



National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/TRF-366/CPPA-G-2016/198-200
January 5, 2017

Subject: **Determination of the Authority in the matter of Application filed by Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) for Determination of its Market Operator Fee for the Period June 2015, the FY 2015-16 and FY 2016-17**

Dear Sir,

Please find enclosed herewith the subject Determination of the Authority (40 pages) in Case No. NEPRA/TRF-366/CPPA-G-2016.

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.

Enclosure: As above

(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.



National Electric Power Regulatory Authority
(NEPRA)

PETITION NO. NEPRA/TRF-366/CPPA-G -2016

DETERMINATION OF MARKET OPERATORS FEE

FOR THE PERIOD JUNE 2015, THE FY 2015-16 AND FY 2016-17

UNDER

NEPRA TARIFF STANDARDS & PROCEDURE RULES - 1998

FOR

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED (CPPA-G)

Islamabad

5th Jan , 2016



**DETERMINATION OF THE AUTHORITY IN THE MATTER OF APPLICATION FILED BY
CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED (CPPA-G) FOR
DETERMINATION OF ITS MARKET OPERATOR FEE FOR THE PERIOD JUNE 2015,
THE FY 2015-16 AND FY 2016-17.**

CASE NO. NEPRA/TRF/-366/CPPA-G-2016

PETITIONER

Central Power Purchasing Agency (Guarantee) Limited (CPPA-G)
6TH Floor Shaheed-e-Millat Secretariat,
Jinnah Avenue, Blue Area, Islamabad.

INTERVENER

NIL

COMMENTATOR

- i. Anwer Kamal Law Associates (AKLA)
- ii. Water & Power Development Authority (WAPDA)

REPRESENTATION

- Chief Executive Officer
- Chief Financial Officer
- Chief Legal Officer
- Chief Technical Officer
- Manager Strategy and Market Development



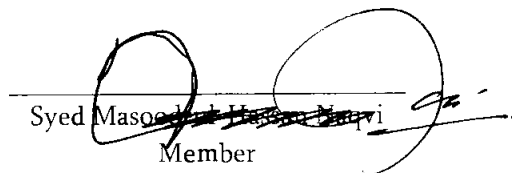
ABBREVIATIONS


CPPA-G	Central Power Purchasing Agency (Guarantee) Limited
FY	Financial Year
GOP	Government of Pakistan
MoWP	Ministry of Water and Power
NTDCL	National Transmission & Despatch Company Limited
GWh	Giga Watt Hours
KV	Kilo Volt
kW	Kilo Watt
kWh	Kilo Watt Hour
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
O&M	Operation and Maintenance
PEPCO	Pakistan Electric Power Company
SRO	Statutory Regulatory Order
T&T	Transmission and Transformation Losses

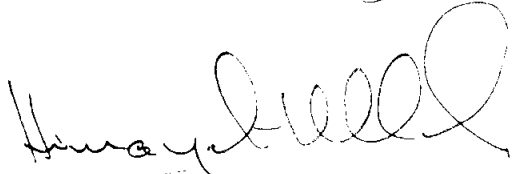


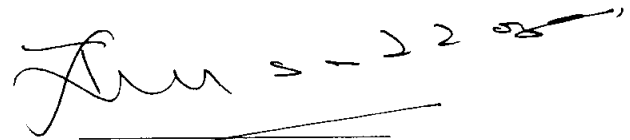
The Authority, in exercise of the powers conferred on it under Section 7(3) (a) read with Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, Tariff (Standards and Procedure) Rules, 1998 and all other powers enabling it in this behalf, and after taking into consideration all the submissions made by the parties, issues raised, evidence/record produced during hearings, and all other relevant material, hereby issues this determination.

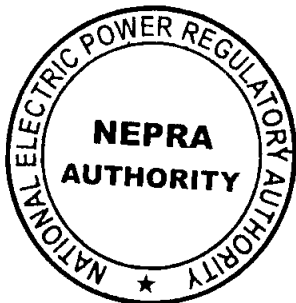
AUTHORITY

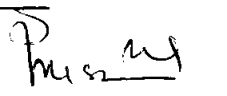

Syed Masood Haseem
Member


Maj (R) Haroon Rashid
Member


Himayat Ullah Khan
Vice Chairman

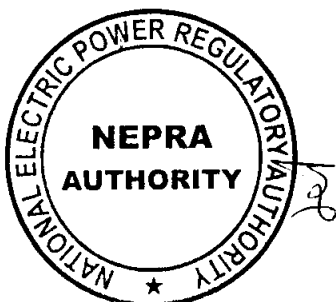

Brig (R) Tariq Saddozai
Chairman




05.01.17

1. Background of CPPA-G

- 1.1 National Transmission & Dispatch Company Limited (NTDCL), a Transmission Licensee of NEPRA was granted Transmission License No. TL/01/2002 on 31st December, 2002 to engage in the exclusive transmission business for a term of thirty (30) years, pursuant to Section 17 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 except the area served by K-Electric Limited.
- 1.2 Under Article 8 of its License, NTDCL was required to move towards a Competitive Trading Bilateral Contract Market (CTBCM) and for this purpose, was required to facilitate for the establishment of and functioning of a Single Buyer Plus (SBP) trading arrangement. NTDCL in accordance with the aforementioned Article of its License, established a unit known as the Central Power Procurement Agency (CPPA). The functions of billing, settlement and payment to Generation Companies (GENCO, IPPs, and WAPDA Hydel) was to be discharged through CPPA.
- 1.3 In order to establish a competitive market the Government of Pakistan decided to create an independent company to perform the function of Market Operator. Accordingly, Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) was incorporated in 2009 to become the successor of the CPPA of NTDCL and assume the existing market operations being performed by NTDCL.
- 1.4 The National Energy (Power) Policy 2013, approved by the Council of Common Interests (the "CCI") on July 27, 2013, reiterated the need to reform CPPA of NTDCL.
- 1.5 In furtherance of the policy decision of CCI to reform CPPA of NTDCL, the GOP decided to operationalize the CPPA-G as an independent legal entity having mandate to discharge the market operations, responsible for implementing and administering the "Single Buyer Plus" market mechanism, ultimately leading to competitive market operations.
- 1.6 Accordingly, the Authority through its determination dated May 29, 2015 in the matter of LPM in respect of NTDCL, pursuant to Regulation 10(11)(a) of the NEPRA Licensing (Application & Modification Procedure) Regulations, 1999, separated the functions and business of settlement and development of competitive market from NTDCL as CPPA-G exercises these functions as a market operator by virtue of being a deemed registered entity under the NEPRA (Market Operator Registration, Standards and Procedure) Rules, 2015.
- 1.7 The main objectives of the market operator are:
 - i. To acquire, take over and / or assume the functions and business of settlement and development of competitive power market from CPPA of NTDCL and to carry on these functions and business;
 - ii. Procurement of electric power on behalf of the DISCOs, including import of power from other countries;
 - iii. Billing to the DISCOs, based on the meter readings at Common Delivery Points as per the procedure defined in the Commercial Code;



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- iv. Collection from the DISCOs and settlement to the Market Participants as per the Commercial Code; and
 - v. Management of cash flow, treasury management of cash flow, treasury management and other relevant banking functions for the purposes of collection and disbursement as per the Commercial Code.
- 1.8 In view of aforementioned, the Authority approved NEPRA (Market Operator Registration, Standards and Procedure) Rules, 2015, notified vide S. R. O. 541(1)12015 dated May 28, 2015. The Market Rules provide for the registration and procedures for the market operator and as such deems CPPA-G as a market operator for a period of two years within which the CPPA-G is required to get itself registered with NEPRA in accordance with the procedures provided in the Market Rules. Under Rule 5 of the said Rules, CPPA-G is required to submit a commercial code to the Authority for its approval and thereafter its notification by the Authority in the official Gazette. Accordingly, CPPA-G submitted the Commercial Code, which was approved by the Authority and was notified vide SRO 542 (I) 2015 dated June 02, 2015, with the general objective to:
- i. Establish, govern and promote efficient and transparent billing, collection, settlement and payment arrangements and procedures, centrally administered by CPPA-G specifically of the commercial and financial transactions relating to the sale and purchase of electricity and capacity in the agreement signed by and the trading and pooling arrangement administered by CPPA-G, in the manner prescribed under or pursuant to the provisions of the Act and rules and regulatory framework; and
 - ii. Promote and enable the development of competitive power markets in accordance with schedule I of the Market Rules.

2 CPPA-G – Application for Market Operator Fee

- 2.1 CPPA-G, hereinafter called "the Petitioner", filed the petition for the determination of its Market Operator Fee pertaining to the period June 2015, the FY 2015-16 and FY 2016-17 in terms of Rule 3 and Sub-Rule 7 of the Tariff Standards & Procedure Rules-1998 ("Rules") and in line with the Chapter 11 of the approved Commercial Code vide letter no. CPPA-G/2016/CEO/1963 dated 31 May, 2016.
- 2.2 CPPA-G in its Market Operation Fee Petition has requested the following reliefs :
- o To approve the Market Operation Fee as under;
 - Rs 0.0046/kWh (equivalent to Rs.2.08 per kW / Month) for the month of June, 2015;
 - Rs 0.0061/kWh (equivalent to Rs.2.66 per kW / Month) for the FY 2015-16 &
 - Rs 0.0142/kWh (equivalent to Rs.6.17 per kW / Month) for the FY 2016-17.
 - o To allow immediate application of above mentioned Market Operations Fee under Sub-Rule 7 of Rule 4 of the NEPRA (Tariff Standards and Procedures) Rules, 1998.





- o To allow the provisional Market Operation Fee to be recovered from NTDCL's Use of System Charges (UoSC) for June 2015 and FY 2015-16. After the approval of the Market Fee through this petition by the Authority, CPPA-G will cover its expenses through the approved Market Fee independent of UoSC of NTDCL.
- o Any other relief which the Authority deems fit in the circumstances.

3. **PROCEEDINGS**

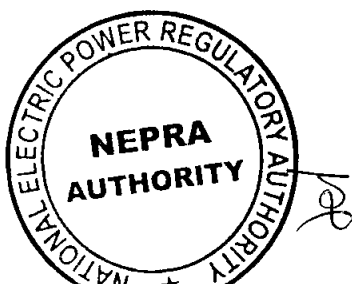
- 3.1 In terms of rule 4 of the Rules, the Petition was admitted by the Authority on August 05, 2016. While admitting the same, the Authority considered Petitioner's request for the immediate application of the proposed fee, under rule 4 (7) of the Rules, decided that the Petition of CPPA-G for the Market Fee, being filed for the first time, requires detailed deliberations on each issue, therefore the request of the Petitioner for immediate application of the proposed fee could not be entertained.
- 3.2 The notice of admission / hearing was published in the newspapers on September 03, 2016 whereby the hearing in the matter was scheduled to be held September 20, 2016 at NEPRA Tower Islamabad. Separate notices of Admission and Hearing were also sent to the interested parties under Rule 4(5)(6) of the Tariff Rules 1998.

4. **FILING OF OBJECTIONS/ COMMENTS:**

- 4.1 Despite issuing separate notices to the key stakeholders and publication of notices in the national newspapers, neither any reply was filed nor any intervention request was received within the prescribed time, however, M/s Anwar Kamal Law Associates (AKLA) filed its intervention request after the stipulated time. The Authority, following the principle of natural justice and to provide equal opportunity to the stakeholders, decided to consider the intervention request of AKLA as "Comments". In addition, the written comments were also received from WAPDA.

5. **Comments from AKLA**

- 5.1 AKLA in its comments has submitted that the period to which Market Operator Fee pertains i.e. June 2015, FY 2015-16 and almost three months of FY 2016-17 have already passed, how the Authority will deal with the issues arising from the anti-dated and retroactive determination and how it will compensate the consumers who may have already paid heavier burden? The Authority does not have the power to determine and direct the implementation of Tariff retrospectively. Further, CPPA-G should be stopped from supplying electricity to K-Electric immediately.
- 5.2 AKLA further in written comments dated September 09, 2016 submitted that the existing working does not show how the market will be developed, as there is no Road Map and no Implementation Agreements, than how will a Market be established by 2017. There should be a complete Road Map and way forward in this regard. AKLA also mentioned



that no consultative process for the Commercial Code and NEPRA (Market Operator Registration, Standards and Procedure) Rules, 2015. was carried out. AKLA further pointed out that Transmission losses, Tax etc. are not applicable to CPPA-G as it is only a transferring body with Generation, Transmission and Distribution segregated.

6. Comments from WAPDA

6.1 WAPDA has stated that as on June 2014, NTDCL had the energy payables amounting to Rs.499,586 million, however, as per the provisional / unaudited financial balance sheet of NTDCL for the FY 2014-15, the energy payables have been shown as Rs.10,811 million, which implies that NTDCL has transferred the payables to CPPA-G during the course of bifurcation. CPPA-G, however, has not attached any balance sheet with its petition to confirm that it has accounted for the payables of NTDCL. WAPDA, therefore, wants to know whether CPPA-G or NTDCL will pay the receivables of WAPDA. WAPDA has also requested for the agreement, if any, between CPPA-G and NTDCL in this regard and the road map for clearing of the payables as on the bifurcation date.

7. Rejoinder by the Petitioner

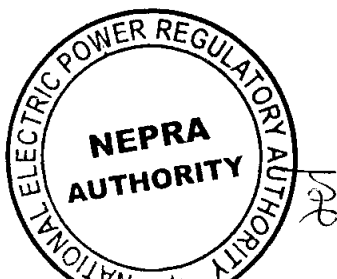
7.1 The concerns so raised by the Commentator were communicated to the Petitioner and the Petitioner has filed rejoinder to the following effect;

7.2 On the point of WAPDA regarding energy payables, the Petitioner has stated that discussion on finalization of the balances transferred to CPPA-G under the Business Transfer Agreement (BTA) is underway with NTDCL. The issue raised by WAPDA will be addressed in the light of these discussions.

7.3 On the concerns raised by AKLA regarding supply of Power to K-Electric, the Petitioner has stated that prior to the establishment of CPPA-G, an Implementation Agreement (IA) was entered into between the GoP and K-Electric wherein the K-Electric was given the status of a distribution company at par with other distribution companies. Following its establishment, CPPA-G has been operating as a deemed market operator; accordingly, said arrangement has been continued. The matter is currently being reviewed by the GoP and K-Electric, the CPPA-G shall act in accordance with GoP directions.

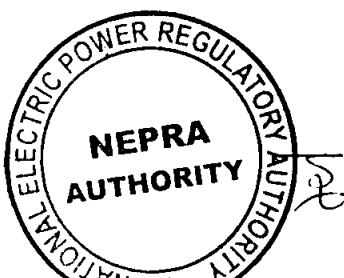
7.4 The Petitioner further vide its letter dated October 21, 2016 stated that it is incorporated under the Companies Ordinance 1984 (XLVII of 1984) and granted a Corporate Universal Identification No. 0068608 by the Security Exchange Commission of Pakistan. As per Rule 3 of the (Market Operator Registration, Standards and Procedure) Rules, 2015 (the "Rules"), NEPRA is empowered to register an entity as market operator and authorize the same to conduct the market operations. Rule 3 is reproduced as under;

"Registration of market operator: There shall be a market operator registered by the Authority and authorized to conduct the market operations, subject to the eligibility criteria set forth in sub-rule (2)".





- 7.5 Thus, if an entity desirous of being registered as a market operator submits its application for the same and satisfies the eligibility criteria set forth in Rule 3(2), NEPRA is empowered to register such entity as the market operator and authorize it to conduct the market operations.
- 7.6 The term “market operator” has been defined in Rule 2(g) as “market operator means the entity authorized or registered by the Authority under these rules to carry out and discharge the market operations”. Thus, under the Rules it is the Authority which authorizes and registers an entity to function as market operator.
- 7.7 Further, as per Rule 5 of the Rules, CPPA-G shall be deemed to be authorized and registered as the market operator. The same is reiterated as “notwithstanding anything contained in these rules, for a period of two years from the commencement of these rules, CPPA-G shall be deemed to be authorized and registered as the market operator under these rules to commence and conduct the market operations and during this period shall apply for registration in accordance with the provisions of these rules: Provided that CPPA-G shall prior to commencing the market operations and within a period of fifteen days of coming into operation of these rules submit the commercial code to the Authority for its approval and thereafter notification by the Authority in the official Gazette”.
- 7.8 Thus, for a period of two years from the commencement of the Rules, CPPA-G has, by operation of Rule 5, been deemed to be the market operator and authorized and registered to conduct the market operations for this period.
- 7.9 It is thus clear from a reading of the Rules that CPPA-G has been deemed to operate as a market operator from the commencement of the Rules for a period of two years; during this period CPPA-G operates as authorized and registered by NEPRA – as defined in Rule 2(g) read with Rules 3 and 5 – to perform the market operation functions.
- 7.10 Further, during the Market Operator Fee Hearing, held on September 20th, 2016 at NEPRA, CPPA-G shared the initiatives that have already been taken and planned in the near future to not only assist the transition of power market but also to augment the internal capacity of CPPA-G overtime to facilitate this transition. The CEO CPPA-G in his presentation before the Authority explained that CPPA-G, in compliance to the Market Rules and GOP’s reform initiative, has initiated the three phased process to facilitate the power market transition.
- 7.11 The Phase-1 (Basic Market Design) has been initiated since August 2016. Under this phase CPPA-G is getting technical assistance from ADB expert’s team to develop market development concept paper and then the Competitive Trading Bilateral Contract Market (CTBCM) Plan. These two products will be produced through a consultative process. This phase also entail training sessions for power sector entities professionals to ensure optimal participation in plan development. The CTBCM is planned to be submitted before NEPRA in February 2017 for approval and once approved by the Regulator in June 2017 will form an approved road map for power market transition. The Phase-2 and Phase-3 will be detailed market design and implementation respectively, appropriately timed to ensure





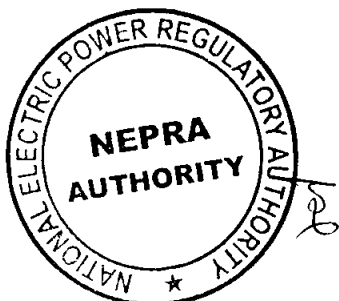
that the power market transition timelines as envisaged under Rule 2.1.(f)-Schedule-1 of Market Rules are met.

- 7.12 It is further submitted that CTBCM Plan will determine the shape and form the Pakistani Power Market will take in future. This plan is being prepared by getting assistance from qualified foreign experts who have designed and helped in transition of various power markets globally. Therefore, in view of the submissions above, it can be concluded that a thorough and well thought-out process has been followed to develop the market development road map.
- 7.13 Finally, while effectively and efficiently discharging its current role as per the prevailing market model, CPPA-G is following a well thought out plan to build itself for the market operations of the future. In this regard, integrated initiatives have already been started in the areas of (a) **Systems and Controls** (ERP implementation, Billing and Settlement Systems, Building IT infrastructure etc.), (b) **Human Resource** (hiring experienced team, conducting organizational restructuring, alignment of policies and procedures etc), (c) **Contractual Arrangements** (PPAA, administrative agreements for portfolio PPA/EPA etc.) and (d) **Market Development** (as explained above). Therefore, CPPA-G as tool for NEPRA is fully geared-up and ready to implement relevant provisions of NEPRA Act, Rules and Codes.

8. Comments from the Authority

8.1 AKLA

- 8.1.1 At the very outset it may be observed that the time period prescribed for filing of intervention request, in terms of rule 6 of the Rules, is 7 days from the date of publication of notice of admission. It is also requirement of the said rule that intervention request should contain the objections, the manner in which such person is likely to be affected by the determination, the contentions of the person, the relief sought and the evidence, if any, in support of the case. On the basis of the pleadings, the issues are to be framed to be considered during the course of hearing. Now once the prescribed time is lapsed and on the basis of available record, issues are framed, then any delayed filing of intervention request may not be maintainable. However, the Authority, in the interest of justice and to provide opportunity to the stakeholders, decided to consider the intervention request of AKLA as "Comments".
- 8.1.2 AKLA has very rightly pointed out the fact that the period to which the market operation fee pertains i.e. June 2015 and FY 2015-16 has already lapsed, however, late submission of the Petition by CPPA-G needs to be seen in light of the fact that CPPA-G was operationalize in June 2015 and as per the Petitioner, it needed to settle certain issues like transfer of staff, business transfer agreements, taxation, corporate accounting, corporate planning & strategy etc. Further, the Market Rules, 2015 do not provide any time frame for submission of the Petition for the determination of Market Operation Fee.



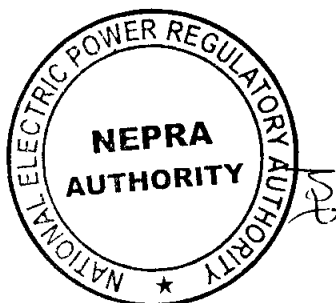


8.1.3 As far as the concern of AKLA, regarding compensation to the consumers who may have already paid heavier burden, it is pertinent to mention that the Authority would allow only prudently incurred costs after considering the available and relevant data with respect to combined NTDCL and current CPPA-G. As far as the timing of decision is concerned any extra financial burden, if any would be adjusted through Prior Year Adjustments mechanism.

9. Issues of the Hearing

9.1 On the basis of the pleadings, following issues were framed to be considered during the hearing and for presenting oral and documentary evidence;

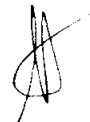
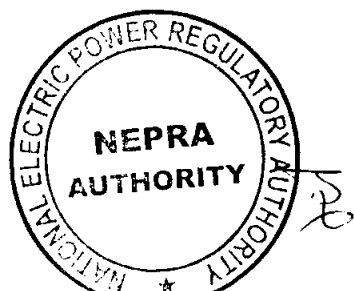
- i. Whether the Market Operation Fee as requested by CPPA-G is reasonable and justified?
- ii. Whether the Market Operation Fee should be allowed to be recovered on Non-coincidental demand or coincidental demand basis?
- iii. Whether the requested Capital Expenditure is reasonable and justified?
- iv. Whether the requested General Establishment and Administration Expenses including traveling, out-source consultancy charges, etc. is justified?
- v. What are the basis of claimed sanctioned strength of 374 employees?
- vi. Whether the requested Repair and Maintenance charges are justified?
- vii. Whether the requested Insurance Charges are justified?
- viii. Whether the Depreciation charge requested by the Petitioner is justified?
- ix. Whether the Petitioner request to allow charges due to litigation/arbitration on CPPA-G to be passed on to the power purchaser as capacity component is justified?
- x. Whether the Petitioner request to allow Govt. Taxes, Levies or Duties applicable to CPPA-G as a pass through is justified?
- xi. Whether the requested Financial Charges and other relevant cost are justified?
- xii. Whether the Petitioner's request of off-setting the other income accrued by it on transitional fund against markup claim of generators on account of delayed payment merits consideration?



- xiii. Whether the Petitioner's request to true-up the HR cost based on actual expenditure is justified?
- xiv. With reference to Rule 5 of National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 what measures have been undertaken for registration as a market operator?
- xv. With reference to Rule 8 of National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 what is the progress on preparation of Annual Report to be submitted before the Authority?
- xvi. What measures have been taken by CPPA-G to settle financial liabilities?
- xvii. What are the steps taken by CPPA-G to remove circular debt of power sector?
- xviii. Whether any metering audit and inspections at CDP's have been carried out by CPPA-G to ensure standardized accuracy of revenue meters, as defined in grid code along with provisions of Remote Metering and on-line data collection.
- xix. Till a clear road map for future market, identification of a market operator on continuing basis is accomplished, the CPPA-G expenses are only limited to the CPPA under NTDC umbrella. Whether any activity on a provisional basis requires a fee as requested by CPPA-G.
- xx. Whether status of a licensee and registered entity is equal, and whether CPPA-G has invariably complied with all NEPRA directions which it needs to follow.
- xxi. CPPA-G is required only to meet its expenses to function as an office (Stage-I Functions). Therefore such expenses be separately listed from the UoS of NTDC, for consideration of NEPRA.
- xxii. What is the arrangement between NTDC and CPPA-G to account for the excess transmission losses incurred by NTDC over and above the allowed target?
- xxiii. What are the plans of the Petitioner in moving towards a competitive market plan?
- xxiv. Any other issue that may come up during the hearing.

10. Hearing

- 10.1 Hearing in the matter was held on September 20, 2016 at NEPRA Tower Islamabad which was attended by the Petitioner, NTDC, and other stakeholders i.e. media, general public etc.



10.2 On the basis of the pleadings, record/evidence produced during the course of hearing and after hearing, the issue-wise findings of the Authority are given hereunder:

11. **Issue # 1 Whether the Market Operation Fee should be allowed to be recovered on Non-coincidental demand or coincidental demand basis?**

11.1 CPPA-G has projected the following MDIs for working out its Rs./kW/month rate of the Market Operation Fee pertaining to June 2015, FY 2015-16 and FY 2016-17;

Description	June 2015	FY 2015-16	FY 2016-17
Estimated Average MDI –MW	20,493	18,403	19,157

11.2 CPPA-G, however, has not mentioned whether the aforementioned MDIs are based on Non-Coincidental demand or Co-Incidental Demand. During hearing CPPA-G submitted that it is in-different on this issue. The recovery of revenue requirement pertaining to the market fee can be devised based on co-incident or non-coincident peak. However, the current transfer pricing mechanism and charging of UoSC of NTDCL is based on non-coincidental demand recorded and compiled through the metering committees for each of the CDP points.

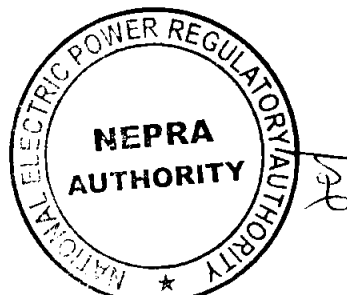
11.3 Here it is pertinent to mention that the Authority in its tariff determination of NTDCL for the FY 2014-15 directed it to file its next Tariff Petition for the FY 2015-16, with respect to the calculation of its Use of System Charges (UoSC) based on coincidental demand. NTDCL filed its Petition for the FY 2015-16 on non-coincidental demand citing that in order to comply with the NEPRA's instructions, NTDCL is striving hard to install hardware, software and procedures for calculation of MDI on co-incident basis which will take some more time.

11.4 Since the calculation of MDI, whether on coincidental or non-coincidental basis, has to be calculated by NTDCL, therefore unless NTDCL is able to install the requisite hardware and software in this regard, CPPA-G may not be able to work out its Market Operation Fee based on Coincidental MDI. Moreover, during the FY 2015-16, NTDCL has charged the fixed cost i.e. Capacity and UoSC to XWDISCOs and K-Electric on non-coincidental basis. The Authority in view of the foregoing has decided to allow the recovery of the Market operation Fee to CPPA-G based on non-coincidental MDI.

12. **Issue # 2 Whether the requested General Establishment and Administration Expenses including travel, out-source consultancy charges, etc. is justified?**

13. **Issue # 3 What are the basis of claimed sanctioned strength of 374 employees?**

14. **Issue # 4 Whether the Petitioner's request to true-up the HR cost based on actual expenditure is justified?**





15. Issue # 5 Whether the requested Repair and Maintenance charges are justified?
16. Issue # 6 Whether the requested Insurance Charges are justified?
17. Issue # 7 Whether the Depreciation charge requested by the petitioner is justified?
18. Issue # 8 Whether the requested Financial Charges and other relevant cost are justified?
19. General Establishment and Administration (GE & A) Expenses

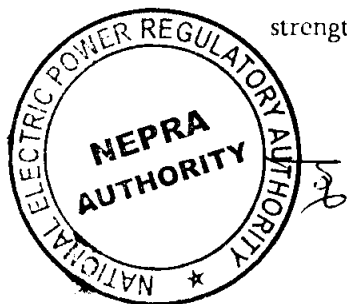
19.1 The Petitioner submitted in its Petition that General Establishment expenses consist of costs associated with pay & allowances and employee benefits whereas the administrative expenses consist of rent, rate & taxes, power light, office supplies, Telephone fax & Postage telegram, travelling expenses, office supplies & other expenses, subscription & periodicals, representation & entertainment, professional fee & BOD fee, outside service employed and general miscellaneous expenses. The Petitioner further stated that the GE&A cost for FY 2015-16 has been estimated by adding 10% increase over the cost of FY 2014-15 (except for travelling expenses). For the FY 2016-17, the Petitioner submitted that increase in GE&A cost is due to the restructuring and revised pay structure.

19.2 Here it is pertinent to mention that the Petitioner during the hearing of instant petition, revised its requested GE&A cost both for the FY 2015-16 and FY 2016-17 based on actual results for the FY 2015-16.

19.3 A summary of the GE&A costs requested in the tariff Petition and revised afterwards during the hearing are given as below;

		Mln. Rs.				
Sr. No	Description	June-15	2015-16		2016-17	
		Petition	Petition	Revised	Petition	Revised
A	General Establishment Costs	30.52	370.88	313.70	593.87	473.09
B	Pay & Allowances - Vacant posts	-	-	-	234.99	-
C	Trainings and Capacity Building	-	1.44	-	165.76	27.10
E	Outsources consultancy Expenses	-	11.70	-	86.21	85.45
D	Administrative Costs	9.43	73.95	58.55	31.24	43.09
Total		41	458	372	1,112	629

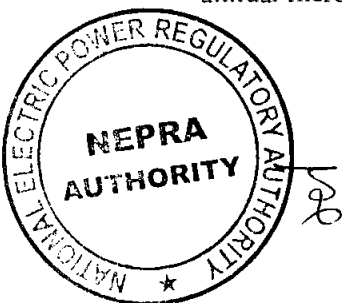
19.4 The Petitioner while justifying its request in the petition delineated that three departments (CPPA, WPPD and Manager Finance Treasury) of NTDCL were involved in the discharge of market operations and upon transfer of market operator business from NTDCL to CPPA-G under the business transfer agreement (BTA), the working staff of these three departments has been seconded to CPPA-G for an initial period of 1 year that is extendable for another year. The Petitioner, in its petition stated that its sanctioned strength is 374 employees against which 250 positions are currently staffed. The Petitioner



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mentioned that this sanction strength is approved by the PEPCO. The Petitioner in its petition also stated that it is in the process of restructuring having the following phases;

- 19.5 **Phase-1** is the strategic restructuring process which mainly involves (a) Transition of existing Lahore based employees to Islamabad based on P to C (permanent to contract), secondment or other options (b) Staffing of key strategic C-level positions duly approved by the Board of Directors on contract basis (underway) and (c) Inducting interns and functional/technical consultants to help CPPA-G discharge its essential roles and responsibilities as laid down in the Market Rule and the Commercial Code.
- 19.6 **Phase-II** will commence with the mobilization of Asian Development Bank's (ADB) consultants in July 2016, the detailed organizational restructuring will be carried-out. The Petitioner stated that the CPPA-G's C-level team recruited in Phase-1 will play an instrumental role with the consultants to finalize the detailed organizational restructuring before June 2017. The Petitioner delineated that this restructuring will also reflect the back-office automation and other automation initiatives that are planned to be implemented in CPPA-G.
- 19.7 The Petitioner further stated that, presently all the positions and working staff of CPPA, WPPO and Treasury departments of NTDCL have been shifted to the Petitioner on secondment basis by NTDCL under the BTA for a period of two year. The Petitioner stated that during this period it will get its organizational structure and staff strength approved from the Authority and establish independent fund(s) for the post-retirement benefits in terms of policy to be approved by the Board of Directors of the Petitioner. The Petitioner further stated that, it may be noted that the seconded staff may opt for transition to CPPA-G and for such staff the terms and conditions of employment, as were applicable to them in NTDCL, will have to be protected and continued in CPPA-G, as such the Petitioner is presently not claiming any amount under the head of post-retirement benefits as the same is being dealt with by NTDCL in the actuarial study, however, reiterated that it shall submit its claim of post-retirement benefits of its employees in terms of the policy to be approved by the Board of Directors.
- 19.8 The Petitioner afterwards vide its letter dated October 04th 2016 submitted that the process of restructuring is being conducted in three phases as mentioned hereunder;
- 19.9 In **Phase-I**, the strategic restructuring process involves mainly (a) the preparation and approval of HR Manual (completed), (b) transition of existing Lahore based employees to Islamabad based (completed), (b) staffing of key strategic C-level positions duly approved by the Board of Directors on contract basis (completed) and (c) inducting interns and functional/technical consultants to help CPPA-G discharge its essential roles and responsibilities as laid down in the Market Rule and the Commercial Code.
- 19.10 In **Phase-II**, which has now been initiated, after the approval of the HR manual and its adoption thereon by CPPA-G employees, CPPA-G has now initiated the development of Performance Management System (PMS) and will become the basis for promotions, annual increments, transfers, lay-offs etc.

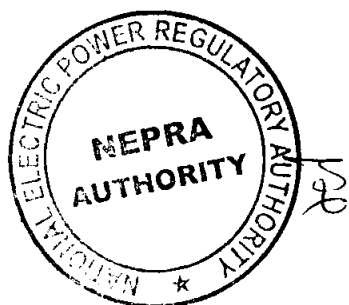




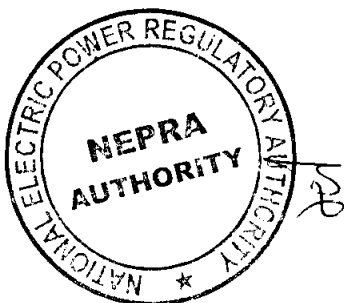
- 19.11 In **Phase-III**, (that will commence in June 2017) CPPA-G will conduct the organizational assessment and necessary restructuring to align the organization with the Market Model design approved and agreed. The restructuring will be carried out with the assistance from ADB's consulting team. The PMS at that point in time will also be updated with technical supports from ADB's consultants.
- 19.12 The Petitioner also submitted that the sanctioned strength of 374 employees has been revised downward to 218. The reduction in the sanctioned strength has been based on the fact that CPPA-G's back and front office processes will be automated like for back-office processes automation, it has hired solution vendor to implement the ERP that will Go-live in same financial year. Moreover, this rationalization is also informed by the level of activity CPPA-G needs to perform under the current power market regime and hence the sanctioned strength was reduced to 218.
- 19.13 The Petitioner further mentioned that to discharge its essential roles and responsibilities as laid down in the Market Rule and the Commercial Code, it has completed its initial restructuring as explained above. There are 218 sanctioned positions, 137 are staffed and 81 are vacant that will be filled in FY 2016-17. All these vacant posts are for professional cadres, as CPPA-G needs top class professionals to discharge its duties and plan to go lean on staff cadre (non -professional cadre).
- 19.14 The Petitioner provided the following grade wise detail of sanctioned, staffed and vacant posts.

S.No	Cadre	Total Strength	Working Employees	Vacant Posts
1	CPPA-G11	1	1	0
2	CPPA-G10	14	7	7
3	CPPA-G9	32	13	19
4	CPPA-G8	45	19	26
5	CPPA-G7	42	22	20
6	CPPA-G6	25	22	3
7	CPPA-G5	32	26	6
8	CPPA-G4	1	1	0
9	CPPA-G3	5	5	0
10	CPPA-G2	4	4	0
11	CPPA-G1	17	17	0
Total		218	137	81

- 19.15 The Petitioner informed that amongst the 137 staffed positions, 49 employees have opted to join CPPA-G on deputation from NTDC for which CPPA-G has budgeted their salaries, the pension contribution amounting to Rs.8.4 million and the other perks & benefits as entailed in the CPPA-G's IIR Manual, while there is no provision of provident fund and gratuity in the market fee, as it will be paid by NTDCI. to these 49 employees.



- 19.16 For the remaining employees, the salaries and other benefits are budgeted in the market fee as prescribed in the HR Manual. Moreover, the 81 vacant positions (related to professional cadre only) have gone into the recruitment process with staffing (hiring completion) planned from the month of December 2016 and onwards. The Petitioner stated that it is aggressively pursuing to staff these 81 vacant positions to ensure that enough capacity is built in-house to ensure smooth delivery of work. The Petitioner again reiterated that in June 2017, it will conduct the organizational assessment and necessary restructuring to align the organization with the Market Model design approved and agreed.
- 19.17 The Petitioner also requested for true up of the HR cost, by stating that the HR costs are budget estimates (approved by the BOD) which will be true-up with actual expenditure. The increase in HR cost from FY2016 to FY2017 is mainly due to the above-mentioned restructuring process.
- 19.18 However, during the hearing, the Petitioner submitted that since a considerable transition for manpower has now been finalized, therefore HR costs have been adjusted and may result in further adjustments after organizational restructuring through ADB by the mid of 2017 which may require alignment of the HR costs with the evolved market model and savings (if any) will be adjusted in favor of DISCOs.
- 19.19 Regarding training & capacity building cost, the Petitioner initially requested an amount of Rs.1.44 million and Rs.165.76 million for FY 2015-16 and FY 2016-17 respectively. The Petitioner while justifying its request submitted that this amount would be incurred on local trainings (customized training courses for professional staff and regular staff), foreign trainings and capacity building of the management trainees. The Petitioner delineated that its BoD has approved the policy for capacity building of human resources by induction of management trainees and as per the policy, the management trainees will be inducted to move with future requirements under each stage of the power market structure in accordance with the timelines mentioned in the Market Rules. The Petitioner further stated that initially, these management trainees will also be utilized for implementation of back office automation through implementation of ERP and other associated software in CPPA-G. However, during the hearing of the instant Petition, the Petitioner dropped its request of Rs. 1.44 million for the FY 2015-16 and revised the requested amount of Rs. 165.76 million to Rs. 27.10 million for the FY 2016-17.
- 19.20 On the cost of outsourcing consultancy, the Petitioner initially requested an amount of Rs.11.70 million and Rs.31.24 million for FY 2015-16 and FY 2016-17 respectively by submitting that this is requested in order to comply with the directions of Authority with regard to registration of Petitioner as Market Operator, preparation of Competitive Trading Bilateral Contract Market (CTBCM) Plan, framing of rules regarding billing, settlement and payment under the Single Buyer Plus and Wholesale Market, revision of Commercial Code and revision/novation of PPAs. However, during hearing of the instant Petition, the Petitioner dropped its request pertaining to the FY 2015-16 and requested an amount of Rs.43.09 million to the extent of FY 2016-17 only.



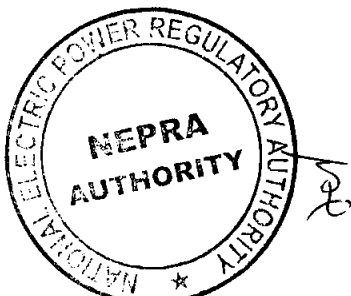
- 19.21 Regarding the administrative cost, the head wise breakup of the proposed cost for the FY 2015-16 and FY 2016-17, as provided by the Petitioner in the petition and revised afterwards during the hearing, based on actual result of FY 2015-16, is given below;

Description	Mln. Rs.			
	FY 2015-16		FY 2016-17	
	<i>Petition</i>	<i>Revised</i>	<i>Petition</i>	<i>Revised</i>
Rent Rate & Taxes	36.1	28.0	39.80	35.75
Power Light etc.	0.87	1.37	0.96	13.07
Telephone Fax & Postage Telegram etc.	3.82	5.86	4.21	4.21
Office Supplies & Other Expenses	4.55	5.53	5.01	5.01
Subscription & Periodicals	0.12	0.07	0.13	0.13
Representation & Entertainment	0.12	0.13	0.13	0.13
Travelling Expenses	16.2	12.3	22.70	17.00
Professional Fee & BOD Fee	11.97	4.95	13.17	10.00
Outside Service Employed	0.02	-	0.02	0.02
General Misc. Expenses	0.12	0.34	0.13	0.13
Subtotal	73.89	58.55	86.21	85.44

- 19.22 The Petitioner has not provided any justification against the requested amount of the Administrative cost, except for the travelling expenses, whereby the Petitioner has submitted that it will be substantial during the initial two periods of the operations due to shifting of its head office from Lahore to Islamabad and will decrease considerably once the whole setup is established and back office operation are automated within the period.

- 19.23 The Authority in order to properly analyze the costs claimed by the Petitioner under the head of the General Establishment Costs i.e. Rs. 30.52 million, Rs.313.70 million and Rs.473.09 million for the June 2015, FY 2015-16 and FY 2016-17 respectively, carried out an analysis of the costs incurred by CPPA of NTDCL under the head General Establishment Expenses for the last three years. The Authority based on its analysis observed that if the budgetary increases in Pay & Allowances announced by the GoP for the FY 2015-16, is applied on the actual cost incurred by CPPA of NTDCL for the FY 2014-15, the amount works out more or less the same as requested by the Petitioner for the FY 2015-16. The same analysis showed similar results for the requested amount of Rs. 30.52 million for the month of June 2015. Thus, the Authority considering the requested amount of Rs. 30.52 and Rs. 313.70 million has decided to allow the same as such with respect to the month of June 2015 and FY 2015-16. Here it is pertinent to mention that the assessed amount of Rs. 313.70 million is the Authority's maximum allowed limit which is subject to downward adjustment, if any, as per the actual reported figures, once the financial statements of CPPA-G are finalized for the FY 2015-16.

- 19.24 For the FY 2016-17, the Authority observed that the Petitioner initially claimed Rs.828.86 million in its petition, including vacant posts, based on sanctioned strength of 374 employees. However, during hearing, the Petitioner revised its requested cost to Rs.473.09 million owing to the revision of its staff strength from 374 to 218 employees.






19.25 The Authority appreciates the Petitioner's efforts in terms of moving towards a more technological driven organization by way of back office automation through implementation of ERP and other associated software, consequently reducing the required strength from 374 to 218 employees. The Petitioner vide its letter dated October 04th 2016 provided a breakup of its Pay & Allowances and Benefits costs for the FY 2016-17 as mentioned here under whereby the claimed cost has further been reduced to Rs.467.064 million;

Mln. Rs.

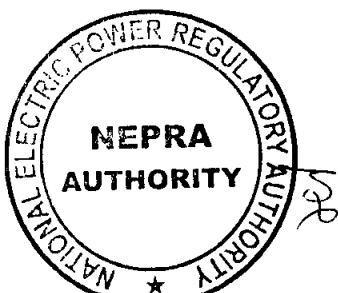
Description	Pay & Allowance	Other Benefits	Total
Employees Not Opted and Work for (6 Months)	63.77	-	63.77
Employees 12-Month	241.93	63.83	305.76
Vacant posts to be staffed (6 Months cost)	56.65	40.88	97.53
Total Pay & Allowances & Benefits	362.36	104.71	467.06

19.26 From the aforementioned break-up, the Authority observed that CPPA-G has included six months' salary for those 149 employees who were part of CPPA of NTDCL and were required to be part of CPPA-G but have not opted to be transferred to CPPA-G. Upon inquiry CPPA-G explained that as per its BTA with NTDCL, it has to pay cost of such employees for six months as they will be working for CPPA-G till December 2016.

19.27 The Authority considers that CPPA-G's is a new organization and some synergies e.g. common IT, administrative and support, technical & legal functions, which it was enjoying as being a function of NTDCL, must have been lost and has to create its own such independent functions for the smooth execution of its operations. Further, there are some new and creative roles it has to assume in future in terms of back office automation, development of competitive power market. In view of aforementioned, the Authority considers that the requested amount for the FY 2016-17 appears to be reasonable and has decided to allow the requested cost of Rs.467 million under the head of General Establishment Costs for the FY 2016-17, including Rs.63.77 million pertaining to 149 employees who have not opted to be part of CPPA-G for a period of six months, being allowed as per the relevant terms of BTA.

19.28 Thus, CPPA-G is hereby allowed a cost of Rs.30.52 million, Rs.313.70 million and Rs.467 million for the period June 2015, FY 2015-16 and FY 2016-17 respectively under the head of General Establishment Expenses. However, the amount represents the maximum limit and is subject to downward adjustment once the financial statements of CPPA-G for the June 2015, FY 2015-16 & FY 2016-17 are finalized. Any over recovery by CPPA-G will be adjusted through subsequent Prior Period adjustment.

19.29 With regard to cost under the head of Training and Capacity Building, although the Petitioner has not provided any specific justifications/ details regarding the prospective benefits due to the proposed trainings, in terms of achieving the organizational objectives and goals, however, the Authority understands that for the capacity building of its newly



inducted staff in terms of strengthening of skills and in order to equip them with the latest techniques and practices being followed in an advanced power sector, CPPA (G) is required to provide proper trainings to its employees. After careful consideration of the Petitioner's request, the Authority is of the view that the requested amount of Rs.27.10 million, for the FY 2016-17, is on the higher side considering the fact that about half of the FY 2016-17 has already been lapsed and the required arrangements for the planned trainings may take some time. In view thereof, the Authority has decided to allow an amount of Rs.15 million to CPPA-G for the Training and Capacity Building pertaining to the FY 2016-17.

19.30 For procuring the outsource consultancy services, the Petitioner for the FY 2016-17 has requested an amount of Rs.43.09 million out of which Rs.10.80 million has been requested for development of the Demand forecast model and Rs.32.29 million for development of Power Purchase Agreement Bifurcation, Market Simulation Model, Assessment of futuristic basket price model and IIR & market development consultancy. The Authority considering the significance of the proposed assignments has decided to allow the requested amount of Rs.43.09 million under the head of Outsource consultancy services, however, the Petitioner is directed to procure the best services available in the market in this regard and to share the models i.e. Demand Forecasting Model, Basket Price Assessment Model and Market Simulation Model with the Authority before submission of its next market operator fee petition. In addition, the Petitioner is further directed to provide quarterly progress reports on the PPA Bifurcation and IIR & Market Development projects to the Authority.

19.31 The Petitioner requested administrative costs of Rs.58.55 million for the FY 2015-16 and Rs.85.45 million for the FY 2016-17. The head-wise detail is given in the following table;

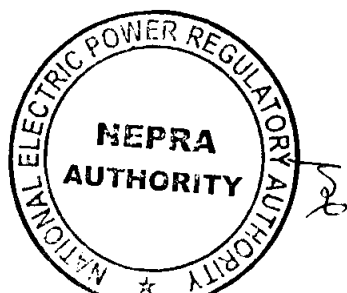
Mln. Rs.

Description	FY 2016	FY 2017	Inc. / (Dec)
	Revised	Revised	
Administrative Costs			
Rent Rate & Taxes	28.0	35.75	7.75
Power Light etc.	1.37	13.07	11.70
Travelling Expenses	12.3	17.00	4.70
Professional Fee & BOD Fee	4.95	10.00	5.05
Subtotal	46.62	75.87	29.20
Telephone Fax & Postage Telegram etc.	5.86	4.21	(1.65)
Office Supplies & Other Expenses	5.53	5.01	(0.52)
Miscel (Sub& Periodical, Repr. Ent. OSE etc)	0.54	0.41	(0.13)
Subtotal	11.93	9.63	(2.30)
Grand Total	58.55	85.45	26.90

19.32 The Authority observed that the Petitioner has requested an increase of Rs.7.75 million i.e. 28% for the Rent Rate & Taxes, Rs.11.70 million i.e. 854% for the Power Light, Rs.4.7 million i.e.38% for the Travelling Expenses and Rs.5.05 million i.e. 102% for the Professional & BoD Fees in the FY 2016-17 as compared to FY 2015-16. The Petitioner has

not substantiated its projected increases, under any of the aforementioned heads, with detailed calculations and proper justifications.

- 19.33 In the absence of any justification given by the Petitioner, the Authority considering the fact that the same represents the actual allocation made by NTDCL to CPPA-G as per its provisional accounts for the FY 2015-16, accept Rs.28 million on account of rent, rate, taxes. The Authority considered that after separation from NTDCL the expenses are likely to increase. The Authority is also cognizant of the fact that as a new entity CPPA-G is in the process of setting up new offices, therefore unforeseen factors may arise. In view thereof a realistic estimation at this point of time may not be possible. The Authority therefore feels that some allowance in this regard should be considered. Accordingly the Authority has decided to provide 10% increase over the allowed amount of Rs. 28 million pertaining to FY 2015-16. As a result thereof an amount of Rs. 30.8 million is being assessed for FY 2016-17 on account of rent, rate & taxes.
- 19.34 The Authority has seriously noted the exorbitant increase of about 854% proposed in the head of Power Light etc. for the FY 2016-17 without any specific justification and reasoning. The Authority considers that the proposed expense may increase due to independent office setup of the Petitioner at Islamabad and removal of synergies vis a vis NTDCL, however, still the amount may not increase in the same proportion as claimed by the Petitioner. In view thereof, the Authority considers that Rs.5 million under the head of Power Light for the FY 2016-17 can be a reasonable assessment subject to its adjustment as per actual. For FY 2015-16, an amount of Rs.1.37 Million is hereby allowed considering the fact that the same represents the actual allocation made by NTDCL to CPPA-G as per its provisional accounts.
- 19.35 Regarding the Travelling expenses the Authority agrees with the argument of the Petitioner that since its back-office operations have not been fully shifted to Islamabad from WAPDA House Lahore, therefore, the travelling expenses would be higher for the initial two periods and will decrease considerably once the whole setup is established and back office operation are automated within the period. Therefore, travelling expense of Rs.12.3 million for the FY 2015-16, being cost allocated through NTDCL, and Rs.17 million for the FY 2016-17 is considered reasonable and is allowed as such.
- 19.36 The Professional and BoD Fees, represents the remuneration of the Board of Directors and the fees for the external Auditors. The Authority understands that since CPPA-G has been separated from NTDCL and is an independent entity having its own separate BoD and is required to have an Independent External Audit from a Chartered Accountant Firm. Thus, considering the amount claimed by the Petitioner for the FY 2016-17 i.e. Rs.10 million being reasonable is hereby allowed. Further, for the FY 2015-16, Professional & BoD fees of Rs.4.95 million is also allowed being cost allocated by NTDCL.
- 19.37 For the remaining heads of administrative cost (Telephone Fax & Postage Telegram etc. Office Supplies, Subscription & Periodicals, Outside services employed, General Miscellaneous expense etc.), the Petitioner has requested a decrease of Rs.2.30 million for the FY 2016-17 as compared to the actual cost allocated by NTDCL during the FY 2015-



16, as reported by the Petitioner. Accordingly for the FY 2015-16 and FY 2016-17, the requested cost being reasonable under these heads is hereby allowed.

19.38 The Authority for the Administrative expenses of Rs.9.43 claimed for the month of June 2015, has decided to allow the same owing to the fact that the same represents the cost allocated by NTDC to CPPA-G as per its provisional accounts.

19.39 In view of the foregoing discussion, the Authority hereby allows the following costs to CPPA-G under the head of administrative costs for the period June 2015, FY 2015-16 and FY 2016-17.

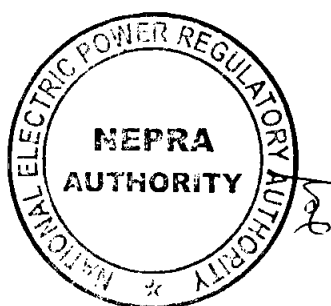
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Administrative Costs	June 2015	FY 2015-16	FY 2016-17
Rent Rate & Taxes		28.00	30.80
Power Light etc.		1.37	5.00
Telephone Fax & Postage Telegram		5.86	4.21
Office Supplies & Other Expenses		5.53	5.01
Subscription & Periodicals	9.43	0.07	0.13
Representation & Entertainment		0.13	0.13
Travelling Expenses		12.30	17.00
Professional Fee & BOD Fee		4.95	10.00
Outside Service Employed		-	0.02
General Misc. Expenses		0.34	0.13
Total	9.43	58.55	72.43

20. Insurance, Depreciation & Financial Charges

20.1 The Petitioner requested an amount of Rs.0.75 million for the FY 2015-16 and Rs.2.43 million for the FY 2016-17 under the head of Insurance. However, during the hearing of the instant Petition, the Petitioner revised the amounts to Rs.2.21 million & Rs.1.67 million for the FY 2015-16 and FY 2016-17 respectively. The Petitioner stated that insurance is required to cover the risk against procurement of new assets i.e. vehicles and has assumed insurance premium @ 3.5% of the cost of vehicles, planned to be procured.

20.2 Regarding Depreciation, the Petitioner requested an amount of Rs.1.80 million each for the FY 2015-16 and the FY 2016-17. However, during the hearing of the instant Petition, the amount for the FY 2015-16 was revised upward to Rs.2.41 million based on the existing assets which have been transferred to CPPA-G at the time of its creation. The Petitioner during the hearing also mentioned that the depreciation charges have been created only for the pool vehicles as on June 2015, however, the depreciation of new cars for employees, in accordance with provisions of Transport Policy part of the IIR manual, has not been added to the Requested Market Fee.




- 20.3 Financial Charges of Rs.0.96 million and Rs.1.06 million for the FY 2015-16 and FY 2016-17 were initially requested by the Petitioner by assuming an increase of 10% over the actual expenses for the FY2014-15 as per provisional figures, however, during the hearing of the instant Petition, the same were revised to Rs.0.63 million & Rs.1.05 million for the FY 2015-16 and FY 2016-17 respectively. The Petitioner has claimed that the requested financial charges are normal bank charges charged by banks against total transactions/ projected payments of over Rs.1.5 trillion.
- 20.4 A summary of the revised costs requested by the Petitioner under Insurance, Depreciation and Financial charges, based on its actual/ provisional results for the June 2015, FY 2015-16 and FY 2016-17 is given below:

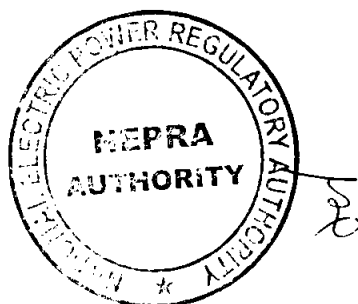
Mln. Rs.

Description	June-15		2015-16		2016-17	
	Petition		Petition	Revised	Petition	Revised
Insurance	-		0.75	2.21	2.43	1.67
Finance Charges	0.07		0.96	0.63	1.06	1.05
Depreciation	-		1.80	2.41	1.80	1.80

- 20.5 The Authority noted that the insurance charges of Rs. 2.21 million in FY 2015-16 are on the higher side as compared to FY 2016-17, whereas the Petitioner has only purchased vehicles of Rs. 1.80 million. The Authority also considers that the premium @ 3.5% is on the higher side. In the Authority opinion this should be up-to 3%. Accordingly, for the FY 2015-16 and FY 2016-17, the Authority has assessed Insurance cost of Rs. 0.05 million and Rs.1.44 million respectively based on 3% insurance premium.
- 20.6 Similarly, the Authority has assessed Rs.2.41 million for the FY 2015-16 being actual cost allocated to CPPA-G by NTDCI. and Rs.1.80 million for the FY 2016-17 on account of depreciation of assets transferred to CPPA-G i.e. pool vehicles.
- 20.7 Considering the financing cost of Rs. 0.07 million, Rs.0.63 million and Rs.1.05 million for the June 2015, FY 2015-16 and FY 2016-17 respectively is accepted as reasonable.

21. Repair and Maintenance

- 21.1 The Petitioner requested an amount of Rs.42.61 million for the FY 2015-16 and Rs.26.30 million for the FY 2016-17 under the head of Repair & maintenance. The Petitioner while justifying the requested cost stated that an increase of 10% has been assumed over the R&M cost of Rs.23.87 million for the FY 2014-15, allocated through NTDCI. The Petitioner, during hearing of the instant Petition, revised the requested amounts downward to Rs.13.31 million & Rs.21.30 million for the FY 2015-16 and FY 2016-17 respectively.



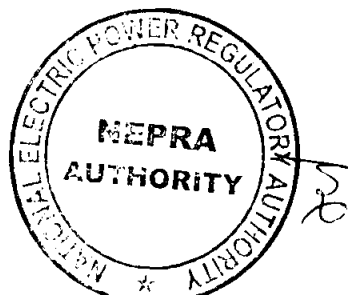

- 21.2 The summary of repair and maintenance expenses requested in the petition and revised afterwards during the hearing is as under;

Description	Mln. Rs.				
	June 2015	FY 2015-16		FY 2016-17	
	<i>Petition</i>	<i>Petition</i>	<i>Revised</i>	<i>Petition</i>	<i>Revised</i>
R&M General		0.09	0.74	0.09	1.09
Vehicle Expenses Repair	} 2.05 }	29.90	4.07	12.30	4.04
Vehicle Expenses-Fuel & Oil		12.50	8.50	13.70	16.01
Vehicle Expenses-License		0.14	-	0.20	0.16
Total		2.05	42.63	13.31	26.29

- 21.3 While assessing the repair and maintenance cost, the Authority has compared the actual amount requested by the Petitioner for the FY 2015-16 with the previous years and observed that the repair and maintenance expenses claimed by the Petitioner for the FY 2015-16, are more or less the same as compared to previous years. For the FY 2016-17, the Petitioner has requested an increase of Rs.7.51 under the head of vehicle fuel and oil. The Authority considers that this increase is primarily due to purchase of new vehicles which the Petitioner has planned to procure in FY 2016-17. However, since the half of the FY 2016-17 has already lapsed, the Authority considers that the Petitioner would not be able to utilize the entire requested amount. Accordingly, the Authority has decided to allow Rs.10 million for the Vehicle Fuel and oil and Rs.5 million for the remaining heads of repair and maintenance pertaining to the FY 2016-17. The head wise break-up of the amount allowed by the Authority for the month of June 2015, FY 2015-16 and FY 2016-17 under the Repair and Maintenance are, as follows.

R&M	Mln. Rs.		
	June 2015	FY 2015-16	FY 2016-17
R&M General		0.74	1.00
Vehicle Expenses Repair	2.05	4.07	3.84
Vehicle Expenses-Fuel & Oil		8.50	10.00
Vehicle Expenses-License		-	0.16
Total		2.05	13.31

22. Issue # 9 Whether the Petitioner request to allow charges due to litigation/ arbitration on CPPA-G to be passed to the power purchaser as capacity component is justified?




23. Issue # 10 Whether the Petitioner request to allow Govt. Taxes, Levies or Duties applicable to CPPA-G as a pass through is justified?

23.1 The Petitioner has requested to allow charges raised due to litigation / arbitration proceedings on CPPA-G as pass through to the power purchaser as capacity component. The Petitioner during the hearing stated that apart from the market operation functions, it is also acting as an agent on behalf of the XWDISCOs and accordingly the litigation / arbitration expense incurred on actual basis are being charged as pass through item as capacity transfer price.

23.2 The Petitioner afterwards vide its letter dated October 04 2016, stated that it is extremely difficult to budget this cost as the cost driver for legal / litigation cost is number of cases that will be contested in the coming year, which are extremely difficult to predict. The number of cases varies over time and hence the cost related with them is also difficult to be budget in advance.

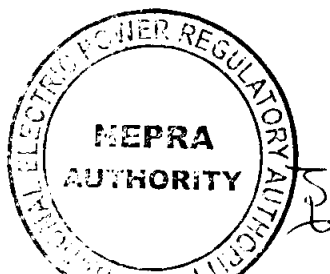
23.3 As per the NEPRA Act and Rules made thereunder, the Authority while allowing a cost has to take in to view the interest of the consumers. While considering the fact that CPPA (G) is a revenue neutral company, yet the Authority cannot allow something upfront which is very difficult to predict and budget (as per the Petitioner itself) . The only thing which the Authority can do is to allow this cost on historic basis and anything over and above would be settled under prior period adjustment , once the Petitioner justifies its prudence and legitimacy, keeping in view the very nature of the cases.

23.4 The Petitioner has also requested to allow Government Taxes, Levies and Duties applicable to CPPA-G as a pass through to the power purchaser by stating that it is a revenue neutral organization and the same should be allowed it, as being allowed to other licensed entities. The Authority considers that since it is a revenue neutral entity, it does see any rationale of imposition of tax, duty or levy. However, in future if any such situation arises the Petitioner is bound to take Authority's prior approval on any such specific tax, duty or levy in order to qualify it as a pass-through item.

24. Issue # 11 Whether the requested Capital Expenditure is reasonable and justified?

24.1 The Petitioner in its Market Operation Fee Petition has requested the Capital expenses under the following categories:

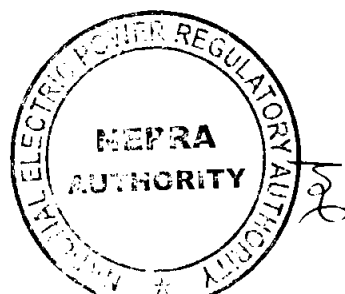
- ✓ For implementation of Enterprise Resource Planning (ERP) for back office automation, other software and procurement of associated cost for licensing of software and hardware including the networking infrastructure;
- ✓ Expenses relating to Management trainees;
- ✓ Additional operating and capital expenses required for office space of CPPA-G; and
- ✓ The cost of replacement and new vehicles as per the company policy.



- 24.2 The Petitioner has stated that with the first phase of operationalizing of CPPA-G under process, it currently handles cash transactions over Rs. 1,000 billion annually; thousands of transactions related to billing, settlements, payments, taxation, energy sales and purchase which are done manually and thus it is impossible to ensure effectiveness, transparency and control over these transactions. The Petitioner further stated that due to huge number and volume of commercial transactions, it is imperative to automate the back-office operations at CPPA-G through ERP implementation.
- 24.3 The Petitioner delineated that ERP-Financials, including utility specific solutions to deal with billing, settlement and payment mechanism will tremendously improve its capability to operate more effectively, bring more transparency to market operations and provide timely information to all market participants. The Petitioner also submitted that this intervention will also include provision of IT infrastructure, including LAN, WAN, computers and servers. The Petitioner further submitted that in future this system will be integrated with metering systems pertaining to purchase and sales of electricity at Combined Delivery Points (CDPs) that will enable timely verification and invoicing and will further facilitate the settlement among the market participants through integration of online banking facility of concerned banks and integration with the billing and settlement systems that CPPA-G envisions to implement. The Petitioner stated that the trainings related to ERP operations, maintenance and operation of the IT hardware will also be part of the intervention. The Petitioner submitted that the capital expenses are required for the effective enhancement of its back office automation through implementation of ERP, consolidation of all CPPA-G office and associated function at one office building and requirement for management trainees for building the professional capacity through research and on ground steps required for development of future power market structure in accordance with the timelines.
- 24.4 A breakup of the amounts requested by the Petitioner is given below:

Sr.	Investment Program	FY 2015-16		FY 2016-17	
		Original	Revised	Original	Revised
1	ERP	-	-	190.29	175.82
2	Office Space & Renovation	53.95	-	36.08	10.00
3	Replacement Vehicles / New Vehicles	17.55	1.80	47.85	47.85
4	Others CAPEX	11.99	6.78	-	10.68
	Total	83.49	8.58	274.22	244.35

- 24.5 The Petitioner also submitted that ERP related estimates have been prepared on the basis of quotes obtained for comparable ERP projects in power sector, the figures are adjusted based on the number of users, however actual cost will vary due to current market conditions and difference in on ground situation.
- 24.6 The Petitioner during the hearing delineated to the Authority that its required ERP for the following main functions:

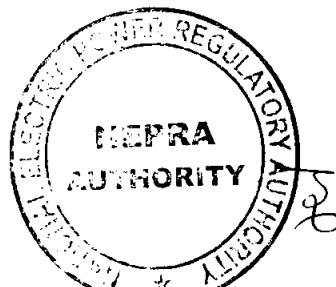



- ✓ Online verifications of Metering data and invoices
- ✓ Supporting strategic planning
- ✓ Alignment of operations with strategies
- ✓ Adoption of Best Practices
- ✓ Improved Financial management & Corporate Governance
- ✓ More Efficiency / Productivity
- ✓ Data Accuracy & Transparency
- ✓ Online Integration With Participants Systems
- ✓ Business Processes Integration
- ✓ Facilitate Day-to-Day Management Reporting
- ✓ Provide immediate access to enterprise information
- ✓ Timely Provision of Regulatory Requirements
- ✓ Facilitate Change Management Process
- ✓ Better Control at all levels.

24.7 The Petitioner during the hearing submitted that out of the requested amount of 175.82 million for ERP, Rs.70 million is required for ERP software & implementation which includes software license & maintenance, implementation & post Go-Live support and consultant level IT staff training; Rs.85 million is required against IT infrastructure which includes Establishment of Data center, Procurement of Server, SAN, Network Equipment, Equipment for IT setup and Implementation of LAN/WAN; Rs.20.8 million is required for user's hardware requirement and web solution which mainly includes purchase of computers, laptops, printers, scanners & UPS and Web Solution includes restructuring, Re-Design, More information, public access, portals and email services.

24.8 The Petitioner during the hearing presented that the following initiatives have been taken in this regard.

IT Requirement	Initiative Taken
ERP Software & Implementation	1. Competitive Bidding process is completed and I.O.I awarded
IT Infrastructure	1. I.O.I awarded for establishment of Data center 2. I.O.I awarded for implementation of

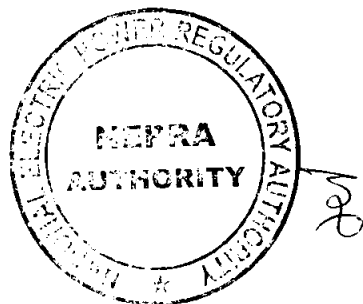



	LAN 3. Tender is advertised for procurement of server, SAN and network equipment's. 4. Tender preparation for implementation of WAN.
User's Hardware Requirements	1. Purchaser Order (PO) is awarded.
Web Solution	1. Email services has been outsourced. 2. Project has been kicked off for restructuring and redesign of website.

24.9 The Authority is aware of the fact that CPPA-G is currently involved in procurement of electric power on behalf of the DISCOs, Billing to & Collection from DISCOs, settlement to the Market Participants as per the Commercial Code and Management of cash flows & other relevant banking functions for the purposes of collection and disbursement. The Authority observes with grave concern that presently these functions are being performed by CPPA-G manually which is definitely increasing the risk of human error. In view thereof, the Authority decides that the Petitioner must invest in IT and software tools on urgent basis. This would automatize its billing and settlement processes with security protected databases which cannot be tampered, thus improving its capability to operate more effectively, bringing more transparency in its operations and providing timely information to all market participants. Thus, keeping in view of the prospective advantages highlighted by the Petitioner like effectiveness, transparency & control over transactions, timely verification & accurate invoicing, facilitation in settlement among the market participants through integration of online banking facilities etc. the Authority considered that the requested amount of ERP which is Rs.175.82 million is reasonable, therefore is accepted. The Petitioner, however, is directed to submit a quarterly progress report to the Authority in this regard.

24.10 The Petitioner has also requested a CAPEX of Rs.10 million for office space & renovation for the FY 2016-17. Similarly, an amount of Rs.6.78 million and Rs.10.68 million has been requested under the head of Furniture & Fixtures for the FY 2015-16 and 2016-17 respectively. The Petitioner upon inquiry submitted that the cost under office space & renovation primarily pertains to civil works for the new office building.

24.11 The Authority keeping in view the fact that a new office setup is being established at Islamabad, considers the requirement reasonable and therefore allows the amount of Rs.10 million for the office space & renovation for the FY 2016-17. Further, the amount of Rs.6.78 million and Rs.10.68 million is also allowed under the head of Furniture & Fixtures for the FY 2015-16 and FY 2016-17 respectively. At the same time, the Petitioner is directed to strictly follow the PPRA and other applicable Rules while expensing out the




allowed amount. Here it is pertinent to mention that being a revenue neutral company, any saving, if any would be adjusted under prior year adjustment mechanism.

24.12 The Petitioner has further claimed an amount of Rs.47.85 for the replacement/new purchase of vehicles for its Grade 9 and Grade 10 officers for the FY 2016-17 and Rs.1.80 for the FY 2015-16.

24.13 The Authority believes that the Petitioner in order to achieve its objectives needs to recruit best available professionals at competitive salary packages for which it has proposed to provide vehicles to its higher management i.e. G-9 and G-10 officers and the same has also been approved by the BoD of CPPA-G. The Authority further understands that other similar organizations in the Government sector are also providing such kind of facility to their higher management as a retention policy, therefore, allowing such facility to CPPA-G employees will not be out of ordinary. Accordingly, the Authority has decided to allow Rs. 47.85 million to the Petitioner for the purchase of vehicles for the FY 2016-17.

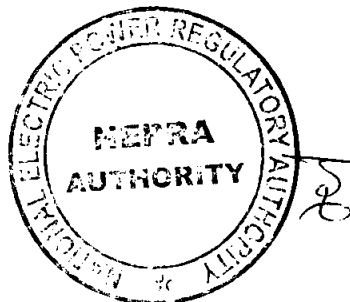
24.14 A summary of the allowed CAPEX is as under;

Mln. Rs.

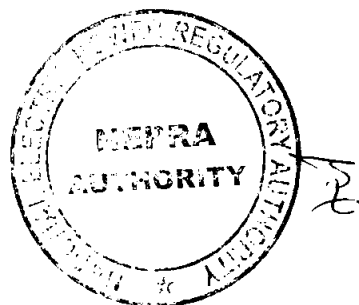
CAPEX	FY 2015-16	FY 2016-17
ERP	-	175.82
Office Space & Renovation	-	10.00
Replacement / New Vehicles	1.80	47.85
Others CAPEX	6.78	10.68
Total	8.58	244.35

24.15 The Authority, considering the fact that Petitioner is non-profit organization, currently having cash flow constraints and may not be able to finance its allowed CAPEX from banks, has decided to include the allowed CAPEX on upfront basis in its Revenue requirement, to be recovered by the Petitioner till June 2017 through its Market Operation Fee. Since the CAPEX is being allowed upfront and as one off payment, hence no depreciation and RORB on these assets will be allowed. Here it is pertinent to mention that the amount of CAPEX is only being allowed for a period of one year. Once the above mentioned amount of CAPEX is recovered by the Petitioner, the tariff shall be revised downward i.e. component of CAPEX cost will be excluded from the tariff.

25. What is the arrangement between NTDCL and CPPA-G to account for the excess transmission losses incurred by NTDCL over and above the allowed target?



- 25.1 The Petitioner has submitted during the hearing that understanding on the issue is clear between CPPA-G and NTDC, however, a formal arrangement has to be formulated. The Petitioner however has not provided any further details in this regard.
- 25.2 The Authority is of the view that impact of any losses incurred by NTDC over and above the Authority's allowed target of T&T losses, cannot be passed on to the consumers. The burden of the same has to be borne by NTDC. In view thereof, CPPA-G and NTDC are required to enter into a formal arrangement in this regard wherein a mechanism for calculation of impact of excess losses over & above the Authority's allowed limit be clearly stipulated. CPPA-G is directed to share the said agreement with the Authority for its consideration as soon as the same is signed.
26. **Issue# 12 Whether the Petitioner's request of off-setting the other income accrued by it on transitional fund against markup claim of generators on account of delayed payment merits consideration?**
- 26.1 The Petitioner in the petition has stated that the other income accrued on the transitional funds i.e. collection from DISCOs, along with the amount received from DISCOs on account of the late payment surcharges collected from the consumers may be initially utilized for off-setting the mark-up claimed by the Generators on account of delayed payment and then the remaining amount shall be invoiced for the markup claimed by the generators on account of delayed payments. Further, during hearing the Petitioner stated that historically, the interest income accrued was being off-set against the revenue requirement of NTDC, which may now be allowed to be off settled by CPPA-G.
- 26.2 The Authority, in the tariff determinations of WDISCOs, has already allowed the late payment charge recovered from the consumers to be offset against the delayed payment markup invoice raised by CPPA-G, against the respective DISCO only, on prospective basis. The Authority considers that any mark up over and above the LPS recovered from the consumer, is due to WDISCOs own inefficiency & mismanagement and the same cannot be allowed to be passed on to the consumers. In view, thereof, the request of the Petitioner for off-setting the other income earned on transitional funds of CPPA-G against the mark up of Generators due to delayed payments, does not appear to be logical, therefore any such income accrued on the transitional funds will be adjusted in the revenue requirement of the CPPA-G. Accordingly, an amount of Rs.279.44 million being the other income as provided by CPPA-G has been adjusted from the Revenue Requirement of the Petitioner for the FY 2015-16. Similarly for the FY 2016-17, the Authority has adjusted the same amount of Other Income i.e. Rs.279.44 million on provisional basis from the revenue requirement of the Petitioner, subject to its adjustment



on actual basis once the Petitioner provides its audited financial accounts for the FY 2015-16 and FY 2016-17.

27. Issue# 13 What measures have been taken by CPPA-G to settle financial liabilities?

27.1 The Petitioner in the petition has submitted that its primary role is to settle the financial liabilities that exist between the suppliers of electricity (Generators, Importers and NTDC) and the wholesale consumers (Distribution Companies and Bulk Consumers). During the hearing the Petitioner on the issue submitted that every month there is a DISCO review conference held at Ministry of Water & Power to review the progress of various activities of the power sector including the settlement of financial liabilities of CPPA-G, in which CPPA-G actively participates.

27.2 The Authority considers that non-settlement of financial liabilities of the Generators is the major cause of circular debt. The Authority therefore directs CPPA-G to provide a comprehensive report on the issue of circular debt on quarterly basis, highlighting the reasons thereof and the party wise breakup of amount payable and receivables in this regard.

28. Issue# 14 What are the steps taken by CPPA-G to remove circular debt of power sector?

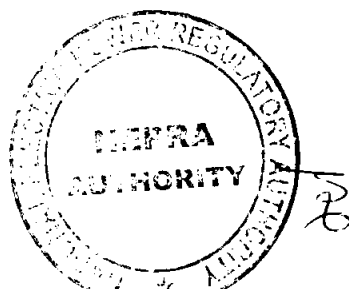
28.1 CPPA-G during hearing of the instant petition submitted that it has a limited role in terms of mitigation of circular debt. However, generation, transmission and distribution licensees have a major role to play here. Upon inquiry from the Authority regarding current amount of circular debt, the Petitioner submitted that its provisional accounts, include the balance of payables and receivables.

28.2 The Authority directs the Petitioner, to include complete details of its payable and receivables, in terms of contribution by each entity, in its annual report to be submitted to the Authority.

29. Whether status of a licensee and registered entity is equal, and whether CPPA-G has invariably complied with all NEPRA directions which it needs to follow.

29.1 The Petitioner during the hearing agreed that status of a licensee and a registered entity is equal. The Petitioner afterwards vide its letter dated October 04th 2016, has stated that generally speaking a 'licensee' is an entity which has applied for and been granted specific permission by a regulatory authority to conduct certain business or perform certain functions which would otherwise in the absence of such permission be unlawful for the entity to do so. This permission is referred to as the 'license'. In the power sector, the distribution companies ("DISCOs") for example, have applied for and been granted a license to distribute electric power to the consumers.

29.2 The Petitioner also stated that by contrast, a registered entity is one which is registered with a regulatory authority, and which performs functions on behalf of said regulatory



authority on the basis of delegated authority. In the power sector, the CPPA-G is registered as the market operator with NEPRA. In this capacity, CPPA-G operates as the market operator on behalf of NEPRA. The Petitioner on its earlier stance of CPPA-G being functionally neutral with regards to the distinction between a licensee and a registered entity, has now submitted that the issue needs to be dealt with in light of the above-mentioned legal distinction between the two and further deliberations may be conducted in this regard.

30. CPPA-G is required only to meet its expenses to function as an office (Stage-I Functions). Therefore such expenses be separately listed form the UoSC of NITDC, for consideration of NEPRA.

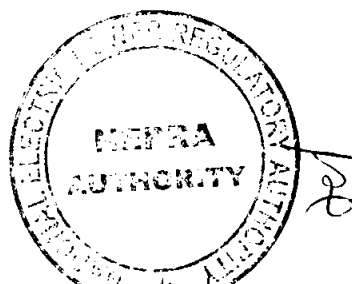
30.1 The Petitioner in the Petition has separately provided head wise detail of its revenue requirement.

31. What are the plans of the Petitioner in moving towards a competitive market plan?

31.1 The Petitioner did not provide any response on the issue during hearing, however, afterwards vide letter dated October 04th 2016, the Petitioner has explained that it was operationalized in mid of 2015 and since March 2016, it has embarked upon several initiatives including ERP implementation, creating the IT infrastructure, getting approved the HR manual and other related policies and procedures, hiring of the core team of professionals, submitting the market fee to the Regulator and the related budget to its BoD, shifting of staff from Lahore and creating the enabling working environment in Islamabad and other such activities that have enabled it to discharge its current responsibilities.

31.2 The Petitioner further mentioned that although, a lot has been achieved in these four to five months but still tremendous efforts are required to meet the Company's goals, especially the highest priority goal of developing the Power Market of Pakistan. The Petitioner highlighted that the capacity, capability, understanding and experience in Pakistani Power Market is inadequate to evolve on its own from the current single-buyer model to the competitive regime in the time-frame set by the Regulator. As per Rule 2.1(f) of Market Rules 2015, CPPA-G is mandated to facilitate the transition of the Power Market to single buyer plus during 2016-20 to a competitive market operations commencing from July 1, 2020, with no postponement thereon. In connection with Market Development role and also to ensure compliance with the ECC's decision and direction of NEPRA, CPPA-G is required to prepare and get approved a Competitive Trading Bilateral Contract Market (CTBCM) Plan by June 2017.

31.3 The Petitioner submitted that preparing and getting approved the CTBCM plan and its subsequent implementation with the objective to meet the above mentioned timelines is an uphill task for which CPPA-G has already embarked upon this initiative by creating a Strategy and Market Development department in early 2016 and mobilizing a team of international experts in the area of Power Market Development in August 2016 and



stakeholders' consultations have been started in September 2016, including the initial meeting with NEPRA in the same month.

31.4 The Petitioner outlined that the market development effort entails mainly;

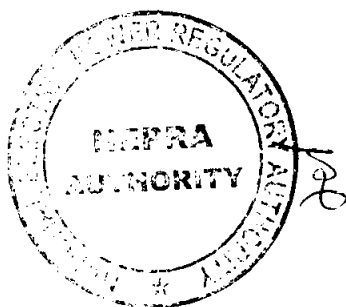
(a) understanding the current, policy-level, legal, technical, commercial, financial and other aspects of the Pakistani Power sector, its' entities, down to the level of process and procedures, (b) in parallel, understanding, deliberating upon and learning from, the various market models implemented across the globe from centralized models (as in U.S) to decentralized market models (as in India or European markets), (c) capacity building of core-teams within the key market participants (CPPA-G, NEPRA, MWP, NTDC and DISCOs), (d) engaging the market participants in the market development process, (e) preparing and getting approved the CTBCM Plan by NEPRA by June 2017, (f) restructuring the CPPA organization in-line with the agreed future course and (g) implementation of CTBCM to meet the July 1, 2020 target.

31.5 The Petitioner explained that the above mentioned activities are divided in to the following three phases:

32. Phase 1: Capacity Building & Electricity Market Model Design

32.1 This phase entails capacity building and Electricity Market Model Design. Capacity building curriculum design is in process and the trainings are scheduled to be conducted in November for ten working days. The training participants will be from CPPA-G, NEPRA, MWP and NTDC. This training will enable these key entities to proactively participate in CTBCM plan development. The second major component of this phase is conducting the pre-feasibility assessment leading to the development of electricity market model design, the market development concept paper and eventually the CTBCM plan. This activity will include the 'As-Is' of policy, regulatory, legal and technical review and baseline establishment across the power sector entities. The 'To-be' for the Single-buyer plus and Competitive market operations that will include all the domains as mentioned above. Gaps will be identified, frameworks will be formed in this stage and the outcome will be CTBCM plan that will include the initiatives required, their sequencing, indicative budgeting and other required items. CPPA-G and other Market Participants shall prepare their own Business Plan / Project Plans to implement the initiatives as identified in the CTBCM Plan against each market participant. These plans will be submitted to the Regulator for obtaining approvals so that the expenses by various entities can be made in FY 2017-18 with regards to market development initiatives.

32.2 The Phase-I has been initiated since August 2016. The training curriculum is being prepared and the trainings on Power Market Development will be conducted in November 2016. Stakeholder consultation has been started and market design concept paper draft will be prepared by December 2016. The CTBCM plan will be developed and submitted to NEPRA in February 2017 for getting approval by June 2017.



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33. Phase II: Detailed Market Design

- 33.1 This Phase will start in parallel with Phase I in February 2017. However, to complete Phase II by September 30, 2017, the Market Development Model and the Market Development Plan should be approved by June, 2017.
- 33.2 After the final decision on the road map is agreed by the Regulator and the Government in the shape of approved CTBCM, the Detailed Market Design activity will follow. This activity is envisaged to entail, preparation and getting approved the policies, rules, codes, contracts, processes and procedures. This will also include restructuring and staffing CPPA to design and implement the envisaged market. CPPA-G will conduct the detailed market design against the scope identified for CPPA-G in CTBCM plan and other entities will do their respective parts. CPPA-G will also centrally facilitate the detailed market design process to ensure that this phase is implemented in timely manner.

34. Phase 3: Implementation

- 34.1 This phase will commence in April 2017 i.e. in parallel with Phase 2. Implementation will follow detailed design and will entail activities like organizational restructuring to implementation of new market models for which the ecosystem has been evolved.
- 34.2 The Authority appreciates the plans/ initiatives taken by the Petitioner in development of a competitive power market, however, as per the Schedule –I of the NEPRA (Market Operator Registration, Standards and Procedure) Rules, 2015, following are the timelines for transition from current Single Buyer Model to competitive market operations;

Transition	Market design	Timelines
Phase I	Single Buyer Model	Current Market Structure
Phase II	Single Buyer Plus	2016 — 2020
Phase III	Competitive Market Operation	To commence from 1 July 2020, with no postponement thereon

- 34.3 Keeping in view the response of the Petitioner and the fact that it has started its independent operations recently the Petitioner is directed to adhere to the given timelines in terms of transition from current Single Buyer Model to competitive market operations.

35. Issue# 15 Whether any metering audit and inspections at CDP's have been carried out by CPPA-G to ensure standardized accuracy of revenue meters, as defined in grid code along with provisions of Remote Metering and on-line data collection.

- 35.1 The Petitioner during hearing stated that the NFDCC is responsible for procurement, installation, testing and commissioning of metering infrastructure at the CDP points. For generation metering a comprehensive mechanism for installation, testing and commissioning has been provided in the respective PPAs/EPAs. Further, there is metering committee constituted for each of the CDP points where-in the respective members of the



metering committee (including one member each from generator, DISCO(s) and NTDC) physically visits each of the metering site and discrepancies noted are addressed. Moreover, ADB is providing support to NTDC for upgrading the SCADA and installing meters at Combined Delivery Points.

35.2 The Authority considers that the response of the Petitioner is reasonable; therefore accepted.

36. **Issue# 16 Till a clear road map for future market, identification of a market operator on continuing basis is accomplished, the CPPA-G expenses are only limited to the CPPA under NTDC umbrella. Whether any activity on a provisional basis requires a fee as requested by CPPA-G**

36.1 The Petitioner during the hearing explained the various initiatives required to comply with the existing business requirements and prepare itself to take on the future market operator role. The Road Map will be prepared in the shape of CTBCM to be approved by NEPRA by June of 2017 and till that time CPPA-G in the light of prayer already made must implement the initiatives in the pipeline.

36.2 Considering the response of the Petitioner as reasonable is accepted.

37. **With reference to Rule 5 of National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 what measures have been undertaken for registration as a market operator?**

37.1 In response to the query of the Authority the Petitioner has stated that Registration Application Draft is ready and is internally circulated for review and comments and will be submitted in October 2016 before the Authority for obtaining approval.

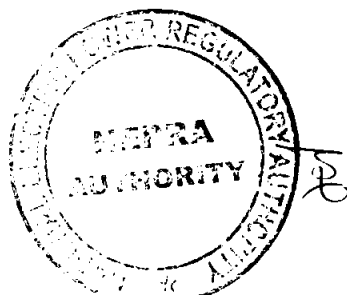
37.2 Here it is pertinent to mention that as per the Rule 5 (1) of the NEPRA (Market Operator Registration, Standards and Procedure) Rules, 2015 dated June 05, 2015 CPPA-G shall be deemed to be authorized and registered as the market operator for a period of two years from the commencement of the aforementioned rules.

37.3 Till today the Authority has not received any update on the required application, hence the Petitioner is directed to submit the same soon as possible.

38. **With reference to Rule 8 of National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 what is the progress on preparation of Annual Report to be submitted before the Authority?**

38.1 In response to the query of the Authority the Petitioner has stated that the report is ready internally circulated for review and comments and will be submitted in October 2016 before the Regulator for obtaining approval.

38.2 As per the Rule 8 of the National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 dated June 05, 2015 the market



operator shall file a report with the Authority within four months of the close of accounting period. Hence, based on end of accounting period being June 2016 the Petitioner has to file the annual report till October 2016. Here it is pertinent to mention that during hearing of the instant petition, the Authority directed the Petitioner to also incorporate a detailed note on the circular debt issue.

38.3 Till today the Authority has not received any update on the required report, hence the Petitioner is directed to submit the same soon as possible.

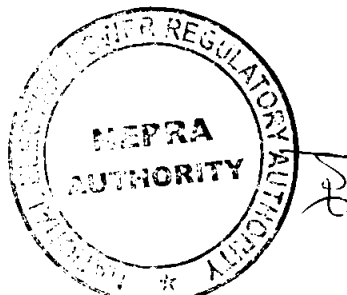
39. Whether the Market Operation Fee as requested by CPPA-G is reasonable and justified?

39.1 Based on the assessments made in the preceding paragraphs the Market Operation fee of CPPA-G for the Period June 2015, FY 2015-16 and FY 2016-17 is assessed as per the following details;

Description	June-15	FY 16	FY 17	June-15	FY 16	FY 17
	Requested			Assessed		
General Establishment Costs	30.52	313.70	537.19	30.52	313.70	525.09
Administrative Costs	9.43	58.55	85.45	9.43	58.55	72.43
Repair & Maintenance	2.05	13.31	21.30	2.05	13.31	15.00
Insurance	-	2.21	1.67	-	0.05	1.44
Depreciation	-	2.41	1.80	-	2.41	1.80
Finance Charges	0.07	0.63	1.05	0.07	0.63	1.05
Less: other income	-	-	-	-	279.44	279.44
Total Revenue Requirement (MIn. Rs.)	42.07	390.81	648.45	42.07	109.21	337.36
CAPEX		8.58	244.35		8.58	244.35
Revenue Requirement + CAPEX	42.07	399.39	892.80	42.07	117.79	581.70
Avg. MDI Rs. /kW/M	20.493	19,257	19,157	20.493	19,243	19,243
	2.0529	1.7283	3.8836			2.5191

39.2 Here it is pertinent to mention that the UoSC of NTDCL, determined by the Authority, for the FY 2014-15 included the costs associated with CPPA-G. As NTDCL has already filed its tariff petition for determination of its UoSC / Wheeling charges the FY 2015-16 and FY 2016-17 with the Authority, which is under process, therefore, Prior Year Adjustment of NTDCL for FY 2014-15 and FY 2015-16 will be worked out after accounting for / allowing the impact of the tariff assessed for CPPA-G for the month of June 2015 and FY 2015-16. Accordingly, CPPA-G is directed to obtain its share of Market Operation Fee of Rs.42.07 million and Rs. 117.79 million for the Period June 2015 and FY 2015-16 respectively from NTDCL.

Before creation of the Petitioner, the NTDCL under the approved Transfer Price Mechanism was responsible to charge the DISCOs a transfer charge on account of procurement of power from approved generating companies and its delivery to DISCOs for a billing period, however, after incorporation of CPPA-G, the transferred price






mechanism will now be performed by CPPA-G with a modification to the extent of inclusion of Market Operator Fee.

40. ORDER

40.1 The Central Power Purchasing Agency Guarantee (CPPA-G) is hereby allowed to charge such fee on such terms and conditions as provided hereunder:

Part-I - Market Operator Fee

1. Central Power Purchasing Agency Guarantee (CPPA-G) is allowed to recover its assessed tariff for the month of June 2015 and for the FY 2015-16 from National Transmission and Despatch Company Limited (NTDCL).
2. Central Power Purchasing Agency Guarantee (CPPA-G), for provision of Market Operator and allied services, is allowed to recover its assessed tariff for the FY 2016-17 on the following rate: -

Market Operator Fee (MOF) = Rs. 2.5191/kW/month

3. Since the amount of CAPEX of Rs.244.35 million has been allowed only for a period of one year, therefore, the Market Operator Fee of Rs.2.5191/kW/month shall be applicable only for one year period from the date of its notification. The applicable market operator fee shall be Rs.1.4610/kW/month, instead of 2.5191/kW/month, if the tariff remains notified beyond a period of one year.

**Market Operator Fee (MOF) after twelve months of the date of notification =
Rs.1.4610/kW/month**

40.2 **Part-II – Modified Transfer Price or Transfer Charge to DISCOS**

40.2.1 CPPA-G shall charge the DISCOs, a transfer charge for procuring power from approved generating companies and its delivery to DISCOs for a billing period as under;

$$TP = CTP_{(Gen)} + UOSC_{(Trans)} + MOF + ETP_{(Gen)}$$

Where:

- TP = Transfer Price to XWDISCOs or any other Market Participant
- $CTP_{(Gen)}$ = Capacity Transfer Price to XWDISCOs or any other Market Participant in Rs./kW/Month
- $UOSC_{(Trans)}$ = Use of System Charge to XWDISCOs or any other Market Participant in Rs./kW/Month
- MOF = Market Operator Fee to XWDISCOs or any other Market Participant in Rs./kW/Month



$ETP_{(Gen)}$ = Energy Transfer Price to XWDISCOs or any other Market Participant in Rs./kWh

$CTP_{(Gen)}$ = $\frac{GenC}{PD(sys)}$

UOSC = $\frac{USCF}{PD(sys)}$

Where:

GenC = Summation of the Capacity Cost pertaining to generation in Rupees for a billing period minus the amount of liquidated damages received during that billing period.

$USCF_{(Trans)}$ = NTDCCL transmission charge in Rupees for a billing period.

MOF = CPPA-G market operator charges in Rupees for a billing period.

$PD(sys)$ = Peak Demand of the System recorded during a billing period in kW.

Note : To calculate the CTP ,UOSC and MOF in Rupees for each XWDISCOs or any other Market Participant for a billing period, the rate of CTP, UOSC and MOF will be further multiplied by the particular XWDISCO or any other Market Participant demand recorded at the time of system peak in kW.

ETP = $\frac{GenE}{EUs}$

Where:


GenE = Total Energy charge in Rupees during a billing period.

EUs = Energy units (kWh) recorded at the Common Delivery Metering Points of all the DISCOs or any other Market Participant during a billing period.

40.2.2 CPPA-G shall, for the purpose of clarity intimate to all XWDISCOs or any other Market Participant the generation part of the Transfer Charge, during a billing period, by deducting from the Transfer Charge, the Transmission Charge or Use of System Charges of NTDCCL and the Market Operator fee of CPPA-G.

40.2.3 The following generation entities and extraneous sources of import of electricity stand approved who would be providing electric power to CPPA-G for onward delivery to the XWDISCOs or any other Market Participant;

- i) All Hydroelectric Generating Stations owned and operated by WAPDA.
- (ii) Chashma Nuclear Power Generating Station.



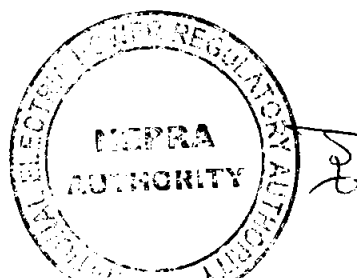


- (iii) All IPPs selling power to WAPDA under a long-term contract for which sovereign guarantees have been provided by the Federal Government.
- (iv) The thermal generation companies formed out of unbundling of WAPDA for a period up-to 01.07.2009 or till the Competitive Market Operation Date determined by the Authority (whichever is later).
- (v) Other generation entities (in the public sector, private sector or under public-private partnership, initiated, sponsored or developed by the Federal Government or any Provincial Government) approved by NEPRA to provide power to CPPA-G for onward delivery to the XWDISCOs or any other Market Participant for a specific period.
- (vi) Sources of electricity imported from another country or the territory of Azad Jammu and Kashmir under an approval of the Federal Government for provision of power to meet the demand of any or all of the XWDISCOs or any other Market Participant as approved by NEPRA.
- (vii) Electricity purchased by CPPA-G from any generation company within Pakistan through Power Purchase Agreement pursuant to NEPRA Interim Power Procurement Regulations, 2005.

41 Terms and Conditions:

41.1 Definitions:

1. Billing Period means a period determined by NEPRA for the purpose of charging the transfer charge to DISCOs in respect of power delivered. The billing period for the purpose of applying a transfer charge shall be on a one month basis (starting 24:00 hrs of the 1st day of the month and ending 12:00 hrs on the last day of the month) till a shorter billing period is specified by NEPRA through a Competitive Trading Arrangement Transitional Order.
2. Competitive Market Operation Date = The date as defined under article 7(2) of the License granted to NTDCL.
3. CPPA-G means a company performing the functions listed in clause 5 of the Commercial Code 2015 and Authorized by the Authority as Market Operator under the Market Rules.
4. Delivery metering point means the interconnection point at the grid stations where power is delivered by NTDCL to DISCOs, BPCs connected directly to the transmission system or other users of the transmission system and where relevant meters are installed to measure such power delivered.
5. IPPs = Independent Power Producers established under the Federal Government's Power Policy of 1994 or earlier.



6. System Peak Demand = The highest system peak demand recorded during a billing period measured over successive periods of 30 minute interval at the receiving metering point of the DISCOs or user of the transmission system. Maximum demand measuring apparatus used for recording the maximum system peak demand during a billing period shall be based on a 30 minutes interval reset basis.
7. Month means a calendar month according to the Gregorian calendar.
8. Power Factor: the rate expressed as a percentage of the kilowatt hours to the kilovolt hours consumed during a billing period.

42. Other Terms and Conditions

- Power Factor Penalty: The DISCOs shall maintain an average power factor during a billing period at the delivery metering point of at least 85% lagging. In the event of the said Power Factor falling below 85% in a billing period the concerned DISCO shall pay to NTDCL a penalty as determined by the Authority for general applicability on the recommendation of NTDCL and after consultation with the generation and distribution licensees.
- In order to ensure least cost generation, NTDCL shall strictly follow the merit order while operating the power plants.

The order part and the Terms & Conditions of the determination are intimated to the Federal Government for notification in the official gazette under Section 31(4) of the NEPRA Act.

43. Directions of the Authority

43.1 The directions of the Authority in the proceedings of the instant petition have been reproduced as under:-

1. The Petitioner is directed to procure the best consultancy services available in the market for development of different models and to share the models i.e. Demand Forecasting Model, Basket Price Assessment Model and Market Simulation Model with the Authority before submission of its next tariff petition. The Petitioner is further directed to provide quarterly progress reports on the PPA Bifurcation and HR & Market Development projects to the Authority.
2. The Petitioner directed to submit a quarterly progress report on the ERP project to the Authority.
3. CPPA-G and NTDCL are required to enter into a formal arrangement wherein a mechanism for calculation of impact of excess losses over & above the Authority's allowed limit be clearly stipulated. CPPA-G is directed to share the said agreement with the Authority for its consideration as soon as the same is signed.
4. The Authority directs CPPA-G to provide a comprehensive report on the issue of circular debt on quarterly basis, highlighting the reasons thereof and the party wise breakup of amount payable and receivables in this regard.

