Application Filed by CPPAGL
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- All the revised tariff components of this Decision shall be adjusted as per the mechanism prescribed in the COD tariff decision of HSPL.
 - This above revision, in the COD tariff decision, shall apply in accordance with timelines as agreed in the Master Agreement.
6. The 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.

AUTHORITY


27/5/21
Rehmatullah Baloch
Member


27/5/21
Engr. Rafique Ahmed Shaikh
Member


Tauseef H. Farooqi
Chairman


9/6/21.