



| Electricity Market Operator |

ANNUAL REPORT

2019

**Achieving Excellence  
through Passion,  
Innovation &  
Integration**

Central Power Purchasing Agency

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**Central Power Purchasing Agency**

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Annual Report 2019

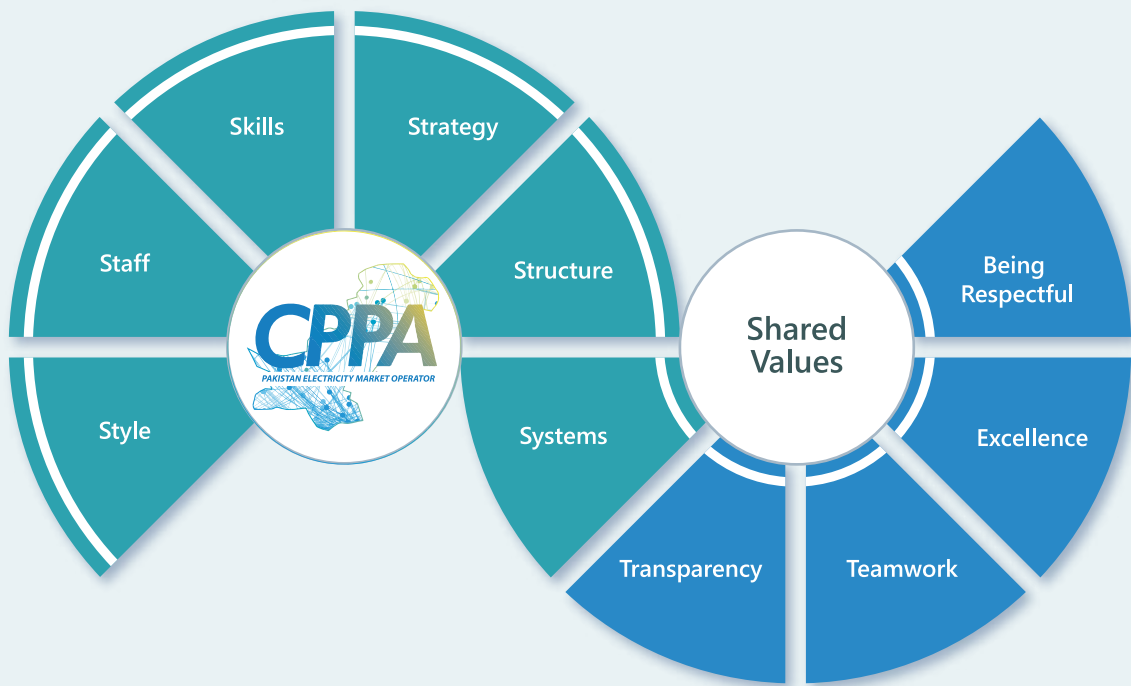
Pakistan's  
Electricity  
Market  
Operator

Central Power  
Purchasing  
Agency

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# Achieving Excellence through Passion, Innovation & Integration

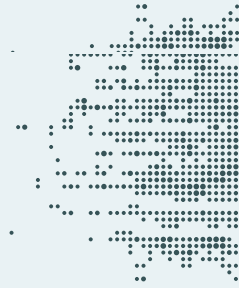
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Aligning the Seven Elements in  
CPPA-G's Way of Working



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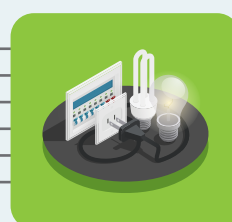
CPPA-G Striving to Empowering End Users of Pakistan



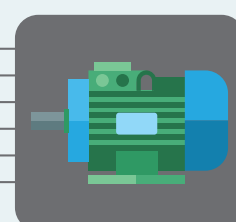
Electric  
Vehicles



Industries &  
Businesses



Domestic  
Users



Electrical  
Engines

# Table of Acronyms

|             |   |
|-------------|---|
| ADB         | Asian Development Bank                        |
| AGM         | Annual General Meeting                        |
| APEx        | Association of Power Exchanges                |
| BoD         | Board of Directors                            |
| CEO         | Chief Executive Officer                       |
| CFO         | Chief Financial Officer                       |
| CIO         | Chief Information Officer                     |
| CLO         | Chief Legal Officer                           |
| CPPA        | Central Power Purchasing Agency               |
| CTBCM       | Competitive Trading Bilateral Contract Market |
| DISCO       | Distribution Company                          |
| ECC         | Economic Coordination Committee               |
| ECM         | Enterprise Content Management                 |
| EMP         | Electricity Market Professional               |
| EMT         | Electricity Market Team                       |
| EPA         | Energy Purchase Agreement                     |
| EPEX SPOT   | European Power Exchange                       |
| EPIAS/EXIST | Energy Exchange of Turkey                     |
| ERP         | Enterprise Resource Planning                  |
| FBR         | Federal Board of Revenue                      |
| FESCO       | Faisalabad Electric Supply Company            |
| FY          | Financial Year                                |
| FY2019      | Financial Year (July 2018 – June 2019)        |
| GEPCO       | Gujranwala Electric Power Company             |
| GOP         | Government of Pakistan                        |
| GWh         | Giga Watt Hour                                |
| HESCO       | Hyderabad Electric Supply Company             |
| HR          | Human Resources                               |
| HSD         | High Speed Diesel                             |
| IAA         | Independent Auction Administrator             |
| IESCO       | Islamabad Electric Supply Company             |
| IGCEP       | Integrated Generation Capacity Expansion Plan |
| IPP         | Independent Power Producer                    |
| IT          | Information Technology                        |
| KE          | Karachi Electric Ltd.                         |



|          |  |
|----------|--|
| MoE      | Ministry of Energy                                 |
| MoE (PD) | Ministry of Energy (Power Division)                |
| MoF      | Ministry of Finance                                |
| MoU      | Memorandum of Understanding                        |
| NEPRA    | National Electric Power Regulatory Authority       |
| NEO      | Net Electrical Output                              |
| NPCC     | National Power Control Center                      |
| NTDC     | National Transmission and Despatch Company         |
| PAR      | Performance Appraisal Report                       |
| PESCO    | Peshawar Electric Supply Company                   |
| PG&CP    | Policy, Governance and Corporate Planning          |
| PMS      | Performance Management System/Power Market Survey  |
| PPA      | Power Purchase Agreement                           |
| PPAA     | Power Procurement Agency Agreement                 |
| RFO      | Residual Fuel Oil                                  |
| RFP      | Request for Proposal                               |
| RLNG     | Re-gasified Liquefied Natural Gas                  |
| RMS      | Revenue Metering System                            |
| RTO      | Regional Transmission Organization                 |
| SAARC    | South Asian Association for Regional Cooperation   |
| SCADA    | Supervisory Control and Data Acquisition           |
| SECP     | Securities and Exchange Commission of Pakistan     |
| SEPCO    | Sukkur Electric Power Company                      |
| SFS      | System for Settlement                              |
| SMD      | Strategy and Market Development                    |
| SPS      | Special Purpose Supplier                           |
| ToR      | Terms of Reference                                 |
| TESCO    | Tribal Area Electric Supply Company                |
| USAID    | United States Agency for International Development |
| WAPDA    | Water and Power Development Authority              |
| WPPO     | WAPDA Power Privatization Organization             |







# 1

## Key Highlights of the Year

- 1.1 Procurement of Power on Behalf of DISCOs
- 1.2 Business Processes Automation and IT Infrastructure Upgradation
- 1.3 Transition Towards Opening of Competitive Wholesale Electricity Market
- 1.4 CPPA-G's Contribution to the Power Sector
- 1.5 Team Building and Human Resource Development
- 1.6 Corporate and Legal Affairs
- 1.7 CPPA-G's Authorization as Market Operator

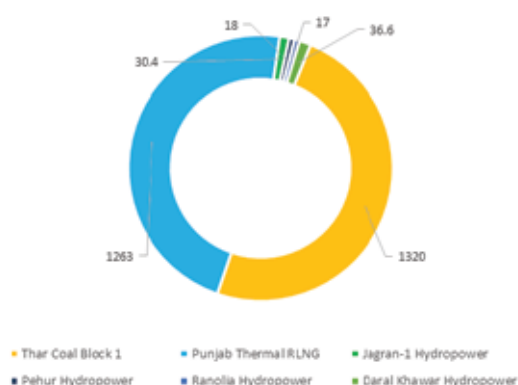
# 1. Key Highlights of the Year

During FY2019, CPPA while striving for excellence with passion, innovation and Integration, achieved several landmarks and made substantial progress. Few highlights of the selected key achievements of CPPA as the Operator of Pakistan's Electricity Market, are presented below:

## 1.1. Procurement of Power on Behalf of DISCOs

CPPA in 2019 signed six PPAs on behalf of DISCOs, with a total 2,685 MW of contracted capacity. Four PPAs were signed with small hydro-power plants while the other two were signed each with coal and RLNG combined cycle power plant. The following agreements on behalf of DISCOs were executed:

**New Capacity Contracted in FY2019 (MW)**



| #            | Technology | Capacity Contracted (MW) |              |              |
|--------------|------------|--------------------------|--------------|--------------|
|              |            | 2016-17                  | 2017-18      | 2018-19      |
| 1            | Wind       | 448                      | -            |              |
| 2            | Baggase    | 132                      | -            |              |
| 3            | Solar      | 12                       | -            |              |
| 4            | Nuclear    | 340                      | -            |              |
| 5            | Hydel      | 720                      | -            | 102          |
| 6            | Coal       | 1,980                    | 1,650        | 1,320        |
| 7            | RLNG       | 3,563                    | -            | 1,263        |
| <b>Total</b> |            | <b>7,196</b>             | <b>1,650</b> | <b>2,685</b> |

## 1.2. Business Processes Automation and IT Infrastructure Upgradation

### 1.2.1 Launch of CPPA-G Data Exchange Portal (CDXP)

Minister of Energy (Power Division), Mr. Omer Ayub Khan, inaugurated the CPPA Data Exchange Portal (CDXP) on March 15, 2019. The CDXP provides a centralized and secure IT platform to connect the power sector stakeholders that would enable them to interact and exchange authentic data and information with each other electronically.

The implementation of ERP System has brought standardization of internal business processes of CPPA, more data security and enhanced communication across the departments and business users. Moving forward to automate the processes of integration with the other stakeholders of power sector for receiving and dissemination of data and information, CPPA has launched CPPA Data Exchange Portal (CDXP). The CDXP has been integrated with the ERP system of CPPA and connect it with business processes of stakeholders of power sector i.e. Power Generation Companies, DISCOs, NTDC, NPCC etc. The CDXP is aimed to serve as a hub of communication and exchange of data/ information for all the stakeholders of power sector. It is developed using the modular approach and will reach out to all the stakeholders in different phases.

The Online Invoice Submission module of CDXP has

transformed manual submission of purchase of power invoices to online, all the power generation companies are submitting their invoices on CDXP, CPPA users are verifying the invoices online and status of each invoice is being updated to the relevant power generation company through dashboards of CDXP. The user-friendly interfaces and real time communication among Power Producers and CPPA has enhanced the efficiency and effectiveness of overall invoice to payment process. This portal is also helping in elimination of complexity of physical record keeping, to save time, money and provide a central access point

The CDXP's module submission of Metering Data of all Common Delivery Points (CDPs) from all the DISCOs to CPPA is also going to be launched. Furthermore, the other modules like NPCC Dispatch Instructions, Economic Merit Order, Technical Verification of Invoices, LD Invoices and Management Dashboards will also be operational in near future.

All the stakeholders specifically the Independent Power Plants (IPPs) have expressed their gratitude and satisfaction for the digital platform launched by CPPA to facilitate them and have ensured their full support moving forward.



## 1.2.2 Enterprise Content Management (ECM) Implementation

The implementation of the Enterprise Content Management (ECM) System has been completed successfully this year and CPPA launched the state-of-the-art platform to systemize, organize and structure the company data. The objective of ECM System was to develop a modern, well-structured and efficient platform to facilitate the internal communication, document management, case management (Workflow), and offer easy access to information as per the privileges of the employees.

Before ECM, only 20% of data was held in structured system. 80% of data was unstructured and unmanaged. Huge amount of data was processed and archived daily and file searching in hard form was an extremely hectic and time-consuming task. Now ECM has provided the facility to search documents efficiently by using metadata and OCR functionalities.

ECM has provided the proper classification of documents in the form of folder structure. Quick and easy access to documents, content security, easy collabora-

tion between different departments and task management has been achieved with the help of ECM. In short, ECM has helped a lot to move towards a paperless environment. As a part of this project, the historical manual record will also be scanned and will be available in ECM System to complete the whole document management of CPPA.



Introductory session on Enterprise Content Management implementation is in progress.

## 1.2.3 Monitoring Portal

CPPA has launched a Monitoring Portal for the officers/ officials of Ministry of Energy (Power Division) and management of CPPA. The Monitoring Portal is a reporting portal which publishes the information related to the daily recovery from DISCOs, payment made and liability position of all the Power Generators. The user can enter the desired date in all reports to get the required data. The portal is connected with the ERP System of CPPA and publish the up-to-date information to the secure users for early and effective decision making. CPPA is working continuously to add more reports and analytics on this portal for more visibility and easy access to the information for the stakeholders of power sector. A mobile application for the Monitoring Portal has also

been developed and ready to be launched which will improve the digital interaction as the modern users are on the way and utilizing the mobile application to be informed and on the track.



Development of Monitoring Portal in progress by CPPA-G Software Development Team.

## 1.2.4 IT Infrastructure Upgradation Initiatives

In order to meet with the growing needs of business, CPPA has taken multiple initiatives regarding infrastructure expansions, cyber security by starting the projects related to Database Vault Solution for powerful cyber security controls to help protect application data from unauthorized access, artificial intelligence based information security solution, more secure endpoint protection antivirus systems, video conferencing solution, commercial power phase correction and surge protections for datacenter, expansion of datacenter battery banks, network enhancements and many more. It is pertinent to

mention that CPPA has also completed the planning work to establish a Tier III level Data Centre to support Market Operator role as envisaged and to support the ongoing and upcoming IT initiatives like, data exchange portal, master data management, data institutionalizing, data warehousing, video conferencing and unified communication system, ECM, case management system, and record management and collaboration systems.

## 1.2.5 Upgradation of CPPA Website

CPPA has upgraded the interface of its website and added an exclusive section on the "Market Development" website. This section illustrates the market development activities currently ongoing at CPPA along with the details of recent training and capacity building programs, sessions and workshops related to market development being offered by CPPA to the market participants and services providers for information sharing and capacity building of the stakeholders. This section consists of the following tabs:

- Electricity Market Team – This tab presents the information on the Electricity Market Team, its role in market development and its organizational structure.
- Previous/Upcoming Market Trainings – This tab provides information to the interested power sector professionals about the details including schedule, venue and contents of upcoming electricity market training programs. This section also stores the training material of the previous trainings offered in the

past which can be readily downloaded.

- Reports & Publications – Market development progress reports, reports prepared by CPPA on market development, along with concept papers on market design and development are available under this tab.
- Market Literature – Important reports, concept papers, journal articles, and academic e-books regarding electricity market concepts, models and designs can be downloaded from this tab
- Strategic Partnerships – This tab contains information about the strategic partnerships that CPPA has built with several international and local organizations and academic institutions.
- Electricity Market Professionals – This tab serves as an electronic register and database for maintaining the record of existing Electricity Market Professionals graduated after completing the Electricity Market Professional Program (EMP).

| Name  | Location                     | Start Date | End Date   | Status |
|---|------------------------------|------------|------------|--------|
| <a href="#">Electricity Market Professional Program - EMP-2019 (Module-I)</a> | LUMS, Lahore                 | 15/07/2019 | 19/07/2019 | Closed |
| <a href="#">Use of SDDP and NCP Tools</a>                                     | Hotel Crown Plaza, Islamabad | 11/03/2019 | 15/03/2019 | Closed |
| <a href="#">Electricity Market Professional Program (EMP-2018) Module-IV</a>  | LUMS, Lahore                 | 31/12/2018 | 05/01/2019 | Closed |
| <a href="#">Electricity Market Professional Program (EMP-2018) Module-III</a> | LUMS, Lahore                 | 22/10/2018 | 26/10/2018 | Closed |
| <a href="#">Electricity Market Professional Program (EMP-2018) Module-II</a>  | LUMS, Lahore                 | 11/09/2018 | 14/09/2018 | Closed |
| <a href="#">Electricity Market Professional Program (EMP-2018) Module-I</a>   | LUMS, Lahore                 | 17/07/2018 | 22/07/2018 | Closed |

## 1.3. Transition Towards Opening of Competitive Wholesale Electricity Market

### 1.3.1. CTBCM Model, Plan and Interim Solution

Based on the mandate given by the Economic Coordination Committee (ECC), CPPA in the mid of 2016, started its market model development efforts. A dedicated market development team was formed which was complemented by the support of credible international market development consultants. After following a thorough and rigorous consultative process with the relevant stakeholders, CPPA developed a Competitive Trading Bilateral Contracts Market (CTBCM) model and Plan. The CTBCM model and plan was reviewed and evaluated by the Special Committee, led by Mr. Zargham Ishaq Khan, Joint Secretary, Ministry of Energy-Power Division (MoE-PD).

On recommendation of the Special Committee, CPPA submitted last year the CTBCM Model and Plan to NEPRA for review and regulatory approval. NEPRA published the CTBCM model and plan on its website for stakeholders' review and requested the stakeholders to furnish their comments and feedback.

The document received significant attention and a number of stakeholders provided feedback and comments which were forwarded by NEPRA to CPPA for clarification and response. Consequently, CPPA prepared a comprehensive response after detailed deliberation, and formulated thorough replies against every comment and queries of the stakeholders. The detailed response prepared by the CPPA has been submitted to NEPRA in compliance of the direction of the Authority. It is expected that the process of regulatory review will be concluded by NEPRA soon.

While the high-level market model is under approval process with NEPRA, CPPA with the assistance of market development consultants have been working on the detailed design aspects of some critical issues

of the new competitive market. This includes various options for new market-based contracts, their formats, length, pricing mechanism for the products to be traded in the market i.e. firm capacity and energy, equal risk sharing among various market players, new capacity procurement mechanism and various auction designs and methodology. At the same time future price projections simulating different scenarios and sensitivities with different contract designs is also under study. A comprehensive report (the Detailed Design Report) encapsulating the details of new market design has also been prepared.

Meanwhile, on the direction of Honorable Secretary, Ministry of Energy (Power Division), has started working on opening up the market in two stages.

The Stage-I of market development is the Implementation of the Single-Buyer Plus (SBP) Phase by operationalizing the wheeling regulation. Phase-II is the full-fledged implementation of the CTBCM model and plan.

For the Stage-I of market opening, CPPA in collaboration with NEPRA and other stakeholders, developed the drafts of Wheeling Regulation, Commercial Code, Concept Papers and associated documents such as Connection Agreement, Market Participation Agreement etc. within the regulatory and contractual framework. The same have been submitted to NEPRA for review and approval.



Consultation session on Interim Solution in progress.

## 1.3.2 Market Simulation and Modeling

During the FY2019, CPPA produced sophisticated mathematic models to carry out two important simulation exercises to project power purchase price and the market prices. An overview of each simulation and modelling exercise is presented below:

### Integrated Electricity Market Simulation Model (IEMSM) and Report

The Integrated Electricity Market Simulation Model (IEMSM) is a combination of off-the-shelf (OTS) software and MS Excel based automated tools that process different types of inputs and generate different analyses and results. The amalgam of the IEMSM include the state-of-the-art dispatch optimization tool funded by USAID i.e. Stochastic Dual Dynamic



Programming (SDDP) tool; Electricity Cost Allocation Tool (ECAT) to allocate the existing and future PPAs/E-PAs costs among different DISCOs; Market Contracts Analysis Tool (MCAT) to simulate the revenues of generators and costs for demand in various type of contracts; Firm Capacity Allocation Tool (FCAT) to simulate the contribution of intermittent resources to the security of system; and preliminary dashboards to see the impacts of changing different factors on the outputs of all these tools.

For the successful operation of any competitive market, the abundance, symmetry and availability of information is of key importance. The IEMSM produces all the necessary information required by the market players in the future electricity market of Pakistan. It produces useful blends of data that would be required by investors as well as buyers and tries to mimic the types of analyses these entities will perform in the future. This tool is also very important to build the capacity of the DISCOs to carry out their future procurements on competitive terms.

CPPA prepared a comprehensive report based on the result of market price simulation. The report presented an overview of the market simulation

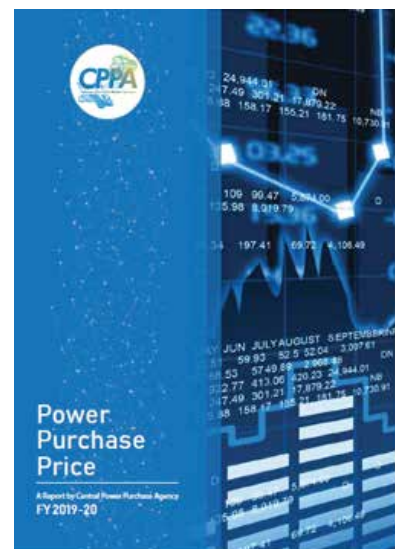
exercises done by CPPA for estimating the future market prices on principle of least cost economic dispatch. Simulation results estimate the future market prices so that all market participants have the information of future projections and to help investors, with more robust and accurate information regarding the future market.

### Power Purchase Price Projection Model and Report

Regulatory framework for the power sector of Pakistan envisages formulation of the monthly references of the generation, transmission and market operation cost, collectively the Power Purchase Price (PPP), to be allocated from the Central Pool to the Distribution Companies through a Transfer Price Mechanism that will serve as basis for determining the tariff of the distribution Companies for the regulated consumers.

In order to assist the Authority for ascertaining the monthly references of Energy Purchase Price & Capacity Purchase Price including the UoSC & MOF (collectively the "PPP") through schedule of regulatory proceedings, CPPA prepared the PPP model that reports the projections of monthly references for the year 2019-20, while taking into consideration the existing peculiarities of the entire value chain of the power sector and submitted the report to NEPRA.

CPPA also organized a briefing workshop inviting participants from MoE (PD), NEPRA, NTDC, NPCC and DISCOs to brief the respective entities on the functioning of the PPP model and discuss the results of the model.



### 1.3.4 Restructuring the Organization and Building HR Capacity

Three phases describe the organizational restructuring activity at CPPA; (i) restructuring from business perspective to align the organization with current business need (ii) restructuring from HR perspective, for inter alignment and optimization of business processes and (iii) restructuring from a future business perspective i.e. to align the company with the proposed new electricity wholesale competitive market.

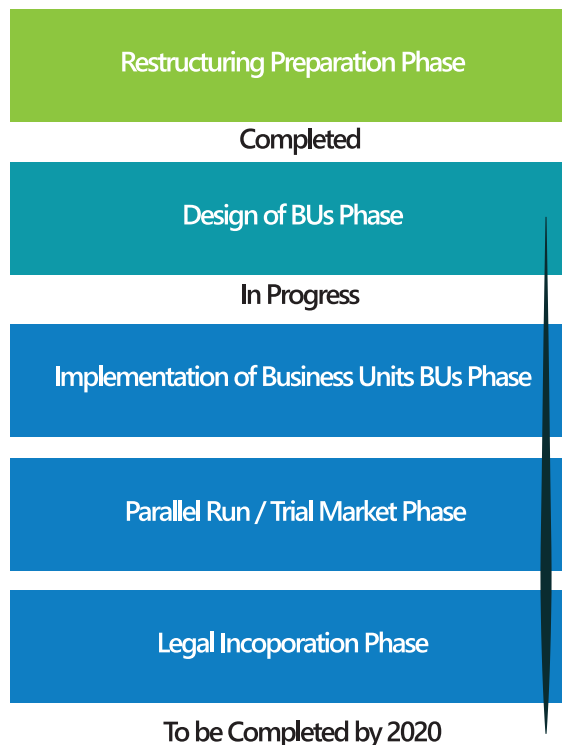
Completion of the Phase-I of the restructuring was achieved two years back when some key departments Strategy & Market Development (SMD), ERP/IT, Policy Governance and Corporate Planning (PGCP), Taxation, Internal Audit etc. were added to the operations streams of CPPA. The Phase-II remained in progress during the last year. In the Phase-II of restructuring, the skills, resources and strength of the Technical, IT, HR & Admin and Legal departments were optimized. This phase will conclude with the complete restructuring of Finance, Policy Governance & Corporate Planning (PG&CP) and SMD Departments from the HR perspective.

The phase currently under progress is the Phase-III, under which the design of the business units (BUs) of future wholesale competitive market is being carried out. Based on the mandate given by ECC in conjunction with the direction by the Authority, the restructuring of CPPA is inevitable to avoid conflicts (if any) that the company may have in administrating the role of a Market Operator during proposed competitive market regime that commences in 2020. The CPPA Board has already approved principally the restructuring of CPPA, for initially an operational segregation of CPPA into Special Purpose Supplier (SPS) and the Market Operator (MO) followed by their legal incorporation.

A detailed restructuring plan has been prepared by CPPA with the assistance of international consultants for the organizational restructuring under Phase-III. This plan further divides the Phase-III into the following five sub-phases. The sub-phase which entails the preparatory activities associated with the restructuring activity has been completed. This is followed by the subsequent sub-phase i.e. Design of Business Units Phase which is currently under progress.

Under this sub-phase CPPA in assistance with the international market development consultants has been developing the detailed design of the proposed Business Units i.e. Market Operator and Special Purpose Supplier that are foreseen as the mandatory

components of the proposed electricity wholesale market. CPPA has also engaged a Business Process Reengineering (BPR) expert to evaluate the existing 'as-is' business processes and design the optimum 'to-be' business processes associated with the operations of the new business units.



Electricity Market Professional Program in progress at LUMS.

### 1.3.5 Market Trainings and Workshops

For CPPA, the training, capacity building & continuous professional development of the manpower is of prime importance. This is the reason why CPPA not only focus on the training of its own employees but also gives significant importance to the capacity building of all the power sector entities working closely with CPPA for transformation of the electricity market. In this connection, a number of training sessions and workshops were held during 2019 which were attended by representatives from MoE(PD), NEPRA, DISCOs, KE, NTDC, NPCC side-by-side with CPPA. Few important market sessions and workshops of 2019 are described below:

#### Electricity Market Professional (EMP) Program



In the power sector of Pakistan which is marked by accelerated change, market integrity requires that participants have adequate expertise to transact in the proposed electricity market of Pakistan. Therefore, under the MoU signed with LUMS last year, CPPA this year launched a market training and certification program to help ensure market participants and stakeholders have baseline knowledge of markets and how they will participate and operate in the future competitive electricity market of Pakistan. The targeted audiences for this program are officials from relevant entities of power sector entities including Ministry of Energy (Power Division), NEPRA, NTDC, NPCC, DISCOs and K-Electric and as such around 50 participants from such entities attended this program. Additionally, faculty members from indigenous universities, LUMS and NUST, also attended this program from the perspective of train-the-trainer.

The aim of EMP Program is to enhance the individuals' knowledge not only in terms of the basic concepts of power markets but to also give them a perspective of how the international electricity markets evolved and operate globally. Another objective is to familiarize the power sector entities about the proposed competitive market model for Pakistan, the CTBCM. The Program was divided into four separate modules. All four modules of the EMP Program have been completed and the Batch-2018

of EMP has been graduated after completing the four modules.

A Graduation Ceremony was hosted by CPPA In January 2019 at LUMS, to award the shields and certificates of participation to the graduating participants of Batch-2018 of the EMP Program. This ceremony was a high-profile event which was attended by Mr. Zargham Ishaq Khan, Joint Secretary (Power and Finance), Ministry of Energy (Power Division), Mr. Wasim Mukhtar, Additional Secretary MoE (PD) and Mr. Abid Latif Lodhi, CEO CPPA along with other senior delegates from the Power Sector. From LUMS side, Mr. Shahid Hussain, the Rector of LUMS, Professors and other senior faculty members attended the ceremony.



Discussion Room (DR) sessions of EMP Program provides an opportunity to the participants to carryout healthy discussion on power sector issues



## Training Workshop on Dispatch Optimization and Unit Commitment Tools by PSR Brazil



CPPA arranged a five-days training workshop in March 2019 in Islamabad on the use of SDDP (medium-term dispatch optimization) and NCP (short-term unit commitment) tools. The workshop was attended by the participants from NEPRA, NPCC, NTDC and CPPA. Foreign trainers from PSR Brazil were engaged by CPPA who travelled all the way from Brazil to Pakistan to deliver this training.

This training aimed at preparing working professionals of the power sector for planning the long-term expansion and evolution of the system, as well as on applying NCP for the day-ahead dispatch optimization. The training had the attendance of 22 participants from different power sector organizations, including the NPCC, NTDC, NPCC, NEPRA, CPPA as well as the Lahore University of Management Scienc-

es (LUMS).

This training focused on consolidating the knowledge of the teams on the software provided by PSR and on refining the modeling details for the best system representation for the long and short-term operation planning, paving the road for the complete implementation of state of the art optimization models in Pakistan.

The training's ending ceremony had the participation of Mr. Omar Ayub Khan Honorable Federal Minister, Ministry of Energy (Power Division) who distributed the training certificates to the recipients of the training. The implementation of these tools for dispatch planning and price optimization in the country is especially important since Pakistan took the decision to open the market in 2020 and is currently working



Lead Trainer from PSR Brazil, Ricardo Cunha Perez delivering the presentation in the workshop.



Mr. Omer Ayub Khan, Minister of Energy (Power Division) distributed the training certificates among participants.

## Other Trainings for Power Sector Entities

A number of training sessions, workshops and on-the-job trainings etc. on forecasting, generation and operation planning, and simulation and modeling for DISCOs, NTDC and NPCC.

CPPA arranged an online training of 6 days during which detailed training was provided to NTDC and CPPA staff by the on the long-term generation expansion planning on state-of-the-art tool OPTGEN. This training was conducted online by PSR Brazil who also happens to be the developer of the

tool. CPPA also prepared a detailed plan for NTDC to develop a complete model for the expansion plan using this new tool with the assistance from the consultant of CPPA housed at NTDC.

Additionally, CPPA provided trainings to NTDC staff on the long term as well as medium term forecast tools. Moreover, several on-the-job training sessions were also held for DISCOs on Power Market Survey (PMS) based medium term forecast.

## 1.4 CPPA-G's Contribution to the Power Sector

CPPA throughout the year actively contributed towards the development of the power sector of Pakistan and improvement of the regulatory and policy framework.

This included:

a) Launch of a central data exchange portal CDXP to provide a centralized and secure IT platform to connect the power sector stakeholders for sharing and exchange of reliable data while serving as a single source of truth.

b) Launched a training initiative with the collaboration of EPIAS and universities, titled Electricity Market Professional (EMP) Program, in order to build the capacity of MoE (PD), DISCOs, NPCC, NTDC, KE and NEPRA in electricity markets. The participants will be certified as Electricity Market Professionals after completing all four modules of the program.

c) Providing assistance and facilitation to DISCOs, NTDC planning, & NPCC through organizing workshops, training sessions, on-the-job trainings, etc. on forecasting, generation and operation planning.

d) Facilitated the preparation of the Integrated Generation and Capacity Expansion Plan (IGCEP), Long-Term Forecasts for NTDC and Power Market Survey (PMS) for DISCOs.

e) Assisted NEPRA in drafting the (Wheeling) Open Access regulation and associated documents such as Connection Agreement, Market Participation Agreement etc. within the regulatory and contractual framework.

f) Provided detailed analysis of Net-Metering and its impact on existing consumers.

g) Provided state-of-the-art dispatch optimization

tool SDDP to NPCC through USAID funding assistance. Training on using the tool was also arranged.

h) Facilitated the formation of Market Development Working Groups at the DISCOs to bring the relevant professionals of DISCOs on a centralized platform to work closely and collaboratively toward the development and implementation of competitive market.

i) Established a team of stakeholders titled Electricity Market Team including representatives from MoE(PD), NEPRA, NTDC, NPCC, DISCOs and K-Electric, to closely engage the stakeholders in the development of the competitive electricity market.

j) Commenced the development of a short-term load forecasting tool In collaboration with NPCC and LUMS.

k) Provided regular assistance to DISCOs accurate projections of components of annual / multiyear tariff and filing their tariff petitions with the regulator.



## 1.4.1 Assistance to DISCOs

DISCOs are one of the most important components of the future electricity market and therefore CPPA believes that DISCOs must be equipped with adequate capacity to participate in the competitive market. Assistance is being extended by CPPA to the DISCOs pertaining to the following important areas:

**Demand Forecasting:** CPPA has been facilitating all DISCOs in preparation of their medium term forecast report 2016-17 based on Power Market Survey (PMS) methodology. Throughout the year, CPPA staff worked with the DISCOs to improve the forecasting model for the medium term forecast and add additional features to the model. Also CPPA staff has been making preparations for the next iteration of the forecast report. All these activities are undertaken in coordination with NTDC.

**Data Audits:** CPPA has been striving to improve the demand forecasting in DISCOs. During this year, CPPA has conducted data audits at all DISCOs to identify gaps and suggest measures for improvement. Furthermore, after the audits were completed, CPPA prepared the data audit reports to be forwarded to the higher authorities of all DISCOs along with recommendations for sustainability of the forecast function in DISCOs.

## 1.4.2 Assistance to NTDC

**Indicative Generation Capacity Expansion Plan:** This year, CPPA continued its assistance to NTDC in the finalization of the results of IGCEP which are being prepared using WASP tool. CPPA provided inputs in reviewing various assumptions and results which are being updated with new inputs from various stakeholders. During the previous quarter, CPPA had arranged a trial version of a state-of-the art least cost expansion planning tool named OPTGEN, from Brazil. An online training on the tool which delivered itself by the software developer in Brazil was also arranged by CPPA for NTDC. CPPA also prepared a detailed plan for NTDC to develop a complete model for the expansion plan using this new tool with the assistance from the consultant of CPPA housed at NTDC.

**Long-term Forecasting:** CPPA has been assisting NTDC in preparation of the long-term forecast report. CPPA consultant provided trainings to NTDC staff on the long term as well as medium term forecast tools. It also assisted NTDC staff in the finalization of the forecast report based on financial year 16-17. CPPA has also been pursuing USAID to provide a licensed version of EViews to NTDC to undertake the regression analysis for the long-term forecasting.

## 1.4.3 Assistance to NPCC

NPCC being the System Operator (SO) is a very critical element for the smooth operation of an electricity market and CPPA has been working towards its strengthening and during this year, provided assistance on the following fronts:

**Dispatch Simulation:** NPCC in the role of operational planner is required to prepare an Annual Production Plan (APP) for the following year with the aim of fulfilling expected electricity demand in the most optimal way. This plan would be communicated to all the power plants for ensuring their availability and managing maintenance schedules accordingly. APP would also be shared with the Ministry for facilitating timely arrangement of fuel.

Till now NPCC lacked any mathematical tools for

preparation of an APP taking care of all the underlying variables. However, now with the support and facilitation from CPPA, the dispatch optimization tool (SDDP) capable of preparing the APP with due consideration of affecting variables has been operationalized in NPCC. NPCC has started the modelling work to prepare APP for year 2020 on SDDP.

**Unit Commitment:** NPCC has started the work on the detailed modelling regarding unit commitment. This includes modeling of complete transmission network, load distribution, hydro generation with daily water release constraints and all the other generation fleet along-with technical parameters completed on NCR. Another parameter i.e. startup cost of thermal power plants would shortly be added. Process for gathering the required informa-

## 1.5 Team Building and Human Resource Development

### CPPA-G Office Building Renovation

Last year, CPPA acquired a new office space in form of a dedicated building which could accommodate the existing as well as future strength of CPPA without any hassle. The building leased by CPPA was comparatively a newly constructed building which was not occupied previously by anyone. Hence significant effort was foreseen to renovate the building with improved office infrastructure.

For this purpose, CPPA outsourcing the task of office renovation and hired the services of a contractor to complete this task. The contractor was assigned with designing a sophisticated layout plan of the office space keeping in view the safety and ergonomics requirements, perform complete overhauling of the existing infrastructure and equip the offices with necessary fixtures, fittings and furnishings in order to aesthetically improve the space and equip offices with necessary immunities and facilities keeping in view the safety, security and convenience of the employees.

The renovation of most of the building has been completed and the functional teams of CPPA have moved to their dedicated offices with Improved layout and Infrastructure sufficing the operational needs of the company. This arrangement will further support the organization future aspects of organization restructuring and transforming the business into two separate units.



## Inter-Departmental Cricket Match

CPPA not only focuses on the professional grooming of its employees but also put great emphasis on the personal development through recreational activities and team building exercises. A similar activity was arranged by CPPA in form an inter-departmental cricket match to boost the morale of the workforce and instill a sense of teamwork among the employees.

This was a one-day event in which five teams with the name of CPPA-Black, CPPA-Blue, CPPA-Green, CPPA-White and CPPA-Yellow entered in the field with their colorful challenging & thematic costumes. After sensational rounds of competition, CPPA-Black & CPPA-Blue qualified for the final. At the end of a cut-throat competition, CPPA-Blue surfaced as the ultimate winner of final match of CPPA Cricket Tournament 2018. CPPA-Black declared as the runner-up. Live commentary & music spiced up the ambience and made everybody on toes, to enjoy every bit to the fullest level of involvement.

Mr. Irfan Ali Secretary Power Division who was the Chief Guest of the tournament, graced the occasion with his esteemed presence. Honorable Chief Guest met all the teams and boosted the morale of each team with his cheerful participation in the event. In his brief address to the audience, he admired the

efforts of CPPA for arranging such an excellent event full of excitement.



## Training on Defensive Driving and Road Safety

CPPA has a vision to provide their employees every opportunity to be safe and to be equipped with any potential threat which may arise in the future, keeping in view the above CPPA arranged training on defensive driving and road safety for its drivers, as it was very essential for drivers to have good knowledge of road safety in order to safeguard their lives and those of the staff they are employed to drive. As it will minimize incidents, fosters a high level of personal driving responsibility, minimizes fuel consumption and maintenance costs and helps build a strong safety culture.



Group photo of participants of Defensive Driving and Road Safety training.



## 1.6 Corporate and Legal Affairs

During the FY2018-19, the CPPA handled a myriad of legal issues, managing a number of regulatory and legal matters relating to the organization. The in-house legal team was deeply involved in regulatory affairs addressed before NEPRA, including the active representation of CPPA in all matters filed before NEPRA including complaints, notices, tariff determinations, review motions etc. CPPA - through its in-house legal counsel - was also closely engaged with the Ministry of Energy (Power Division) in the preparation of the standardized tripartite EPAs/PPAs, as well as upcoming legislation such as the proposed draft Uniform Tariff Rules to be issued pursuant to the NEPRA Act, 1997.

CPPA also engaged in the negotiation, review and finalization of various agreements including EPAs/PPAs, novation, direct, novation to direct and revolving account agreements, among others, and was engaged in litigation at various fora both throughout

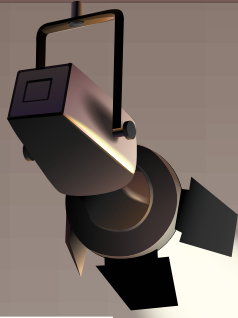
Pakistan as well as before foreign tribunals, requiring engagement of legal representation for CPPA before the subordinate and superior Courts of Pakistan and foreign arbitral tribunals. The organization also actively pursued expert mediation and arbitral proceedings, conducted both domestically as well as internationally, including arbitral proceedings being conducted before the London Court of International Arbitration and the International Court of Arbitration of the International Chamber of Commerce, among others.

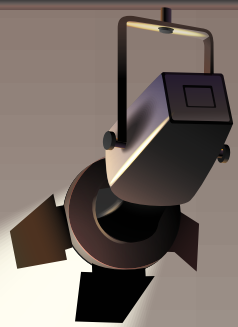
Through its in-house legal team, CPPA maintains a regular liaison with its external legal counsel and advisers in order to ensure that the organization receives the best possible representation before these various fora. Additionally, all decisions of the CPPA Board were implemented, and compliance with the Public Sector Companies Corporate Governance Rules, 2013 was also improved.

## 1.7 CPPA-G's Authorization as Market Operator

CPPA-G received the Certificate of Registration No. MOR/01/2018 from NEPRA on November 16, 2018 to perform function as the Market Operator. The Certificate of Registration was received in response to registration application filed by CPPA-G to NEPRA on April 12, 2017 to operate as the Market Operator

under Rule-3 of the Market Rules. CPPA has attained a legal status to operate as the Market Operator with the receipt of the registration from the Authority.







## 2. Chairman's Message



The power sector of Pakistan is being reshaped by major forces, inter-alia competition, digitization, and integration of new technologies like renewables. The policy interventions being taken by the government in view of the dynamics of the

sector, are in line with its broader objectives that is to provide seamless supply of electricity to the people of Pakistan at affordable prices while enhancing the financial sustainability of the power sector. Steps are also being taken by the Government to improve ease of doing business in the power sector. For improving the sector's financial and operational performance, all the relevant entities of the power sector need to make their determined contributions towards encountering the prevailing challenges ranging from transmission and distribution system bottlenecks, lack of competition in the market to low recovery.

The electric power industry around the world has been evolving from regulated operational structures to competitive market structures through a gradual transition and reaping the benefits of competition. Learning from the world's experience, power sector of Pakistan has also been gradually stepping forward towards transformation from a single-buyer market structure to a competitive electricity wholesale market.

During FY2019, apart from performing its agency function, several initiatives were taken by CPPA-G that brought it one step closer towards the ultimate target of establishing the competitive power market. Under the agency role, CPPA-G in 2019 signed six PPAs on behalf of DISCOs, with a total 2,685 MW of contracted capacity. The launch of Central Data Exchange Portal (CDXP) in 2019 was a significant initiative that connected the power sector entities enabling them to interact and exchange reliable data with each other electronically. Similarly, CPPA-G has not only

automated its business processes and IT infrastructure but has also been facilitating allied power sector entities in enhancing their performance with deployment of advanced IT tools.

This would bring improvements in some core power sector functions such as generation planning, demand forecasting and dispatch optimization. On the people front, CPPA-G has been focusing on the training and capacity building activities. In this regard, a training program titled Electricity Market Professional (EMP) Program was organized to build the capacity of relevant power sector organizations in competitive electricity markets. All such interventions were not possible without commitment of the CPPA-G management and support of the CPPA-G Board. Being Chairman of the Board, I look forward to continuing playing a mentor's role to ensure that CPPA-G would continue to play its part in the transition of the electricity market structure from single-buyer to the wholesale electricity market. I invite all the stakeholders to join hands and actively contribute towards a brighter tomorrow for our nation.

Irfan Ali  
Chairman Board - CPPA

### 3. CEO's Message



It proved to be another vital year for the power sector earmarked by the rudimentary developments aiming at the resolution of the long-term challenges and eventually assisting in securing a sustainable sector. Be it the enablement of the top-tier planning framework at one extreme to behind-the-meter market interventions at the other, these developments are destined to navigate and transform the classic business models and regulatory landscapes in vogue to more flexible tools, facilitating swift transition towards a reliable, environmentally sustainable and competitive electricity sector.

With a belief that CPPA-G has the critical role to enable this transition, multi-pronged strategy remained a corner-stone of the last 8760 hours that primarily focused on the enablement of people, Re-engineering of business processes coupled with integration of technology & Innovation. Complete automation of the Power Procurement & Settlement process through customized Enterprise Resource Planning (ERP) tools has enabled alleviating overall risk profile, placement of stringent controls, transparent & efficient operations and progressive integration of the overall commercial flows of the sector, all under single platform. CPPA-G Data Exchange Portal (CDXP) has been commissioned with the centralized IT platform to connect the power sector stakeholders enabling them to interact and exchange authentic data and information electronically.

With an updated draft market model (CTBCM) published on regulator's website for stakeholders' review, power sector of Pakistan stands at the decisive turn towards an efficient market reform with the vision to channelize the revolutionary opportunities & address challenges while striving for enhanced efficiency & transparency. With the

resolve to facilitate implementation of wholesale competitive market by 2021, CPPA-G has been actively engaged in formulation of working groups across the sector to achieve synergy with various organizations aimed at catalysing required processes and functions. With its signature Electricity Market Professional (EMP) program, CPPA-G is creating essential human resource base to facilitate market reforms.

Capturing the long-term trends of the whole sale market prices and consequently the retail tariffs, which are the rudimentary elements to inform the strategic planning and operational decisions, CPPA-G has developed in-house Market Simulation model using state-of-the-Art tools to gauge technical and commercial indices of the wholesale power market as well as impact of various scenarios & sensitivities of both the exogenous & endogenous variables on the power sector. With this newly developed model interfaced as an input to the regulatory framework, the pre-requisites are established for devising multi-year business models of Distribution utilities, generating long-term outlook of the end-consumers tariffs, enhance investors' confidence & above all bring about transparency in setting almost 85 % cost of the end consumers.

While envisaging upcoming 365 days to be equally exciting and challenging, I have a strong belief that together with all the stakeholders, we shall manage sustainable transformation, the one which is tailored to the peculiar matrix of opportunities and challenges of the sector, while ensuring enhanced cross-sectoral synchronization for the attainment of broader economic goals of the country.

Abid Latif Lodhi  
CEO CPPA



# 4

## Company Profile

- 4.1 Board of Directors
- 4.2 Audit Committee
- 4.3 Functional Heads
- 4.4 Head Office
- 4.5 Registered Office
- 4.6 Bankers
- 4.7 Company as DISCOs Agent
- 4.8 Legal Advisor
- 4.9 Auditor

## 4. Company Profile

Central Power Purchasing Agency (Guarantee) Limited (CPPA) being the Market Operator (MO) of Power Market in Pakistan is a Guarantee Limited company incorporated under the Companies Ordinance 1984 (XLVII of 1984) and granted a Corporate Universal Identification No. 0068608 by the Securities and Exchange Commission of Pakistan (SECP). Being a public sector company, the Government of Pakistan is the sole owner of CPPA.

The company was incorporated in the year 2009 after its segregation from National Transmission and Despatch Company (NTDC), however it continued its operations under NTDC (as a department of NTDC) till May 2015. Considering the importance of the independent Market Operator role and the need to develop competitive power market, on the direction of Government of Pakistan (GoP), the NTDC's transmission license was bifurcated in 2015. The Market Operator role was transferred from NTDC to CPPA (as an independent company) in the mid of 2015 under the Business

Transfer Agreement (BTA) between NTDC and CPPA.

The National Electric Power Regulatory Authority (NEPRA), with the approval of the Federal Government and in exercise of the powers conferred by section 46 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 has promulgated the National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 (the "Rules") and Commercial Code in 2015.

In global perspective, electricity Market Operators are regarded as a highly technical organization with complex business operations requiring intense technological acquisitions. In-turn the Market Operators lead their respective markets w.r.t wholesale market operations and design. CPPA as a service provider in the role of the Market Operator for the power market currently performs the (a) the role of a facilitator for developing and implementing wholesale competitive power market, (b) billing and settlement, (c)

procurement of electric power on behalf of the DISCOs, (d) generation invoice verification, (e) billing to the DISCOs and collection, (f) settlement to the Market Participants, (g) management of cash flow, treasury and other relevant banking functions for the purposes of collection and disbursement, (h) administration, maintenance and implementation of the Commercial Code, the Market Rules and supervision of compliance by Market Participants including billing, collection, settlement and payment procedures, updating, implementing, administering and enforcing the Commercial Code in relation to the Market Rules, (i) collecting and publishing market information and statistics (j) liaising with other bodies having market functions similar to the Market Operator or administering competitive power markets.



## 4.1 Board of Directors

- Mr. Irfan Ali (Chairman)
- Mr. Abid Latif Lodhi (Chief Executive Officer)
- Mr. Muhammad Zargham Eshaq Khan
- Dr. Khaqan Hassan Najeeb
- Mr. Muhammad Imran
- Mr. Zafar Abbas
- Mr. Shahid Iqbal Chaudhry
- Mr. Ghias Ud Din Ahmad (Independent Director)
- Mr. Hamid Ali Khan (Independent Director)
- Ms. Ayla Majid (Independent Director)

## 4.2 Audit Committee

- Ms. Ayla Majid (Chairperson)
- Mr. Muhammad Imran Mian
- Mr. Hamid Ali Khan
- Mr. Zafar Abbas

## 4.3 Functional Heads

- Mr. Arshad Javed Minhas (Chief Information Officer)
- Mr. Rihan Akhtar (Chief Financial Officer)
- Mr. Mansoor Hussain (Chief Technical Officer)
- Mr. Abdul Majid Khan (Chief Legal Officer)
- Mr. Rehan Hameed (Chief HR&A Officer)
- Mr. Noman Rafiq (Company Secretary)
- Mr. Omer Haroon Malik (DGM Strategy & Market Development)

## 4.4 Head Office

Central Power Purchasing Agency  
Shaheen Plaza, Plot No. 73-West, Fazl-e-Haq  
Road, Blue Area, Islamabad  
Ph:- 051-9213616  
Website: <http://www.CPPA.gov.pk>

## 4.5 Registered Office

Shaheen Plaza, Plot No. 73-West, Fazl-e-Haq  
Road, Blue Area, Islamabad

## 4.6 Bankers

- National Bank of Pakistan
- Allied Bank of Pakistan
- Askari Bank Limited
- Faysal Bank Limited
- Habib Bank Limited
- The Bank of Punjab
- Standard Chartered Bank (Pakistan) Limited
- Bank of Khyber
- Punjab Provincial Cooperative Bank Limited
- United Bank Limited
- Muslim Commercial Bank Limited
- Bank Alfalah Limited
- Bank Al-Habib Limited
- Habib Metropolitan Bank Limited
- Meezan Bank Limited

## 4.7 Company as DISCOs Agent

- Islamabad Electric Supply Company (IESCO)
- Lahore Electric Supply Company (LESC)
- Faisalabad Electric Supply Company (FESCO)
- Multan Electric Power Company (MEPCO)
- Gujranwala Electric Power Company (GEPCO)
- Quetta Electric Supply Company (QESCO)
- Peshawar Electric Supply Company (PESCO)
- Tribal Area Electric Supply Company (TESCO)
- Hyderabad Electric Supply Company (HESCO)
- Sukkur Electric Power Company (SEPCO)
- K-Electric (KE)

## 4.8 Legal Advisor

- Mr. Munawar-us-Salam

## 4.9 Auditor

- M/s Riaz Ahmed & Co., Chartered Accountants



We  
Believe  
in



Building  
People



Developing  
Processes



Supported by  
Technology



# 5

## Board of Directors

# 5. Board of Directors

CPPA has a diversified Board of Directors comprises of seasoned professionals with broad spectrum of experiences ranging from policy and finance to engineering and operations. In-terms of institutions, it has members from wide range of relevant organizations including MoE (PD), Ministry of Finance (MoF), NTDC, GENCO Holding Company, IESCO, and independent entities thus striking a healthy balance. The CPPA's Board ensures that the company adheres to corporate governance best

practices while being complaint with policy, legal and regulatory requirements. The board through its collective wisdom provides strategic direction to the company to ensure that it achieves its goals and objectives.

Currently, CPPA has ten members in its board. Each member of the board is well qualified and possesses around 20 years of professional experience in their respective fields.

Details of the board of directors are as follows:



**IRFAN ALI**  
CHAIRMAN BOD, CPPA



**M. ZARGHAM ESHAQ KHAN**  
MEMBER BOD, CPPA



**KHAQAN HASSAN NAJEEB**  
MEMBER BOD, CPPA



**ZAFAR ABBAS**  
MEMBER BOD, CPPA



**MUHAMMAD IMRAN**  
MEMBER BOD, CPPA



**SHAHID IQBAL CHAUDHRY**  
MEMBER BOD, CPPA



**AYLA MAJID**  
INDEPENDENT DIRECTOR, CPPA



**HAMID ALI KHAN**

INDEPENDENT DIRECTOR, CPPA



**GHIAS UD DIN AHMAD**

INDEPENDENT DIRECTOR, CPPA



**ABID LATIF LODHI**  
MEMBER BOD, CPPA







# 6

## Committees of Board

## 6. Committees of Board

The Board aims to make CPPA a truly corporate body by setting standards at the board level, practicing them and creating an environment to ensure that good corporate practices permeates throughout the organization. The Company's Board achieves this by constituting committees to oversee various key functions of the Company and provide decision making support to the Board.

Keeping in-view the requirements of a Market Operator in general and the business needs in particular, there are seven committees constituted in CPPA; (a) Audit Committee, (b) Procurement Committee, (c) Human Resource Committee, (d) Risk Management Committee, (e) ERP Implementation Committee (f) Finance Committee, and (g) Nomination Committee.

Total meetings of the Board of Directors and Board Committees held during FY2018 are as follows:

| Sr. No.                                 | Meeting  | No. of Meetings Attended |
|---|--|--------------------------|
| <b>Committees of CPPA Board</b>         |  |                          |
| 1                                       | Board of Directors                                     | 13                       |
| 2                                       | Procurement Committee of Board                         | 09                       |
| 3                                       | HR Committee of Board                                  | 13                       |
| 4                                       | Risk Management Committee of Board                     | 06                       |
| 5                                       | Audit Committee of Board                               | 06                       |
| 6                                       | Nomination Committee                                   | Nil                      |
| <b>Special Committees of CPPA Board</b> |  |                          |
| 7                                       | Finance Committee                                      | 02                       |
| 8                                       | Committee on IT Implementation                         | 02                       |
| 9                                       | Committee on Net Metering and Wheeling issues          | 02                       |
| 10                                      | Committee on Market Implementation & Support Committee | 02                       |
| 11                                      | Committee on K-Electric                                | 01                       |
| 12                                      | Committee on HUBCO First Fill                          | 01                       |
| 13                                      | Special Committee on Etihad Power                      | 03                       |
| 14                                      | Special Committee on Power Purchase Price Model        | 02                       |

Following are the committees and the members included in the committees of the Board:

#### Procurement Committee

- Mr. Zafar Abbas (Chairman)
- Mr. Ghias ud Din Ahmad
- Mr. Muhammad Zargham Eshaq Khan
- Mr. Shahid Iqbal Chaudhry
- Mr. Abid Latif Lodhi

#### Human Resource Committee

- Dr. Khaqan Hassan Najeeb (Chairman)
- Mr. Muhammad Zargham Eshaq Khan
- Mr. Hamid Ali Khan
- Mr. Ghias Ud Din Ahmad
- Mr. Abid Latif Lodhi

#### Risk Management Committee

- Mr. Muhammad Zargham Eshaq Khan (Chairman)
- Mr. Mian Muhammad Imran
- Mr. Ghias Ud Din Ahmad
- Mr. Abid Latif Lodhi

#### Audit Committee

- Ms. Ayla Majid (Chairman)
- Mr. Muhammad Imran
- Mr. Hamid Ali Khan
- Mr. Zafar Abbas

#### Nomination Committee

- Mr. Irfan Ali (Chairman)
- Mr. Zargham Eshaq Khan
- Dr. Khaqan Hassan Najeeb

#### Finance Committee

- Dr. Khaqan Hassan Najeeb (Chairman)
- Mr. Mian Muhammad Imran
- Mr. Hamid Ali Khan
- Ms. Ayla Majid

#### IT Implementation Committee

- Dr. Khaqan Hassan Najeeb (Chairman)
- Mr. Shahid Iqbal Chaudhry
- Ms. Ayla Majid
- Abid Latif Lodhi

#### Wheeling and Net Meeting Committee

- Mr. Hamid Ali Khan
- Mr. Zargham Eshaq Khan

#### Market Implementation Support Committee

- Mr. Ghias Ud Din Ahmad (Chairman)
- Mr. Zargham Eshaq Khan
- Mr. Zafar Abbas
- Ms. Ayla Majid

#### K-Electric Committee

- Dr. Khaqan Hassan Najeeb (Chairman)
- Mr. Zargham Eshaq Khan

#### K-Electric Committee

- Dr. Khaqan Hassan Najeeb (Chairman)
- Mr. Zargham Eshaq Khan

#### HUBCO First Fill Case Committee

- Mr. Ghias Ud Din Ahmad
- Mr. Zafar Abbas

#### HUBCO First Fill Case Committee

- Mr. Ghias Ud Din Ahmad
- Mr. Zafar Abbas

#### Etihad Power Case Committee

- Mr. Hamid Ali Khan
- Mr. Mian Muhammad Imran

#### Power Purchase Price Model committee

- Mr. Shahid Iqbal Chaudhry
- Ms. Ayla Majid







# 7

## About Us

Vision Statement  
Mission Statement  
Values of CPPA-G

# 7. About Us

## Vision:

To become a world-class power Market Operator by providing the optimum environment for trading electricity in the Pakistani Power Market.

## Mission:

To achieve our vision we are determined to become one of the best-run public organizations in the world, a place where people love to work, developing capacity of stakeholders and providing systems, tools and processes for enabling a transparent and competitive power market. During the transition period, however, our company will also procure the required energy on behalf of the Distribution Companies for retail sales to their customers transparently and efficiently.

### Transparency

We believe that transparency is a fundamental pre-requisite for attracting investors on a risk sharing basis and open up the market. The Market Operator's (M.O's) main goal is to establish transparency in power market operations by deploying various platforms, tools, processes and best practices. This value will instill transparency in everything M.O will design and implement.

### Excellence

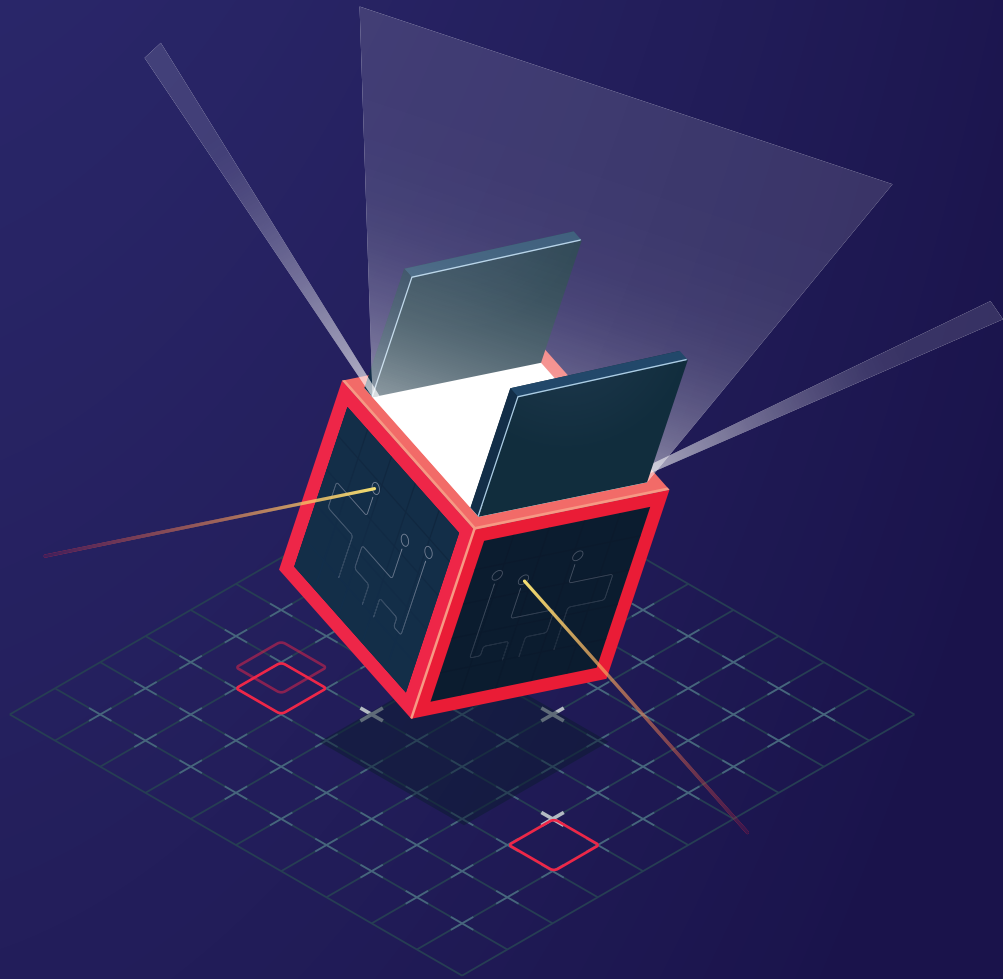
We strongly believe that M.O is and shall be at the heart of the power market operations. Achieving excellence in market operations through process automation, training and capacity building of Human Capital of the company and adopting best-practices, CPPA will be able to build an image of a well-respected and mentor institution which is extremely necessary for power market transition.

### Teamwork

We believe that market development is a collective effort and requires team work within and outside CPPA boundaries with the market entities. CPPA's vision is to have team work within and outside the organization (with market participants and administrators) to ensure smooth transition in market development journey.

### Being Respectful

To us respect for juniors and seniors is equally important. We respect others' ideas, opinions and thinking. Respect across the board is the fundamental value / basic ingredient of our organizational culture.



# 8

## Strategic Targets

# 8. Strategic Targets

The key delivery strategies of the CPPA as an organization in its role as Market Operator and Power Purchaser over the next three years till 2020 are set out in the Strategic Plan of CPPA. The strategy is driven by regulatory obligations, market development direction, the capabilities of market participants, and the provision of long-term benefits to Pakistani consumers. The Strategic Plan also serves as the basis of formulating the Market Operator's Fee.

For strategic planning and management, CPPA uses the Balance Score Card (BSC) tool. This BSC is helpful in communicate what the company is trying to accomplish; align the operational work with strategy; prioritize projects, products, and services; and measure and monitor progress towards strategic targets. The BSC system connects the dots between big picture strategy elements such as mission, vision, core values, strategic targets and the more operational elements such as functional objectives, functional targets and operational initiatives.

The idea of BSC revolves around four major elements which are Financial Performance, Customer/Stakeholder Satisfaction, Learning and Growth and Internal Business Processes. CPPA derives its strategic targets from the core of the four elements on which the BSC technique is based upon.

The strategic plan is a living document that is reviewed annually to ensure it continues to remain aligned with the overall strategic direction of the policy/regulations and the organization, as well as trends and changes in the wider electricity industry.



Financial Performance



Customer /Stakeholder Satisfaction



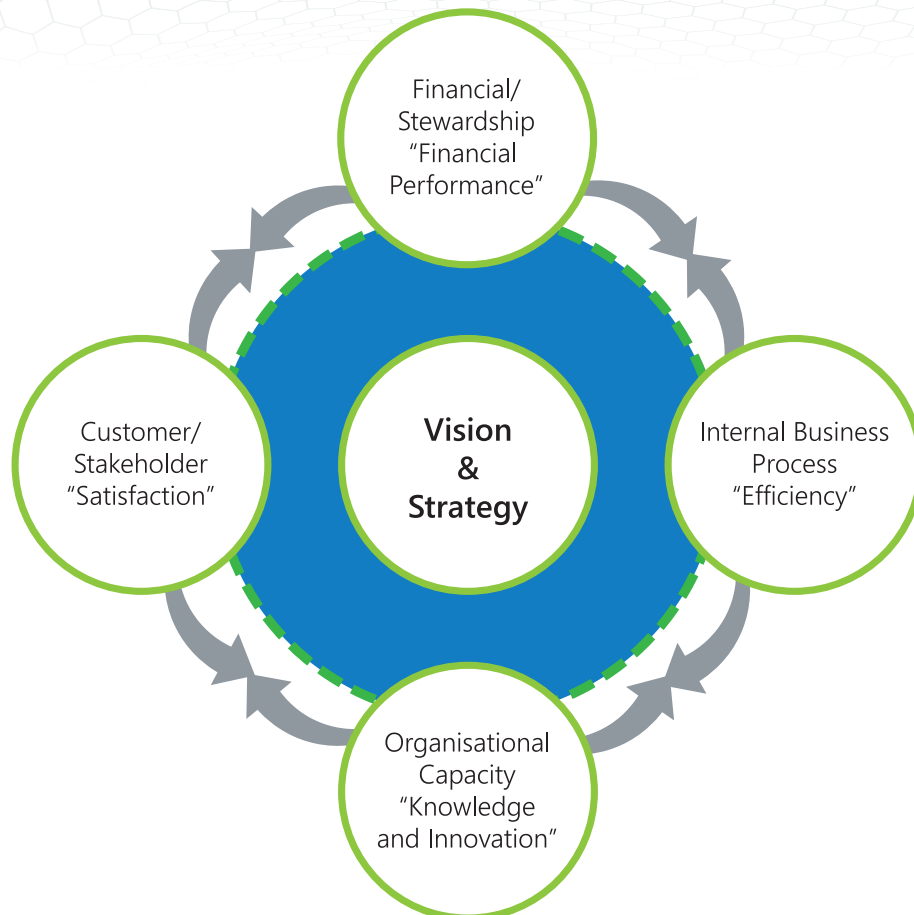
Learning & Growth



Internal Business Processes







Strategic Objectives  
Strategy Map  
Performance Measures & Targets  
Strategic Initiatives

CPPA keep a strategic focus on the targets that are aligned with Strategic Plan. During FY2019, following actions were performed to achieve the following strategic targets:

## 1 Compliance

Improve the current business operations and ensure adherence to existing business compliances

- Strict compliance was maintained by CPPA with corporate law, secretarial practices, and corporate governance rules
- Statutory reports were prepared and submitted to the regulatory bodies on periodic basis
- Compliance with power sector legal and regulatory framework was maintained

## 2 Corporate Culture

Develop healthy Corporate Culture

- CPPA promulgated its core values continuously within and outside the organization
- Team building events were organized to promote healthy relationship among the employees
- The office space was renovated enhancing the corporate image and keeping in view the safety, security and convenience of employees

## 3 HR Development

Invest in good people

- CPPA grows in strength from 198 last year to 210 employees this year
- New office space for employees secured
- Deployment of automated HR Management resulting in timely disbursement of employee benefits.
- Training Need Assessment (TNA) was carried out
- Several training sessions both within and outside CPPA organized

## 4 Organizational Restructuring

Restructuring of CPPA

- The Phase-I & II of restructuring completed
- IT, Legal, Technical HR, SMD, Finance and PGCP Departments revamped
- Working continued on Phase-III of restructuring which includes Business Units designs of future market entities

## 5 Transparency

Data institutionalization and publishing

- CDXP launched to facilitate data sharing among CPPA and market participants transparently
- Implementation of ERP and ECM systems for automation of business processes reduced human intervention
- Published market data and market reports on official website
- Extensive stakeholders' consultations on market development
- Data Institutionalization project initiated to build an integrated database aims to serve as single source of truth for market participants

## 6 Strengthen Relationships

Strengthen relationships with Market Participants and Service Providers

- Strategic Partnership with International Entities such as EPIAS, EPEX SPOT
- Assistance to NTDC, NPCC and DISCOs continued on various fronts related to market development
- Partnership with LUMS on capacity building and market development
- Donor coordination with USAID, ADB, World Bank etc.
- Active engagement with Electricity Market Team which represents all the relevant Power Sector Entities of Pakistan
- Collaboration with NEPRA in many aspects related to market development
- Collaboration with universities such as NUST on academic grounds
- CDXP Portal enhanced interaction and data sharing among CPPA and market participants

## 7 Competitive Market Dev.

Design and facilitate implementation the wholesale Competitive Market Model

- CTBCM Model and Plan submitted to NEPRA for regulatory review and stakeholders comments were addressed
- Detailed Design and Integrated Market Model Simulation (IE-MSM) Report prepared
- By using state-of-the-art tools, facilitated NTDC in IGCEP, the Annual Production Plan and Unit Commitment for NPCC
- In consultation with NEPRA, developed the drafts of Wheeling Regulation, Commercial Code, Concept Papers and associated documents such as Connection Agreement, Market Participation Agreement etc. within the regulatory and contractual framework

## 8 IT Transformation

IT transformation of CPPA

- ERP Phase-I & II implemented
- Implementation of Enterprise Content Management (ECM) System
- Launch of CPPA Data Exchange Portal (CDXP)
- Deployment of Monitoring Portal at Ministry of Energy (Power Division)
- Commencement of Data Institutionalization Project involving CPPA, NPCC and NTDC

## 9 Rebranding

Rebrand CPPA

- New office space renovated aligned with the corporate Image of the company
- CPPA website revamped to include the market development section



# 9

## Functional Heads



# 9. Functional Heads

The functions of Market Operator require highly skilled and experienced human resource to operate effectively. Although, the combination of the three organizational pillars i.e. right people, efficient processes and smart technology makes an organization effective but even amongst the three, the people's dimension is the most important.

The Market Operators in different countries globally tend to have a lean organization with experienced, capable and motivated staff. Similarly, at CPPA, the strategy devised is to build a lean organization with competent, experienced and motivated employees and to provide an environment that not only fosters high productivity but also help CPPA to retain such resources.

Details of the functional heads are as follows:



**ABID LATIF LODHI**  
CHIEF EXECUTIVE OFFICER



**ABDUL MAJID KHAN**  
CHIEF LEGAL OFFICER



**ARSHAD JAVED MINHAS**  
CHIEF INFORMATION OFFICER



**MANSOOR HUSSAIN**  
CHIEF TECHNICAL OFFICER



**RIHAN AKHTAR**  
CHIEF FINANCIAL OFFICER



**REHAN HAMEED**  
CHIEF (HR/A) OFFICER



**OMER HAROON MALIK**  
DY. GM SMD



**NOMAN RAFIQ**  
COMPANY SECRETARY

# ORGANIZATIONAL CHART

## FUNCTIONAL HEADS/SENIOR MANAGEMENT

**BOARD OF DIRECTORS**



**ABID LATIF LODHI**  
CHIEF EXECUTIVE OFFICER

**POLICY GOVERNANCE & CORPORATE PLANNING**



**RIHAV AKHTAR**  
CHIEF FINANCIAL OFFICER



**ARSHAD JAVED MINHAS**  
CHIEF INFORMATION OFFICER



**ABDUL MAJID KHAN**  
CHIEF LEGAL OFFICER



**MANSOOR HUSSAIN**  
CHIEF TECHNICAL OFFICER



**REHAN HAMEED**  
DG HR & ADMIN



**OMER HAROON MALIK**  
DEPUTY GM SMD



**NOMAN RAFIQ**  
COMPANY SECRETARY



**SYED HAROON MASOOD**  
DY. GM FINANCE-I



**MUHAMMAD SHABIR**  
DY. GM FINANCE-II



**MUHAMMAD ASAD**  
DY. GM CORPORATE ACCOUNTS & TREASURY



**MUBASHIR AHMED QUERSHI**  
DY. GM TECHNICAL (CONVENTIONAL)



**MANSOOR HUSSAIN**  
DY. GM (MARKETING)



**MAZIF HUSSAIN**  
DY. GM TECHNICAL (NON COMMERCIAL)





# 10

## Departments of CPPA

- 10.1. Finance Department
- 10.2. Technical Department
- 10.3. Strategy and Market Development Department
- 10.4. Legal and Corporate Affairs Department
- 10.5. Human Resources and Administration
- 10.6. Information Technology
- 10.7. Policy Governance and Corporate Planning
- 10.8. Office of Company Secretary

# 10. Departments of CPPA-G

CPPA as an organization composed of eight functional departments to perform its major core and support functions. The departments are (i) Finance (ii) Technical (iii) Legal and Corporate Affairs (iv) Strategy and Market Development (v) Human Resources and Administration (vi) Information Technology (vii) Policy Governance and Corporate Planning, and (viii) Office of Company Secretary.

## 10.1 Finance Department

All financial matters of CPPA, both internal and external are performed by this department. The core functions which are performed under this department for CPPA includes:

- Billing and Settlements
- DISCOs and Bulk Consumers Billing
- Internal Accounting
- Market Accounting
- Treasury

### 10.1.1 Yearly Achievements

Following are some key achievements accomplished by this department during FY2019:

- Achieved successful completion of the statutory audit of the Financial Statements pertaining to FY 2017-18
- Special audit carried by the Government of the payments made by CPPA-G under the provision of respective Power Purchase Agreements and no irregularity was established by the Government Audit during 2018-19.
- Achieved successful completion of the audit by AGPR, Government of Pakistan for the periods FY2017 and July 2017 – March 2018
- Complete compliance of "Public Sector Companies (Corporate Governance) Rules, 2013" i.e. timely

preparation and submission of monthly, quarterly, half yearly and annual financial statements as per International Financial Reporting Standards and applicable local laws within stipulated time as required by the rules.

- Implementation of ERP added drastic value addition in the accounting process i.e. enhancement in relevance and reliability accounting data, improvement in decision making process, reduced the risk of data redundancy and duplication to minimum level, reduced the risk of fraud/error due to high level control in place throughout the Company and reduced the risk of data security loss due to high level data security in the form of authorized data access to different financial information users of the Company etc.

- Settlement of the audit qualification in the Independent Auditor's Report as compare to last financial year.
- Ensured transparency in the payment obligations through developing and following an SOP regarding the process of billing, settlement, cash collection and payments.
- Various measures have been taken to speed up the process of collection of subsidies from GoP such as building strong relationship with concerned departments, vigilant follow up on daily basis with MoF, AGPR for swift processing of file.



Finance Department's functional head with his team.



## 10.2 Technical Department

This department manages the procurement of power and energy on behalf of DISCOs through negotiating and finalizing Power Purchase Agreements (PPAs) and Energy Purchase Agreements (EPAs) with the generators. In addition, the Technical Department is also responsible for the verification of the invoices raised by the NTDC and generators. The core activities of this department include:

- Procurement of power on behalf of DISCOs
- Establishing contracts for supply
- Coordination with PPIB, AEDB, MoE (Power Division), MoF, Ministry of Law, & other governmental agencies
- Meter Readings Management
- Supplier and NTDC Invoice Verification
- Meter Audit

### 10.2.1 Yearly Achievements

Following are some key achievements accomplished by this department during FY2019:

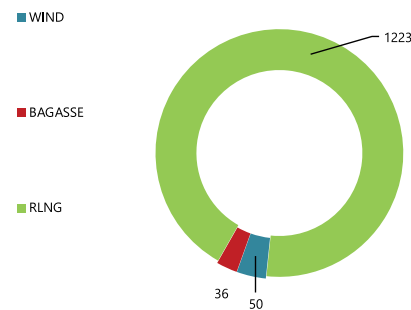
- Contracting a total capacity of 2,685 MW through signing six (06) Energy/Power Purchase Agreements with the RLNG, coal and hydropower plants.
- Successful integration of the following quantum into National Grid after incurring substantial man hours of CPPA under the ambit of rights and obligations of the power purchaser in the framework of purchase agreements.

The following table shows the total number of PPAs and EPAs being managed by this department, segregated by fuel type and commissioning of plants:

| Sr. No.              | Technology / Type | Number of Agreements (as of June 2019) |                    |       |
|----------------------|-------------------|--|--------------------|-------|
|                      |                   | Commissioned                           | To-be Commissioned | Total |
| <b>PPA's / EPA's</b> |                   |  |                    |       |
| 1                    | Wind              | 25                                     | 0                  | 25    |
| 2                    | Solar             | 6                                      | 0                  | 6     |
| 3                    | Bagasse           | 7                                      | 2                  | 9     |
| 4                    | RFO/Gas/HSD/RLNG  | 37                                     | 0                  | 37    |
| 5                    | Coal              | 2                                      | 6                  | 8     |
| 6                    | Nuclear           | 4                                      | 0                  | 4     |
| 7                    | Hydel             | 22                                     | 3                  | 25    |
| <b>Total</b>         |                   | 103                                    | 11                 | 114   |

| Sr. No. | Project Type | Commissioned (MW) |
|---------|--------------|-------------------|
| 1       | WIND         | 50                |
| 2       | BAGASSE      | 36                |
| 3       | RLNG         | 1,223             |
|         | Total        | 1,309             |

Power Plants Commissioned in FY2019 (MW)



Technical Department's functional head with his team.

## 10.3 Strategy and Market Development Department

This department of CPPA leads the development of a competitive wholesale electricity market and facilitates its implementation in Pakistan. SMD department is also involved in outlining the business strategy of CPPA along with the preparation of the company's Strategic Plan. The main objectives of this department are:

- Designing of a wholesale electricity competitive market model and its transition road map
- Research and document conclusions for the next stage of market reforms
- Play the role on behalf of CPPA in implementing the roadmap to develop a competitive market
- Market coordination and development activities including the training and capacity building of market participants
- Suggesting and building strategic partnerships with global like institutions
- Market simulations for analysis of market architecture on prices moving forward
- Preparation of the Strategic Plan for CPPA and facilitating its implementation
- Program management and coordination for donor funded projects

### 10.3.1 Yearly Achievements

Following is a list of key achievements earned by this department during FY2019:

- Developed an Integrated Electricity Market Simulation Model (IE-MSM) which integrates various off-the-shelf and MS Excel based simulation tools to simulate inter alia marginal prices in the market by 2030, market contract simulation, allocation of existing PPA cost to market participants, analysis on calculation of firm capacity etc.
- Prepared a Detailed Design Report encapsulating the

details of new market design

- Provided support to DISCOs, NPCC and Planning NTDC in preparation of forecasts, generation plan and dispatch simulations along with deployment of state-of-the art tools and software.
- Obtained Market Operator Registration from NEPRA. CPPA has attained a legal status to operate as the Market Operator with the receipt of the registration from the Authority
- Based on the directions from MoE (PD) to come up with an interim solution to operationalize wheeling, prepared in consultation with NEPRA the draft Wheeling Regulation, Commercial Code, and other relevant documents under the regulatory and contractual framework
- Organized and delivered the Energy Market Professional (EMP) Program 2018, a 20-days residential training program, in collaboration with LUMS and international trainers. It was attended by around 50 participants from all the DISCOs, NTDC, NPCC, NEPRA, MoE, CPPA and KE
- A Committee of CPPA Board i.e. the Competitive Wholesale Market Implementation Support Committee has been formed to monitor the implementation progress and provide support and guidance to the market development team
- Facilitated the formation of Market Development Working Groups at the DISCOs to bring the relevant professionals of DISCOs on a centralized platform to work closely and collaboratively toward the development and implementation of competitive market
- Established a team of stakeholders titled Electricity Market Team which includes representatives from MoE(PD), NEPRA, NTDC, NPCC, DISCOs and K-Electric, to closely engage the stakeholders in the development of the competitive electricity market
- Engaged international donors agencies including USAID, ADB and World Bank to fund technical assistance for several market initiatives of CPPA.



Strategy and Market Development's functional head with his team.

## 10.4 Legal and Corporate Affairs Department

CPPA's in-house legal department plays a pivotal role in its facilitative capacity to ensure the realization of the organization's strategic objectives and is responsible for effectively managing and handling legal matters in order to safeguard CPPA's interests. The department is committed to providing continuous support to all departments of the organization, rendering ready opinions on the applicable laws, advice on the aspects of effective contract management as well as legal compliance, remedial and litigation management.

The main functions of this department are:

- Enabling CPPA in developing practical and logical solutions and addressing issues which pertain to the 'legal' domain
- Providing maximum legal protection to CPPA and its clients in all their supply contracts
- Affirming all new supply contracts has explicit provision for novation and or assignment
- Ensuring compliance to financial and legal practices and corporate governance
- Relationship management with the press, public bodies and institutions, parliament and other stakeholders
- Providing legal advice and support to the other department of CPPA

### 10.4.1 Yearly Achievements

Following are some key activities performed by this department during FY2019:

- Through the efforts of CPPA's In-house legal team and its external legal counsel, CPPA was able to successfully contest the imposition of jurisdiction over CPPA and the GoP by the International Court of Arbitration of the International Chamber of Commerce ["ICC"] in a set of arbitral proceedings where the claimed amounts were over Rs.90 billion.
- Active participation in the arbitration proceedings at London Court of International Arbitration (LCIA), International Court of Arbitration (ICA) and International Chamber of Commerce (ICC)
- Attended council meetings with the international law firms and provide necessary inputs to the Counsel on the cases
- Handled expert proceedings regarding the delay In commissioning of M/s HydroChina Dawood In-house, directly representing the organization and successfully obtaining the Expert Determination In the organization's favor
- Filed the registration application to NEPRA and defended the case for the registration of CPPA as a Market Operator
- Revision of Security package for new EPA/PPA into two parts:
- Finalized the Tripartite Energy Purchase Agreements relating to large hydel, wind, and solar power projects
- Bifurcated PPA (Commercial Agreement & Connection Agreement) (In Process)
- Incorporated necessary amendments in the Memorandum of Articles and Association of the company
- Filed a case to court for the recovery of outstanding dues from K Electric, pursuant to the ECC and BoD decision



Legal and Corporate Affairs functional head with his team.

## 10.5 Human Resources and Administration

The Human Resources & Administration Department (HR/A) provides overall policy direction on human resource management issues and administrative support functions related to the management of employees for CPPA.

The main functions of this department are:

- Recruitment & Selection
- Onboarding & Placement
- Training & Development
- Payroll Processing & Disbursement
- Employee Daily Attendance Record
- Employee Terminal Benefits (EOBI, Life, Health, Gratuity, PF)
- Employee Engagement Programs
- Fleet Management and Logistics Support
- Health and Safety
- Organizational Restructuring
- Handling of Disciplinary Cases
- Building maintenance, Office Premises Safety & Security

### 10.5.1 Yearly Achievements

Following is a list of key achievements earned by this department during FY2019:

- Successfully inducted new personnel against

different vacant positions resulting in an increase of CPPA from 198 last year to 210 this year

- Processing of employee benefits through Oracle ERP including payroll, yearly bonus, leave encashment, provident fund, gratuity, provided an overall accuracy and timely disbursement of employee benefits
- Carried out Training Need Assessment (TNA) activity for evaluating the training needs of the employees
- Arranged in house training programs on "Defensive Driving" & "Food serving Etiquettes and Hygiene", for support staff to improve quality of service
- Acquired new CPPA office building in Islamabad
- Completed performance appraisal reports using Bell Curve for the year for all the employees of the organization
- Complete the Phase-I of the office building renovation of the new office at Shaheen Plaza as per improved layout plan
- Organized and facilitated various training workshops and team building events such as Cricket Match
- Prepared and implemented Risk Assessment Framework as per SECP Corporate Governance Guidelines 2013, for all public sector companies.



Human Resource and Administration Department's functional head with his team.

## 10.6 Information Technology

This department of CPPA is responsible for managing the IT infrastructure and deployment of necessary IT systems, tools and applications as per the IT strategy of the company.

The main activities of this department are:

- Lead the preparation of IT strategy aligned with the business strategy and to help implement it
- Design, maintain, and support organization's information technology infrastructure, thus allowing the organization to leverage both information and technology in an efficient, productive and secure manner
- Procurement and commissioning of IT hardware and software to support the business
- Conduct requirement analysis of IT environment required to support the CPPA in the next phase of market evolution

### 10.6.1 Yearly Achievements

Following is a list of key achievements earned by this department during FY2019:

- Successful completion and implementation of ERP System Phase-II involving all the remaining business processes of the organization, particularly, the Technical verification of Invoices of IPPs, LD calculations, CDP data management, integration with Phase 1, merit order, fuel price reporting, management reporting dashboard etc.
- Launching of CPPA Data Exchange Portal CDXP featuring reliable electronic communication between power sector participants
- Completion and implementation of the Enterprise Content Management (ECM) System for the automation of unstructured data of CPPA
- Development and deployment of the Monitoring Portal for Ministry of Energy (Power Division)
- Revamping of the CPPA website to include a section on Market Development Activities
- Infrastructure expansions to meet with the growing needs of business



Information Technology Department's functional head with his team.

## 10.7 Policy Governance and Corporate Planning

This department of CPPA provides executive support in a one-on-one working relationship with CEO.

The main functions of this department are:

- Acting as the primary point of contact for internal and external constituencies on all matters related to the functions/ responsibilities of CEO especially pertaining to Policies, Governance & Corporate Planning
- Supporting CEO in development/changes of particular power/ energy policies for sustainable power market operations and to reduce liabilities and guarantees of Government of Pakistan
- Facilitation in internal development and streamlines operations to align with the prevailing policies
- Collaboration for the strategic initiatives being taken in the sector for long term sustainability

### 10.7.1 Yearly Achievements

Following is a list of key achievements earned by this department during FY2019:

- Prepared and presented Power Purchase Price (PPP) forecasting model for FY 2019-20
- Prepared and submitted Power Purchase Price forecast report FY 2019-25 to NEPRA for consultation on setting reference price
- Preparation and submission of report on inclusion of Small Power Producer (SPPs) & Captive Power Producers (CPPs) in Economic Merit Order as per directives of NEPRA after consultation with stakeholders including DISCO's, NPCC etc.



Team of Policy, Governance and Corporate Planning (PGCP).

## 10.8 Office of Company Secretary

The Office of the Company Secretary maintains compliance of SECP Act, 2017 and Public Sector Companies (Corporate Governance) Rules 2013.

The other functions of this office are:

- Engagement of External Audit and preparation of Directors Report
- Organizing important hi-level meetings for CPPA including Annual General Meetings / Extra Ordinary General Meetings (EoGMs) Board meetings, Board Committee meetings, and Commercial Code Review Panel (CCRP) meetings
- Maintaining documentation of above mentioned meetings
- Provide Secretarial support to the General body, Board of Directors, Board Committees and CCRP
- Follow-up implementation on the General body, Board of Directors, Board Committees and CCRP decisions
- Maintaining the Record, maintenance of Books of Accounts, preparation of financial statements and filing of tax returns of CPPA Employees Gratuity Fund & CPPA Employees Provident Fund.

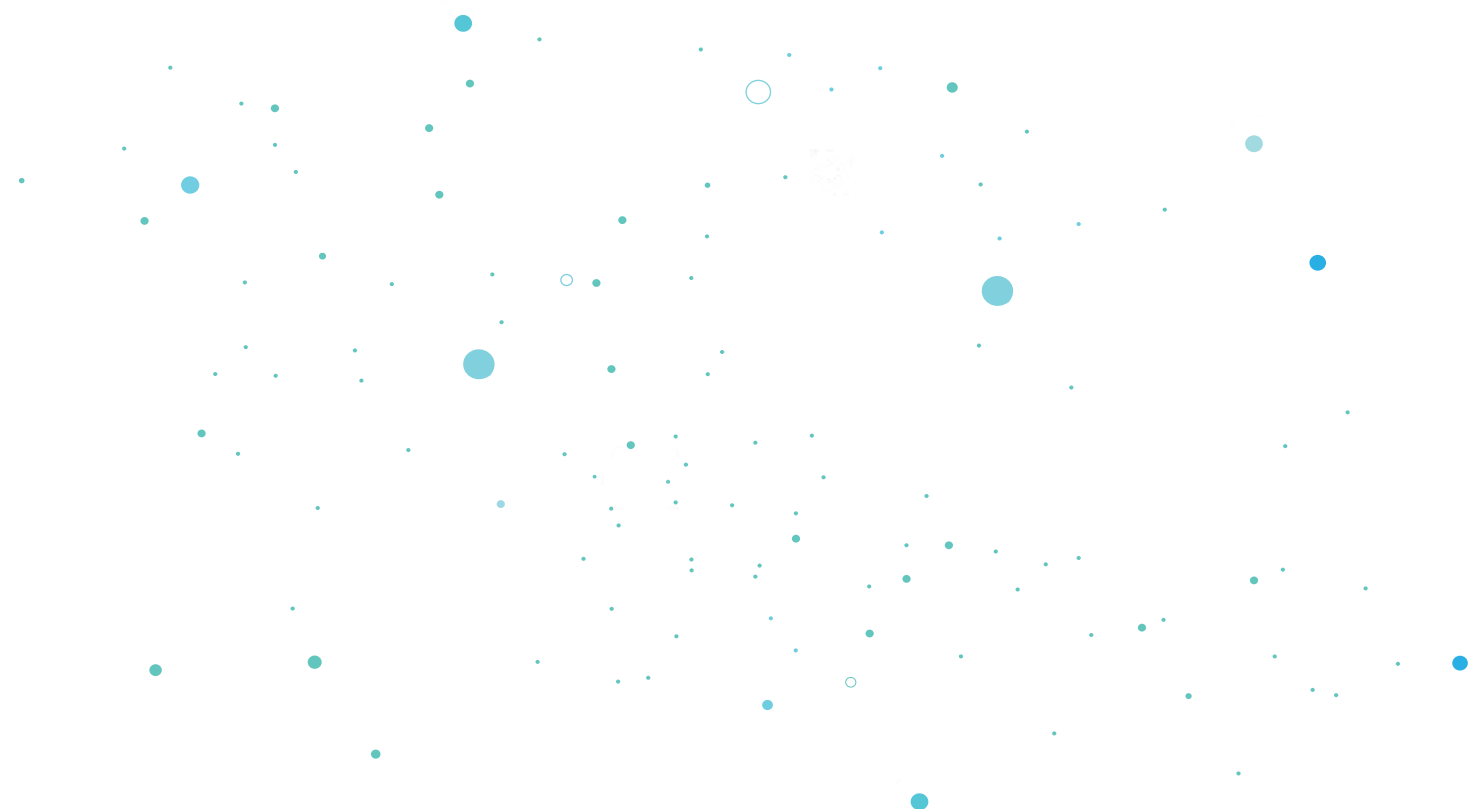
### 10.8.1 Yearly Achievements

Following is a list of key achievements earned by this office during FY2019:

- Maintained compliance of CPPA with the relevant principles of corporate Governance as per Public Sector Companies (Corporate Governance) Rules, 2013
- Organized 13 Board of Director's Meetings
- Organized 49 meetings of different Board Committees
- Maintained documents of all the Board and Board Committee meetings held during the year
- Coordinate with the External Auditors for the competition of Statutory Audit of the Company and Compliance Audit Public Sector Companies Corporate Governance Rules, 2013 for the F.Y 2018-19
- Improved Corporate Governance Rules Compliance for FY 2018-19



Company Secretary with his team.







# 11

## Actions and Plans

- 11.1. Market Development
- 11.2. Organisation Restructuring
- 11.3. IT System Automation and System Upgradation
- 11.4. Future IT Strategy
- 11.5 Data Institutionalization

# 11. Actions and Plans

This section presents an overview of the actions and plans for improving the operational performance and information transparency of CPPA as well as for efficient implementation of the market model and achieve the objectives of the Commercial Code and Market Rules for the development of the competitive power market. The following sections discuss the steps taken and the plans underway to achieve the above-mentioned objectives.

## 11.1 Market Development

Work on the transition of the existing market from the single buyer model to a competitive wholesale power market by 2020 is in progress at full pace at CPPA. FY2019 was just another successful year for CPPA in terms of moving few steps further towards the ultimate goal of establishing competitive wholesale market. CPPA not only pushed hard on building its internal capacity in-terms of people, processes and technologies but also persistently engaged the other power sector entities to become partners in this journey. With the expected regulatory approval of the proposed market model, the quantum of market development activities would increase manifolds with the advancement in detailed designing and its implementation in the coming two years.

The market development strategy was divided into the following three phases: The Phase-I included (a) research and study of global competitive markets, (b) capacity building of market entities, (c) proposing the market model and CTBCM Plan for Pakistan through a consultative process, (d) building strategic partnerships with Market Operators globally and (e) submission of the CTBCM model and plan for approval. This phase started in mid of 2016 and ended in June 2017 and the CTBCM model and plan is in the regulatory approval process with NEPRA.

The Phase-II is the detailed market design phase in which the detailed design of the market model is being developed. This phase started in June 2017, and the CPPA- team has been working on the detailed designing of the proposed model. This include layout of new market contracts, transfer and allocation of pre-existing contracts, transmission losses treatment in wholesale market, balancing quantities and settlement mechanisms. The team is also working on the basic must do items while the model is being approved. This phase is envisaged to be completed by end of the year.

During Phase-III, the implementation phase, all entities will implement the initiatives as per the

approved timelines in the CTBCM Plan. This phase has also kicked-off in parallel with implementation of certain essential building blocks for any phase of the market to operate effectively.

CPPA has designed this comprehensive phase-wise strategy for developing and implementing a competitive market keeping in view the paradigms of People, Processes and Technology. To cater for the 'people' aspect, CPPA has been engaged in the restructuring of the organization to align the organizational resource requirements with the needs of future business models. In addition, various initiatives to enhance the capacity of the relevant personnel are being carried out through various innovative market workshops and training programs such as EMP. An Electricity Market Team (EMT) has been formulated which includes the members from the relevant power sector entities to facilitate the transition scheme. Market Working Groups have also been established at respective power sector entities to collaborate with CPPA on market development efforts.

For the 'processes' part, CPPA has been working to align the legal and regulatory framework with the proposed market model, Wheeling Regulation has been amended in light of the amended NEPRA Act to cover for the impediments and short-comings of the previous version of the regulation, commercial code has been revised to adopt the suggested changes, amendments in the grid codes are being proposed to align it with the operational requirements of the system, IGCEP plan has been prepared for the very first time that would set the directions of the future procurements, DISCOs are enabled to independently generate PMS based demand forecasts etc.

As far as 'technology' is concerned, CPPA has automated its entire set of business processes through the adoption of technological reforms such as ERP, ECM and CDXP and upgraded it's allied IT infrastructure. CPPA, not only this, but also engaged with NPCC and NTDC to enhance their performance by deploying state of the art generation planning, forecasting and simulation/modeling tools such as unit commitment and short-term forecasting tools for NPCC, medium-term forecasting and generation planning tool for NTDC, market price simulation tools and allied IT equipment and infrastructure.

## 11.2 Organizational Restructuring

CPPA has been mandated by the ECC to lead the development of competitive wholesale electricity in Pakistan. The Authority has also authorized CPPA to serve as the Market Operator of the existing as well as future electricity market. Keeping in view the arising conflict of interest of the two CPPA primary functions i.e. the MO function and the Agency Function, Authority has also directed to commence the operational and legal bifurcation of the company functions through organizational restructuring before commencement of the competitive market regime. This call for an immediate configuration of the overall functional structure and organizational hierarchy of the company in the light of the existing operational objectives as well as the future business requirements.

Consequently, organizational restructuring of the CPPA is being carried out which is divided into three phases; (i) restructuring from business perspective to align the organization with current business need (ii) restructuring from HR perspective, for inter alignment and optimization of business processes and (iii) restructuring from a future business perspective i.e. to align the company with the proposed new electricity wholesale competitive market. These phases are discussed in the following paragraphs:

### PHASE-I: Alignment with Current Business Needs

This phase of restructuring involved the reorganization of CPPA's business structure, in line with the functions of market operator with a focus on existing business needs of the company. This phase was completed last year when the organization underwent a number of changes. During this phase, some departments were revamped while some new units like ERP, Strategy and Market Development (SMD), Policy, Governance & Corporate Planning (PG&CP), Taxation and Internal Audit were created and became functional with the deployment of respective workforce.

### PHASE-II: Restructuring from HR perspective

The Phase-II of organizational restructuring requires CPPA to align the HR requirements with the operational obligations of each department. This phase remained in progress during the year 2019. During the Phase-II of restructuring, the skills, resources and strength of the Technical, IT, HR & Admin, Legal, Finance, PGCP and SMD departments were optimized. The plan For Phase-III is being implemented and will be completed by mid of 2019.

### PHASE-III: Alignment with Future Business Needs

As soon as CPPA would moves closer towards the

implementation of competitive electricity market, in order to avoid conflicts of interest and ensure transparency, CPPA will require a significant restructuring of the organization, the business processes and the supporting IT systems. To ensure a smooth transition into the CTBCM environment, the CPPA will restructure itself into two separate business units representing the Market Operator (MO) and the Special Purpose Supplier (SPS). Another independent service provider, the Independent Auctions Administrator (IAA) has also been proposed.

The strategy proposed is to initially operationally separate CPPA into these two entities and then go for legal separation. Once created, while still reporting to the CEO CPPA, the new units will work independently of each other, and once both units can perform individually, these units will be legally separated. The proposal of restructuring was submitted to the Board of CPPA and was approved.

While anticipating the approval of the market model and the plan in near future, CPPA with its consultants have already initiated the detailed design of the future business units. CPPA has also engaged a Business Process Reengineering (BPR) expert to evaluate the existing 'as-is' business processes and design the optimized 'to-be' business processes associated with the operations of the new business units. The plan for the implementation of restructuring activity has also been updated in line with the anticipated approval of conceptual design of CTBCM model by the Authority.

### 11.3 IT System Automation and Infrastructure Upgradation

CPPA has been working towards transition of the existing market from the single buyer model to a competitive wholesale power market by 2020. These emerging trends will require the CPPA to evolve its market software platforms and acquire and retain talented employees to operate and plan the markets of the future. Until now, the company has strived hard not only to build its internal capacity in-terms of people, processes, and technologies but also to assist the other power sector entities to become partners in this journey. For this purpose, CPPA is not only automating its business processes and IT infrastructure but also facilitating NPCC and NTDC to enhance their performance by deploying state of the art generation planning, forecasting and simulation / modeling tools such as unit commitment and short-term forecasting tools for NPCC, medium-term forecasting and generation planning tool for NTDC, market price simulation tools and allied IT equipment and infrastructure.

True to its mission, the CPPA regularly assesses its employees' skills, capabilities and resource levels to ensure they are closely aligned with our strategic focus. CPPA is conducting a review of the organizational impacts of various scenarios of electricity market development, which encompasses staffing levels, skill sets, and the potential for automation in the five- and ten-year time horizons.

In addition, the CPPA will continue to develop its technology and infrastructure to ensure that its information systems are capable of meeting CPPA's business objectives and stay aligned with CPPA's strategic focus. CPPA's technology development is rooted in a collaborative effort in which multiple IT strategy components are formulated to guide the overall technology direction. One of the key components is strategic applications and as part of this, the 2019-2022 CPPA Strategic Plan will include significant investments in its electricity market development programs, integration with all the market participants, other new market capabilities. The plan also includes investments in components such as software solution delivery, cloud computing services, and enterprise security.

The solution delivery component's primary focus is to investigate the use of rapid development processes with modern techniques and tools to improve CPPA's flexibility to deliver software solutions. New solution delivery processes will incorporate new development pipelines with different software methodologies and built-in test automation to create more efficiency, improve quality, and increase flexibility and speed of deployments.

The cloud computing component has necessitated a new technology governance model to ensure a more consistent and detailed assessment of cloud computing services and providers used by the CPPA. This governance structure now allows for a comprehensive assessment of how any cloud computing service would integrate with CPPA's enterprise ecosystem. Furthermore, this governance structure enables the CPPA to provide more flexible solutions based on cloud services that operate in a secure and efficient manner.

The enterprise security component continues to be one of the focal points of the IT strategy given the increasingly complex security threat landscape. It will continue to focus on operational security excellence, compliance excellence, managing risk, and external partnerships to strengthen resilience, security operations, and overall perimeter defenses.

Two additional IT strategy components are technology lifecycle and IT service management, both of which focus on continued operational improvements.

## 11.4 Data Institutionalization

CPPA current role is expected to change enormously owing to the significant redesign of the Wholesale Electricity Market of Pakistan. To meet the challenges of the above change, CPPA needs to design and implement a complete Data Institutionalization solution to streamline and integrate the internal business process with the business applications of all other market participants to run the electricity market efficiently, effectively, with transparency and increase compliance with regulations and international best practices.

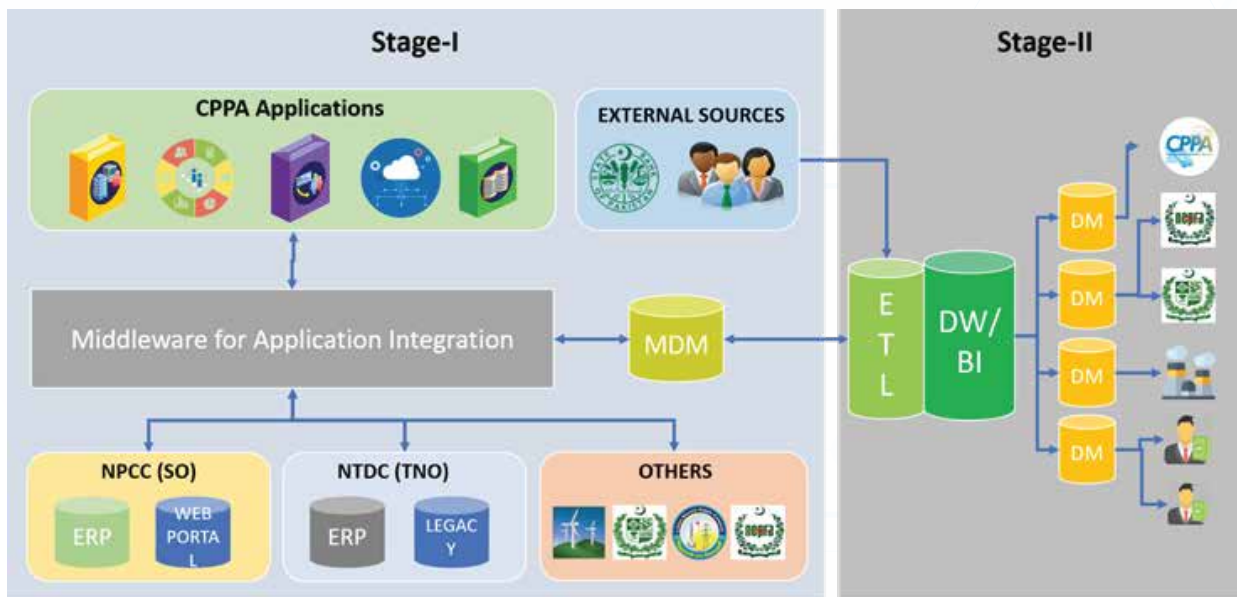
The data is being processed and maintained at all the main market participants in structured and un-structure forms, electronically or manually. These are proliferating islands of information having desperate applications covering multiple channels, divisions, and functions. That data is later gathered and shared with CPPA (Market Operator) for the purpose of billing & settlement, market simulations and forecasting. It is cumbersome and very hectic process to gather data, consolidate and generate analytics. The whole process is suffering with operational inefficiencies, questionable analytics, error prone integration and slow enterprise and sector wide agility and innovation.

Availability of reliable data and its timely sharing with market participants is the key to ensure transparency and predictability in the market. Data

Institutionalization is also one of the seventeen group of actions required to be completed for CTBCM implementation. Once implemented, this will boost the investors' confidence on one side due to the timely availability and access to transparent data from a 'single source of truth' and on the other side will result in better informed decision making by the market players.

Under this initiative of Data Institutionalization, crucial data in CPPA, NTDC and NPCC related to system operations, forecasting, planning, simulation and competitive market operations and settlement will be identified along with data sources for proper data input, validation, warehousing, retrieval and reporting afterwards. This will include an end-to-end process capturing above stated steps, capacity building of the relevant stakeholders and establishment of data storage solutions (servers, applications, databases, reporting software etc.) in these entities. Once implemented other entities of the sector like Ministry, NEPR, Provincial Energy Departments, IPP's, IRSA etc. can benefit from the data repository to run their analysis for decision making.

Implementing the Data Institutionalization Project will result in quick and accurate data availability for the sector entities, market participants and potential investors. A high-level diagram illustrating the system architecture designed for the Data Institutionalization initiative is shown on next page.



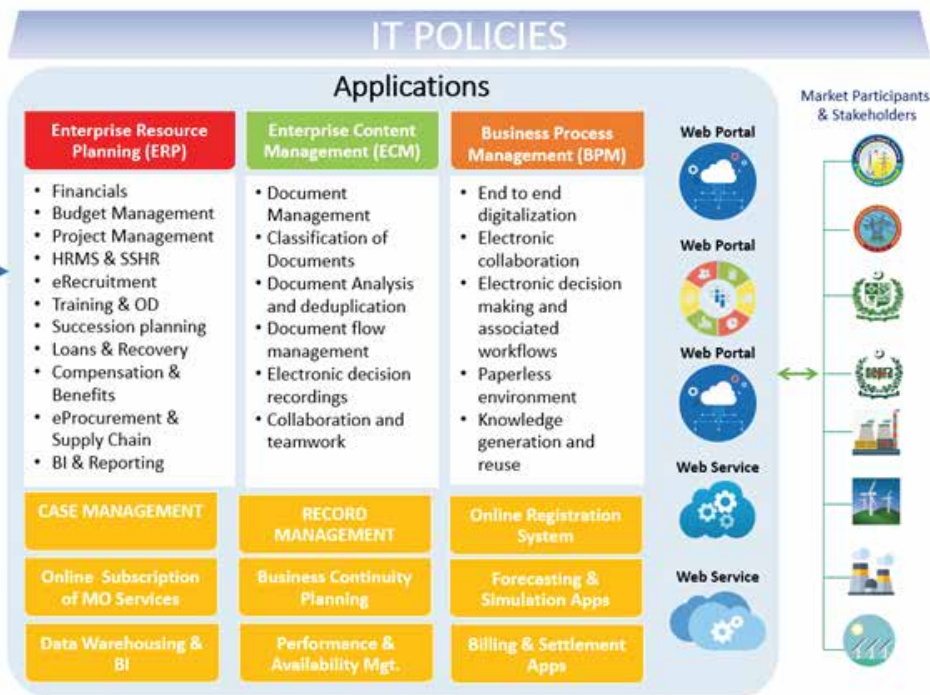
Architecture of Data Initialization Solution for Market Operator

## 11.5 Future IT Strategy

There are several projects in pipeline to be implemented as per IT Strategy of CPPA which mainly include Darktrace Solution for network vulnerability analysis, ITIL Framework for Service Management, the establishment of Primary Data Center Site Facility (Tier III) for Market Operations, Establishment of Data Ware Housing Solution (Phase I), Physical separation of Data Center Operations for SPS and MO, Backoffice Application Development for MO, information security management, applications for

CTBCM, Record Management Solution, Operationalization of ECM Solution with Historical and Current Data, business process management, video conferencing, Preparation of Business Continuity Plan (DR Site Facility and Computing), Establishment of Data Ware Housing Solution (Phase II), BI / Analytics for MO, certification of ISO 27001, trading system for bilateral contracts, surveillance system, data warehousing, business intelligence/ data mining, IT services management, Business Process Management (BPM) Solution, Case Management Solution, and COBIT certification.

### CPPA-G MO IT Enablement [2019-2020]





# 12

## Strategic Partnerships & Collaborations

- 12.1. Lahore University of Management Sciences - LUMS
- 12.2. EPIAS-The Market Operator of Turkey
- 12.3. ADB Central Asia Energy Sector Reform Workshop 2019
- 12.4. USAID Technical Assistance
- 12.5 Visit To NYISO, AESO and OESO

## 12. Strategic Partnerships & Collaborations

CPPA is obliged to “Liaise with other international bodies having market functions similar to CPPA or administering competitive power markets” in accordance with the Section 12, sub-section 12.i.(vii), of the Commercial Code,. In order to oblige this requirement, CPPA strives to build Strategic Partnerships with like entities both local and international. Doing this would enable CPPA to have a knowledge sharing platform and to have an opportunity to grow. The following paragraphs present a detail regarding the strategic partnerships developed by CPPA.

CPPA has already established few important strategic partnerships with international organizations and academic institutions. So far, three Memorandums of Understanding (MoUs) has been signed with EPIAS, the Market Operator of Turkey, EPEX SPOT, the European Power Exchange and Lahore University of Management Sciences (LUMS). Similarly, CPPA remains in active coordination with the international donor agencies including USAID, ADB and the World Bank for technical assistance and collaboration in the areas of mutual interest.

### 12.1 Lahore University of Management Sciences - LUMS

A research, development and academic alliance was formed by CPPA with LUMS by when a non-binding MoU was signed between CPPA and LUMS last year. MoU with LUMS set the ground for a strategic partnership with an academic institution of international repute. This step has laid the foundation for the development of a centralized structure of knowledge in terms of market development for all the market entities. It has also provided an opportunity for the Professors and the faculty members of LUMS and other universities to enhance their knowledge enabling them to run the market development programs independently in future.

The year 2018-19 saw the successful completion of the EMP Program 2018 which was launched from the platform of LUMS Energy Institute with the participation of LUMS Senior Professors and other faculty members in the capacity of 'training of trainers'. Consequently, in the next iteration of the program i.e. EMP-2019, which is going to be start from July 2019, LUMS Professors will be delivering sessions on electricity markets side by side with the trainers from CPPA. It is expected that in the coming years, the EMP program will be offered independently by LUMS and will be delivered solely by the faculty of LUMS.

Another important initiative that is currently in progress with the collaboration of LUMS is the

development of short term demand forecast tool and its operationalization at NPCC. This tool will enable NPCC to generate highly accurate hourly demand forecasts.





## 12.2 EPIAS-The Market Operator of Turkey

Partnership with EPIAS has proved to be very fruitful for CPPA and several learning exchanges from both sides were carried out under this partnership since the signing of the MoU two years back.

This year, EPIAS facilitated CPPA in the design and delivery of the EMP Program 2018. Two senior professionals from EPIAS namely Avni Çebi (Strategy Development Director) and Hasan Silahtaroglu, (Strategy and Business Development Unit Manager) were invited to deliver lectures on the evolution and operation of Turkish Electricity Market.

CPPA is planning to organize an international exchange program for the CPPA Board members, in collaboration with EPIAS and other power sector entities of Turkey, in order to give them opportunity to study how electricity market function in real and

examine the role of market operator in administering a competitive electricity market.



## 12.3 ADB Central Asia Energy Sector Reform Workshop 2019



CEO CPPA-G was invited as the key-note speaker in the ADB Central Asia Energy Sector Reforms Workshop 2019. The 2nd Central Asian Workshop on Energy Sector Reforms was held for two days in Istanbul, Turkey. The Workshop was attended by government officials from the energy sector, ministries of energy from the countries of Central Asia (Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) and representatives from the Asian Development Bank.

Participants at the 2nd Central Asia Workshop on Energy Sector Reform discussed the issue of integrating and cooperating in regional energy

systems and ADB also announced its readiness to help the countries of the region to increase energy sector.

CEO CPPA delivered a strong speech on the theme of the workshop that underlying objective of reforming power sector is to sustainably improve its operational and financial performance. The speech focused on the regulatory, financial management and corporate governance issues and challenges in the Central Asian countries. CEO CPPA in his key-note speech gave an overview of the power sector of Pakistan and share the plan for energy reforms particularly focusing on the transition towards a competitive electricity market in Pakistan.

## 12.4 USAID Technical Assistance

CPPA has been seeking donor support from USAID in the design of the CTBCM, its approval by the regulator, capacity building of staff, and strengthening of IT infrastructure. During 2019, CPPA secured a technical assistance (TA) from USAID in short term consulting support to facilitate key activities and regulatory requirements for transition to a competitive power market. In addition, USAID is considering providing additional funding to CPPA for a priority list of activities.

With the USAID assistance, CPPA acquired a state-of-the-art tool for dispatch optimization and price simulation, SDDP, from PSR Brazil. A handing over ceremony was held at USAID SEP Project Office Islamabad in February 2019 where Director

Office Energy USAID handed over the keys of SDDP software to CEO CPPA. The SDDP software enabled CPPA to simulate the electricity market models and make informed decisions regarding the market prices.



## 12.5 Visit To NYISO, AESO and OESO



This year, CPPA held a visit to North American Electricity Markets to study and understand the operations and functionalities of these entities. The organizations visited include New York Independent System Operator (NYISO), Alberta Electricity System Operator (AESO) and Ontario Electricity System Operator (OESO). The reason for selecting these markets for study was based on their central dispatch operation by System Operator which is quite similar to Pakistan's Electricity Market central dispatch function performed by NPCC.

It was also observed that these entities invest heavily on the capacity building of their stakeholders and creating awareness among the masses about the latest developments in the market. This has given enough confidence to the CPPA on its own such capacity building and knowledge socialization initiatives. The invaluable experience earned by studying such markets would help the team to add more value to the detailed design of the competitive wholesale electricity market.

Independent System Operators (ISO) of all these markets were visited and their market designs, operations, functions and structures were studied. One thing that was found to be common among all such markets was the utilization of specialized tools for performing specific functions such as unit commitment, demand forecasting, dispatch optimization etc. Another positive trait of these entities which was observed during the visit was that they were eager to held extensive consultative sessions with all the relevant stakeholders on major initiatives and policy reforms. Utmost importance was being given to the socialization of knowledge and ideas. The main focus was to learn in detail about the ISO model and apply those learning in our future market design in Pakistan.





# 13

## The Power Market

- 13.1. Wholesale Market Statistics
- 13.2. Market Participants

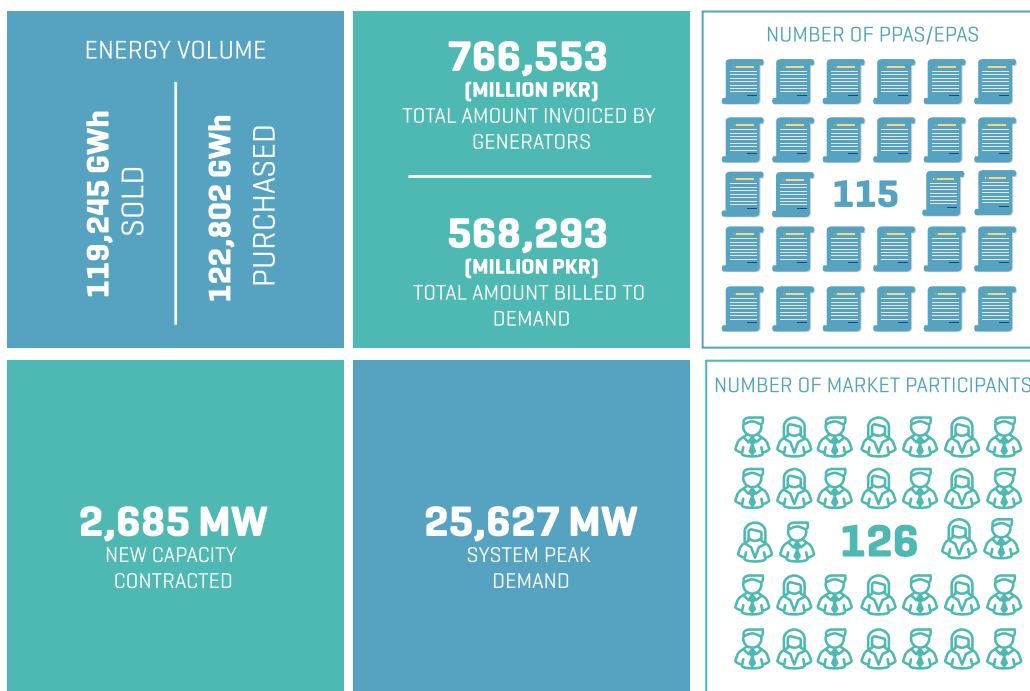
# 13. The Power Market

This section of 'The Power Market' has been divided into two sub-sections; Market Statistics and Market Participants. Market Statistics include the summary of important information of the wholesale market and also compares the statistics of FY2018 with FY2017.

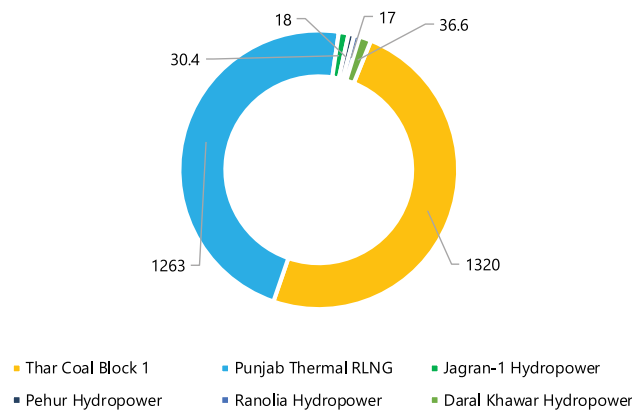
## 13.1 Wholesale Market Statistics

This sub-section provides the summary and key facts and figures regarding the power market of Pakistan for FY2019 and FY2018.

### 13.1.1 FY2019 In Numbers – Wholesale Market

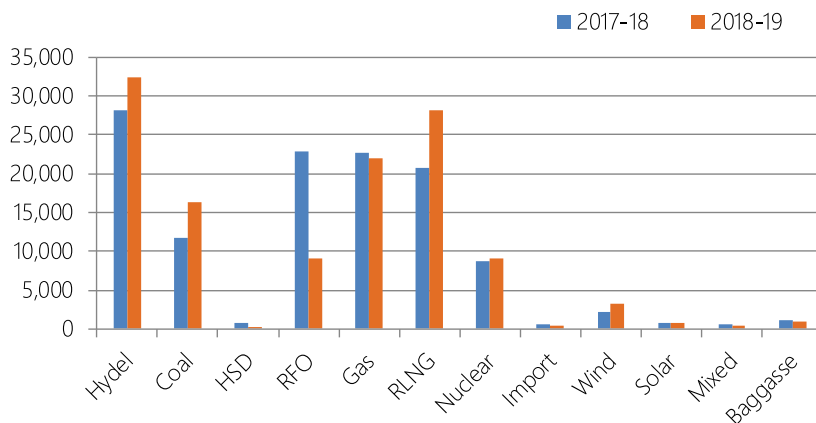


**New Capacity Contracted in FY2019 (MW)**



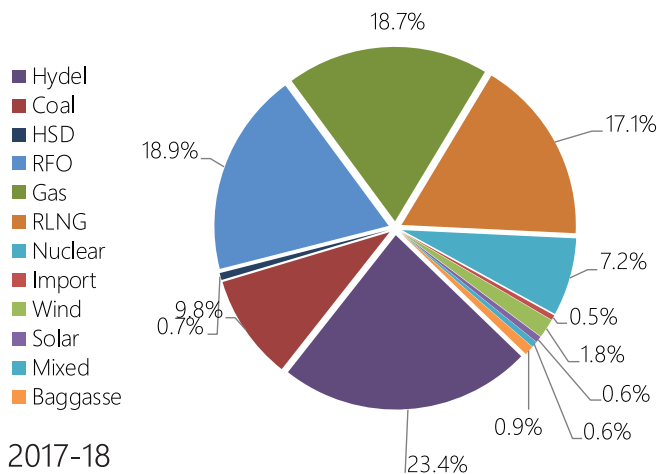
## 13.1.2 FY2018 & FY2019 – WHOLESALE MARKET STATISTICS

### ENERGY VOLUME MIX PROCURED - IN NUMBERS (GWH)



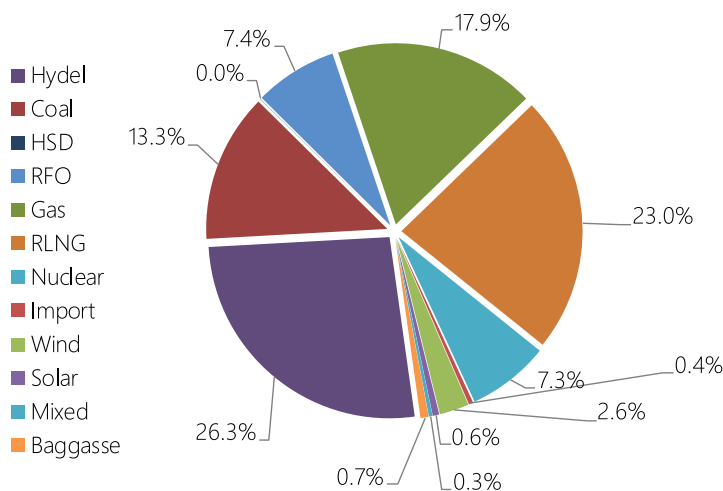
| Fuel Type    | 2017-18        | 2018-19        |
|--------------|----------------|----------------|
| Hydel        | 28,238         | 32,356         |
| Coal         | 11,786         | 16,306         |
| HSD          | 788            | 31             |
| RFO          | 22,770         | 9,092          |
| Gas          | 22,611         | 22,034         |
| RLNG         | 20,678         | 28,245         |
| Nuclear      | 8,719          | 9,006          |
| Import       | 554            | 487            |
| Wind         | 2,145          | 3,232          |
| Solar        | 702            | 715            |
| Mixed        | 665            | 405            |
| Baggasse     | 1,057          | 894            |
| <b>Total</b> | <b>120,718</b> | <b>122,802</b> |

### ENERGY VOLUME MIX PROCURED - IN % AGE



2017-18

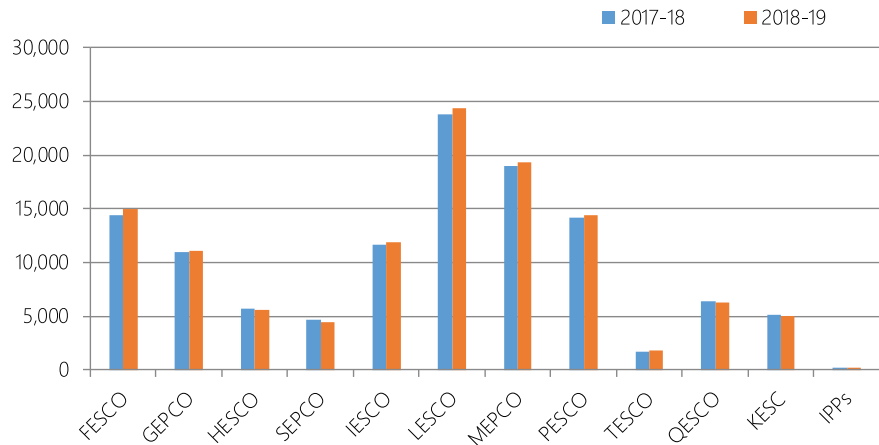
| Fuel Type    | 2017-18       | 2018-19       |
|--------------|---------------|---------------|
| Hydel        | 23.4%         | 26.3%         |
| Coal         | 9.8%          | 13.3%         |
| HSD          | 0.7%          | 0.0%          |
| RFO          | 18.9%         | 7.4%          |
| Gas          | 18.7%         | 17.9%         |
| RLNG         | 17.1%         | 23.0%         |
| Nuclear      | 7.2%          | 7.3%          |
| Import       | 0.5%          | 0.4%          |
| Wind         | 1.8%          | 2.6%          |
| Solar        | 0.6%          | 0.6%          |
| Mixed        | 0.6%          | 0.3%          |
| Baggasse     | 0.9%          | 0.7%          |
| <b>Total</b> | <b>100.0%</b> | <b>100.0%</b> |



2018-19

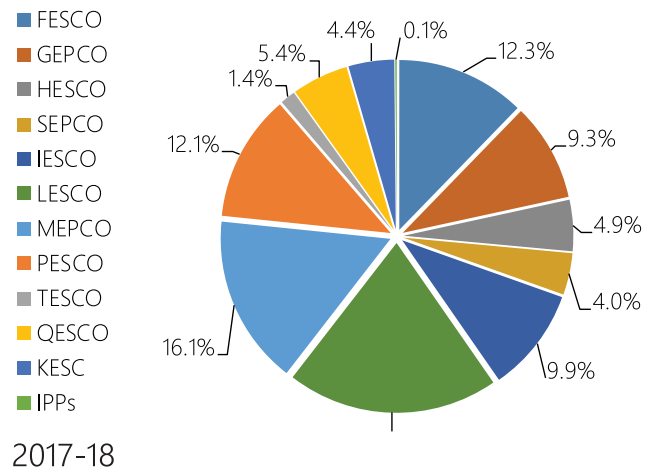
## ENERGY VOLUME CONSUMED BY DEMAND - IN NUMBERS (GWH)

| Demand       | 2017-18        | 2018-19        |
|--------------|----------------|----------------|
| FESCO        | 14,446         | 14,970         |
| GEPSCO       | 10,987         | 11,100         |
| HESCO        | 5,743          | 5,557          |
| SEPCO        | 4,679          | 4,412          |
| IESCO        | 11,672         | 11,838         |
| LESCO        | 23,731         | 24,338         |
| MEPCO        | 19,006         | 19,367         |
| PESCO        | 14,209         | 14,427         |
| TESCO        | 1,696          | 1,821          |
| QESCO        | 6,339          | 6,257          |
| KESC         | 5,128          | 4,957          |
| IPPs         | 167,089        | 201,54         |
| <b>Total</b> | <b>117,804</b> | <b>119,245</b> |

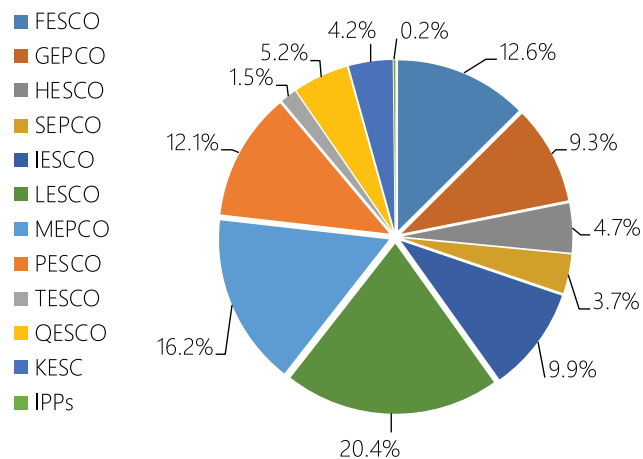


## ENERGY VOLUME CONSUMED BY DEMAND - IN % AGE

| Demand | 2017-18 | 2018-19 |
|--------|---------|---------|
| FESCO  | 12.3%   | 12.6%   |
| GEPSCO | 9.3%    | 9.3%    |
| HESCO  | 4.9%    | 4.7%    |
| SEPCO  | 4.0%    | 3.7%    |
| IESCO  | 9.9%    | 9.9%    |
| LESCO  | 20.1%   | 20.4%   |
| MEPCO  | 16.1%   | 16.2%   |
| PESCO  | 12.1%   | 12.1%   |
| TESCO  | 1.4%    | 1.5%    |
| QESCO  | 5.4%    | 5.2%    |
| KESC   | 4.4%    | 4.2%    |
| IPPs   | 0.1%    | 0.2%    |



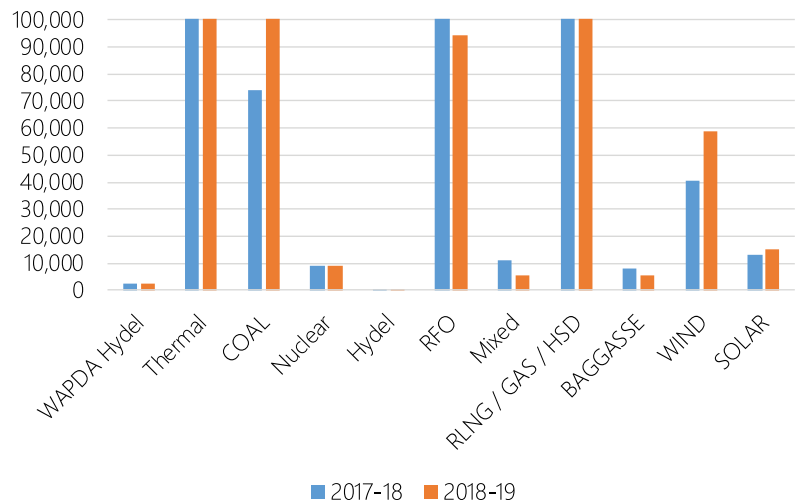
2017-18



2018-19

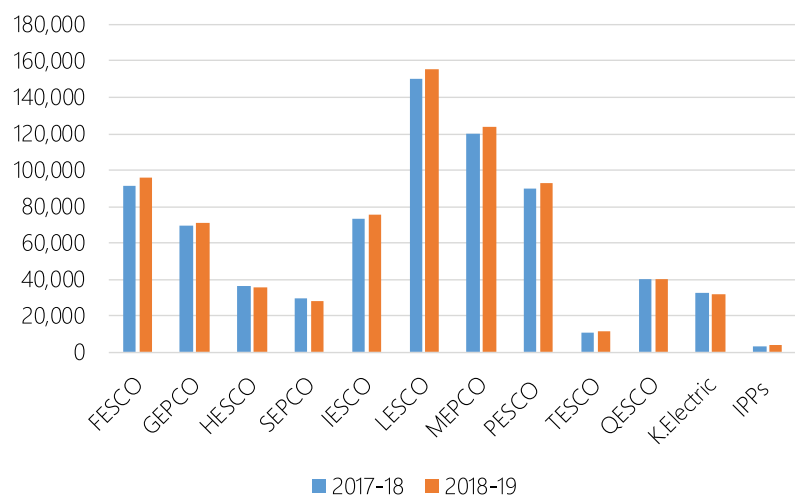
## ENERGY INVOICED BY GENERATORS (MILLIONS PKR)

| Fuel Type        | 2017-18 | 2018-19  |
|------------------|---------|----------|
| WAPDA Hydel      | 2,349   | 2,282    |
| Thermal          | 219,465 | 165,001  |
| COAL             | 73,916  | 112,031  |
| Nuclear          | 9,135   | 9,037    |
| Hydel            | 533     | 535      |
| RFO              | 159,998 | 94,476.6 |
| Mixed            | 10,885  | 5,471    |
| RLNG / GAS / HSD | 208,798 | 297,672  |
| BAGGASSE         | 7,908   | 5,752    |
| WIND             | 40,313  | 59,046   |
| SOLAR            | 12,900  | 15,249   |
| Total            | 746,200 | 766,553  |

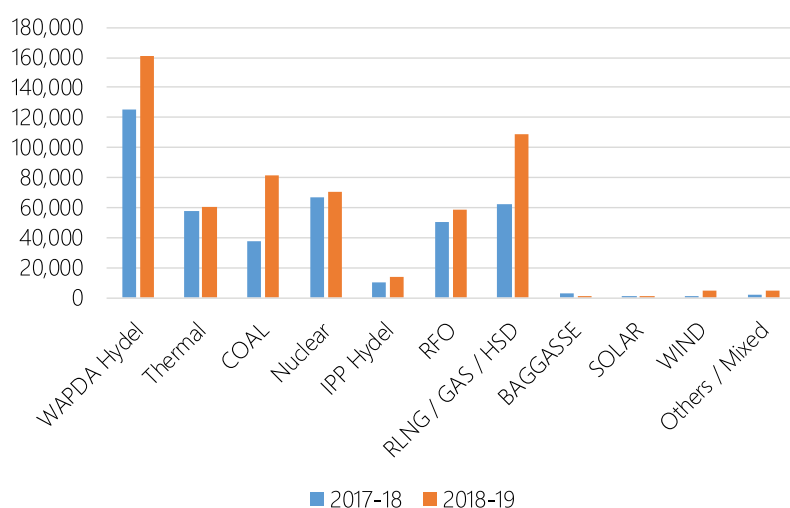


## ENERGY BILLED TO DEMAND (MILLIONS PKR)

| Demand     | 2017-18 | 2018-19 |
|------------|---------|---------|
| FESCO      | 91,378  | 95,808  |
| GEPSCO     | 69,311  | 71,104  |
| HESCO      | 36,292  | 35,452  |
| SEPCO      | 29,479  | 28,193  |
| IESCO      | 73,485  | 75,981  |
| LESCO      | 150,027 | 155,796 |
| MEPCO      | 120,233 | 123,981 |
| PESCO      | 89,609  | 92,610  |
| TESCO      | 10,728  | 11,627  |
| QESCO      | 40,083  | 39,969  |
| K.Electric | 32,429  | 31,716  |
| IPPs       | 3,146   | 4,319   |
| Total      | 746,200 | 766,553 |

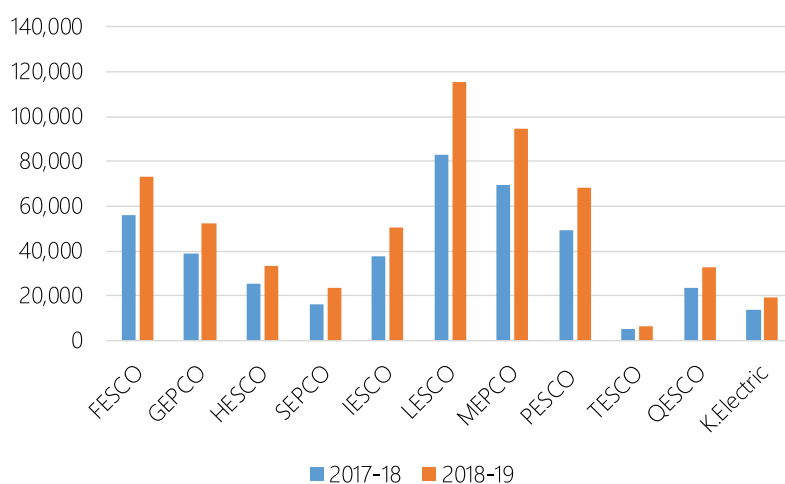


### CAPACITY INVOICED BY GENERATORS (MILLIONS PKR)



| Fuel Type        | 2017-18        | 2018-19        |
|------------------|----------------|----------------|
| WAPDA Hydel      | 125,596        | 160,710        |
| Thermal          | 57,942         | 60,470         |
| COAL             | 37,369         | 81,675         |
| Nuclear          | 67,351         | 70,929         |
| IPP Hydel        | 10,642.3       | 14,461.3       |
| RFO              | 50,332         | 58,669         |
| RLNG / GAS / HSD | 62,679         | 109,305        |
| BAGGASSE         | 3,100          | 1,345          |
| SOLAR            | 29             | 595            |
| WIND             | 793            | 5,012          |
| Others / Mixed   | 1,815          | 5,123          |
| <b>Total</b>     | <b>417,648</b> | <b>568,293</b> |

### CAPACITY BILLED TO DEMAND (MILLIONS PKR)



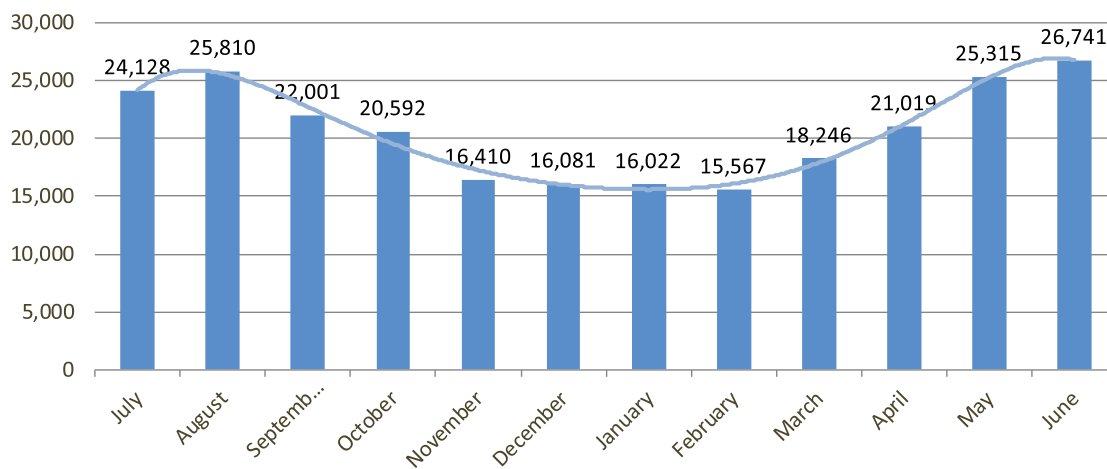
| Demand       | 2017-18        | 2018-19        |
|--------------|----------------|----------------|
| FESCO        | 55,918         | 72,945         |
| GEPCO        | 38,976         | 52,228         |
| HESCO        | 25,307         | 33,170         |
| SEPCO        | 16,110         | 23,272         |
| IESCO        | 37,670         | 50,493         |
| LESCO        | 83,087         | 115,004        |
| MEPCO        | 69,109         | 94,761         |
| PESCO        | 48,987         | 68,055         |
| TESCO        | 5,339          | 6,473          |
| QESCO        | 23,669         | 32,564         |
| K.Electric   | 13,476         | 19,327         |
| <b>Total</b> | <b>417,648</b> | <b>568,293</b> |



MONTHLY SYSTEM PEAK LOAD PROFILE (MW)

| 2017-18   |             |
|-----------|-------------|
| Month     | Demand (MW) |
| July      | 24,128      |
| August    | 25,810      |
| September | 22,001      |
| October   | 20,592      |
| November  | 16,410      |
| December  | 16,081      |
| January   | 16,022      |
| February  | 15,567      |
| March     | 18,246      |
| April     | 21,019      |
| May       | 25,315      |
| June      | 26,741      |

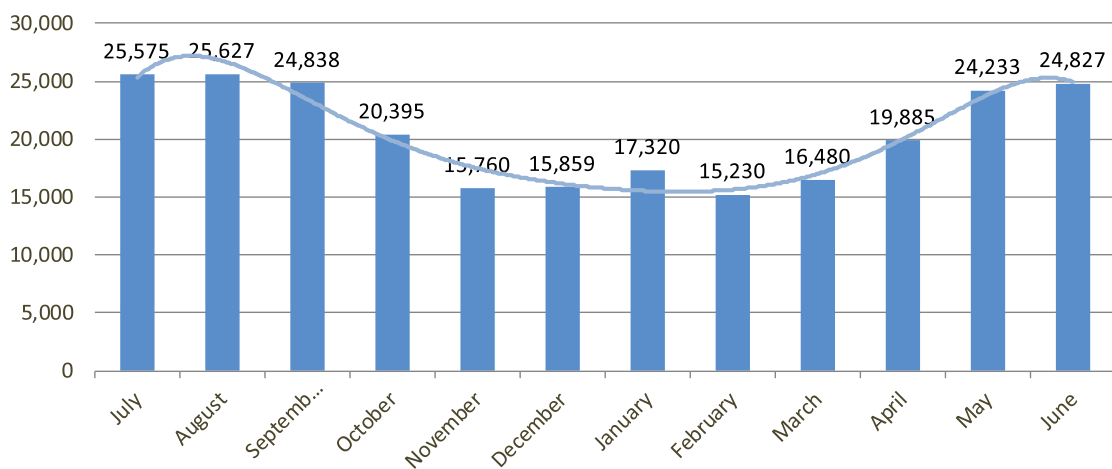
MONTHLY SYSTEM PEAK LOAD PROFILE (MW)  
FY 2017-18



### MONTHLY SYSTEM PEAK LOAD PROFILE (MW)

| 2018-19   |             |
|-----------|-------------|
| Month     | Demand (MW) |
| July      | 25,575      |
| August    | 25,627      |
| September | 24,838      |
| October   | 20,395      |
| November  | 15,760      |
| December  | 15,859      |
| January   | 17,320      |
| February  | 15,230      |
| March     | 16,480      |
| April     | 19,885      |
| May       | 24,233      |
| June      | 24,827      |

### MONTHLY SYSTEM PEAK LOAD PROFILE (MW) FY 2018-19



## 13.2 MARKET PARTICIPANTS

Market Participants in Pakistan can be categorized into two types i.e. Distribution Companies and Generation Companies. The tables below provide the list of Generation Companies which have made contracts with CPPA by June 2018, and their maximum billed demands by CPPA and installed capacity and Distribution Companies on whose behalf CPPA purchases electricity respectively:

| List of Generation Participants |  |                         |
|---------------------------------|--|-------------------------|
| Sr. No.                         | Name   | Installed Capacity (MW) |
| <b>Baggase</b>                  |  |                         |
| 1                               | Chiniot Power                                    | 57                      |
| 2                               | Etihad Power Gen                                 | 67                      |
| 3                               | Fatima Energy Limited                            | 118                     |
| 4                               | JDW-II   | 26                      |
| 5                               | JDW-III  | 26                      |
| 6                               | Layyah Sugar Mills                               | 41                      |
| 7                               | RYKML  | 30                      |
| 8                               | Almoiz Industries Limited                        | 36                      |
| 9                               | Etihad Power Generation Limited.                 | 74                      |
| 10                              | Chanar Energy Limited                            | 22                      |
| 11                              | Hamza Sugar Mills                                | 30                      |
| <b>Coal</b>                     |  |                         |
| 1                               | China Power Hub Generation Company Ltd           | 1,320                   |
| 2                               | Engro Powergen Thar (Pvt) Ltd                    | 660                     |
| 3                               | Lucky Electric Power Company                     | 660                     |
| 4                               | Port Qasim Electric Power Company                | 1,320                   |
| 5                               | Sahiwal Coal Project                             | 1,320                   |
| 6                               | GENCO-IV Lakhra (COAL)                           | 30                      |
| 6                               | Siddiqsons Energy Ltd                            | 330                     |
| 7                               | Tha INova Power Thar                             | 330                     |
| 8                               | Thar Coal Block-1 Power Generation Power Project | 1,320                   |
| 9                               | Thar Energy Limited at Thar                      | 330                     |
| <b>Nuclear</b>                  |  |                         |
| 1                               | CHASHMA NUCLEAR 1                                | 301                     |
| 2                               | CHASHMA NUCLEAR 2                                | 315                     |
| 3                               | Chashma Nuclear 3                                | 340                     |
| 4                               | Chashma Nuclear 4                                | 340                     |
| <b>Solar</b>                    |  |                         |
| 1                               | AJ Power (Private) Limited                       | 12                      |
| 2                               | Harappa Solar (Pvt) Limited- revised             | 18                      |
| 3                               | Appolo solar Development Pakistan – revised      | 100                     |
| 4                               | Best Green Energy Pakistan Limited – revised     | 100                     |
| 5                               | Crest Energy Pakistan Limited - revised          | 100                     |
| 6                               | Quaid-e-Azam Solar Power (Pvt) Ltd. - revised    | 100                     |
| <b>Hydel</b>                    |  |                         |
| 1                               | Allai Khwar                                      | 121                     |
| 2                               | Chashma  | 184                     |
| 3                               | Dubair Khwar                                     | 130                     |
| 4                               | Ghazi Barotha                                    | 1,450                   |
| 5                               | Golen Gol  | 106                     |

|                         |   |           |
|-------------------------|---|-----------|
| 6                       | <b>Jagran (AJK)</b>                                   | <b>30</b> |
| 7                       | Jinnah  | 96        |
| 8                       | Karot Power Company Pvt Ltd                           | 720       |
| 9                       | Khan Khwar  | 72        |
| 10                      | Kohala (China International Water & Electric Company) | 1,124     |
| 11                      | Laraib New Bong Esc.                                  | 84        |
| 12                      | Malakand-III  | 81        |
| 13                      | Mangla  | 1,000     |
| 14                      | Mira Power Ltd  | 102       |
| 15                      | Neelum Jehlum   | 969       |
| 16                      | S.K Hydro Pvt Ltd                                     | 870       |
| 17                      | Small Hyrdo <25MW                                     | 128       |
| 18                      | Tarbela   | 3,478     |
| 19                      | Tarbela 4th Extension                                 | 1,410     |
| 20                      | Tarbela 5th Extension                                 | 1,410     |
| 21                      | Warsak  | 243       |
| 22                      | Patrind   | 147       |
| 23                      | Pehur   | 18        |
| 24                      | Ranolia   | 17        |
| 25                      | Daral Khwar   | 36        |
| <b>RFO/Gas/HSD/RLNG</b> |   |           |
| 1                       | AES LALPIR  | 350       |
| 2                       | AES PAK GEN.  | 350       |
| 3                       | ALTERN POWER  | 28        |
| 4                       | ATLAS POWER LIMITED                                   | 214       |
| 5                       | ATTOCK GENEERATION LIMITED                            | 156       |
| 6                       | NPPMCL-Balloki RLNG                                   | 1,223     |
| 7                       | QATPL-Bhikki RLNG                                     | 1,180     |
| 8                       | DAVIS ENERGY LIMITED                                  | 10        |
| 9                       | Engro Power (GAS)                                     | 213       |
| 10                      | FAUJI KABIRWALA                                       | 151       |
| 11                      | FOUNDATION POWER CO DHARKI LIMITED                    | 168       |
| 12                      | GENCO-I   | 830       |
| 13                      | GENCO-II  | 1,337     |
| 14                      | GENCO-III   | 1,410     |
| 15                      | GENCO-V   | 425       |
| 16                      | HABIBULLAH COASTAL                                    | 129       |
| 17                      | HALMORE POWER GENERATION CO LIMITED (GAS)             | 207       |
| 18                      | NPPMCL-Havelli Bahadur Shah RLNG                      | 1,223     |
| 19                      | HUBCO   | 1,202     |
| 20                      | HUBCO-Narowal   | 214       |
| 21                      | KAPCO   | 1,345     |
| 22                      | KOHINOOR ENERGY LTD                                   | 124       |
| 23                      | LIBERTY POWER PROJECT                                 | 213       |
| 24                      | LIBERTY POWER TECH LIMITED                            | 196       |
| 25                      | NISHAT CHUNIAN POWER LIMITED                          | 196       |
| 26                      | Nishat Power  | 195       |
| 27                      | Orient Power (GAS)                                    | 213       |
| 28                      | POWER GENERATION LTD                                  | 116       |
| 29                      | ROUSCH  | 395       |
| 30                      | SABA POWER COMPANY LTD                                | 126       |
| 31                      | SAIF POWER LIMITED (GAS)                              | 204       |
| 32                      | SAPPHIRE ELECTRIC COMPANY LIMITED (GAS)               | 205       |
| 33                      | UCH   | 549       |

|    |                      |       |
|----|----------------------|-------|
| 34 | UCH-II               | 375   |
| 35 | Punjab Thermal Power | 1,263 |

#### Solar

|   |   |     |
|---|---|-----|
| 1 | AJ Power (Private) Limited                    | 12  |
| 2 | Harappa Solar (Pvt) Limited- revised          | 18  |
| 3 | Appolo solar Development Pakistan – revised   | 100 |
| 4 | Best Green Energy Pakistan Limited – revised  | 100 |
| 5 | Crest Energy Pakistan Limited - revised       | 100 |
| 6 | Quaid-e-Azam Solar Power (Pvt) Ltd. - revised | 100 |

#### Wind

|    |   |      |
|----|---|------|
| 1  | FFC ENERGY LIMITED                          | 50   |
| 2  | Foundation Wind Energy-I Private Limited    | 50   |
| 3  | Foundation Wind Energy-II Private Limited   | 50   |
| 4  | Gul Ahmed Wind Power Ltd.                   | 50   |
| 5  | Hartford Alternative Energy                 | 50   |
| 6  | Hawa Energy (Pvt.) Ltd.                     | 50   |
| 7  | Hydro China Dawood Power (Pvt.) Ltd.        | 50   |
| 8  | Jhimpir Power (Pvt.) Ltd.                   | 50   |
| 9  | Master Wind Energy Ltd.                     | 50   |
| 10 | Metro Power Company Limited                 | 50   |
| 11 | Sachal Energy                               | 50   |
| 12 | Sapphire Wind Power Company Ltd.            | 53   |
| 13 | Tapal Wind Energy (Pvt.) Ltd.               | 30   |
| 14 | Tenaga Generasi Ltd.                        | 50   |
| 15 | Three Gorges 1st Wind Farm Pakistan Limited | 49.5 |
| 16 | UEP Wind Power (Pvt.) Ltd.                  | 99   |
| 17 | Yunus Energy Ltd.                           | 50   |
| 18 | ZORLU ENERJI PAKISTAN LIMITED               | 56   |
| 19 | Zephyr Power Private Limited                | 50   |
| 20 | Tricon Boston A                             | 50   |
| 21 | Tricon Boston B                             | 50   |
| 22 | Tricon Boston C                             | 50   |
| 23 | Artistic Energy                             | 49.3 |
| 24 | Three Gorges 2nd Wind Farm Pakistan Limited | 49.5 |
| 25 | Three Gorges 3rd Wind Farm Pakistan Limited | 49.5 |

| List of Demand Participants |  |                            |
|-----------------------------|--|----------------------------|
| Sr. No.                     | Name   | Maximum Billed Demand (MW) |
| 1                           | Faisalabad Electric Supply Company (FESCO)   | 3,572                      |
| 2                           | Gujranwala Electric Power Company (GEPCO)    | 2,838                      |
| 3                           | Hyderabad Electric Supply Company (HESCO)    | 1,869                      |
| 4                           | Islamabad Electric Supply Company (IESCO)    | 2,630                      |
| 5                           | Lahore Electric Supply Company (LESCO)       | 5,592                      |
| 6                           | Multan Electric Power Company (MEPCO)        | 4,693                      |
| 7                           | Peshawar Electric Supply Company (PESCO)     | 3,358                      |
| 8                           | Quetta Electric Supply Company (QESCO)       | 1,538                      |
| 9                           | Sukkur Electric Power Company (SEPCO)        | 1,261                      |
| 10                          | Tribal Areas Electric Supply Company (TESCO) | 337                        |
| 11                          | K-Electric (KE)                              | 999                        |
| <b>Total</b>                |  | <b>28,687</b>              |



# 14

## Implementation of Commercial Code

# 14. Implementation of Commercial Code

The Commercial Code was developed with two main objectives as stated in section 3.1 of Commercial Code; (i) To establish, govern and promote efficient and transparent billing, collection, settlement and payment arrangements and procedures, centrally administered by CPPA specifically of the commercial and financial transactions relating to the sale and purchase of electricity and capacity in the agreements signed by and the trading and pooling arrangement administered by CPPA, in the manner prescribed under a pursuant to the provisions of the Act and rules and regulatory framework; and (ii) To promote and enable the development of competitive power markets in accordance with Schedule I of the Market Rules.

CPPA was directed by the ECC of the Cabinet that within two years of the notification of Market Rules and associated operationalization of CPPA, CPPA to prepare a comprehensive plan for transition of the power market to a CTBCM in consultation with stakeholders and subsequently approved by the Competent Authority. The plan to outline the actions ought to be taken for the transition to a fully competitive wholesale electric power market. Subsequently, the Power Market Operator Rules, 2015 were issued by NEPRA, whereby CPPA was directed to play a central role in power market transition, in-line with the ECC's decision.

Based on this given mandate, in mid of 2016, CPPA started market model development efforts by forming an internal team and then hiring internationally recognized market development consultants. A strategy was devised for the preparation of the future market model and later the transition plan (CTBCM Plan). As per the strategy, the initiative was divided into three phases. The Phase-I (June 2016 to June 2017) included (a) Capacity Building of main power sector entities, (b) High-level Market Model Design and (c) preparation of the draft CTBCM Plan. This phase has been concluded as the CTBCM Model and Plan has been prepared by CPPA and the same has been submitted to NEPRA for regulatory review. Pursuant to the regulatory approval process, NEPRA then published the plan on its website for stakeholder consultation. A large number of stakeholders thoroughly reviewed the CTBCM model and plan and shared their comments which were responded back by CPPA in

clarity. Phase-II entailing the detailed market design is being continued this year with the in-parallel execution of must-do items required for implementation.

Meanwhile, CPPA received the authorization as the Market Operator from NEPRA in November 2019. The Certificate of Registration was received in response to registration application filed by CPPA to NEPRA on April 12, 2017 to operate as the Market Operator under Rule-3 of the Market Rules. This gives a legal status to operate as the Market Operator with the receipt of the registration from the Authority.

The Authorization also accompanied a Commercial Code which was unilaterally amended by the NEPRA during the registration process. The imperative due procedure prescribed under section 3.4 (PROCEDURE FOR PROPOSING AMENDMENTS) of the Commercial Code was not followed for the Commercial Code amendment.

Additionally, the amendment in the Commercial Code did not seem to comply with another important regulatory document i.e. the Market Rules 2015 which requires that (refer to first amendment in Market Rules 2015, Rule-3 Sub-Rule 13) "any revision, amendment and alteration in the commercial code shall, before approval by the Authority, be subject to the requirement of a public hearing". In this regard, no public hearing was conducted to discuss the changes made by NEPRA in the Commercial Code which was issued with the CPPA Market Operator Certificate of Registration.

In light of the fact that the Commercial Code amendment did not confirm to the requirements of the regulatory framework in general and the requirements of Commercial Code and Market Rules 2015 in particular, CPPA filed a review before the Authority to initiate the review process against the unilateral modification in the Commercial Code.

As a matter of principle, the changes in the existing commercial code should be routed through Commercial Code Review Panel (CCRP), following the due procedure laid down in the regulatory framework. CCRP has been requested to review the matter in detail and may pursue the matter with NEPRA from CCRP forum.

On another note, the competitive market model proposed by CPPA,

require a set of rules, regulations and codes to enable the functioning and smooth operation of the new market being envisaged. The current Commercial Code aims to promote and enable the development of the competitive power market, it does not incorporate all the requirements of the new market model. Therefore, one of the most important actions in the implementation phase of CTBCM plan is the amendment of the Commercial Code in accordance with the needs of the new market model that will facilitate and reflect the market structure and institutional arrangements.

In this regard, CPPA has been working on revising the existing Commercial Code in order to align it with the new billing, settlement and payment procedures for the single buyer Phase, as well as with some features of proposed CTBCM model. This effort is coordinated centrally by SMD team with mutual collaboration of the relevant functional teams of Finance, Technical, IT and Legal departments. The purpose is that all the concerned sections are fully aware of the role of the Commercial Code in the overall market regulatory structure and the future functions of CPPA as Market Operator, while analyzing typical contents and usual structure, so as to enable them to propose and adapt the necessary amendments in the existing code.

The complete draft of new Commercial Code has been prepared, according to the peculiarities of the current and transitional phase of the market towards CTBCM, first step of which is the implementation of Single Buyer Plus (SBP) arrangement. In the new draft, new formulas and procedures for Deviation Settlement Mechanism for the Market Participants who have Bilateral Contract, Commercial Transactions of other Market Participants (DISCOs) on ETR (Energy Transfer Rate) and CTR (Capacity Transfer Rate) has been introduced for smooth commercial transactions in the SBP Phase.

Similarly, many other new procedures for transparent Settlement and Payment System have been familiarized to develop the payment discipline like by introducing the concept and mechanism of Credit Covers for new market participants having bilateral contract. The new Commercial Code has been prepared and submitted to NEPRA along with the SBP Plan for review and approval.





15

# Director's Report

# 15 Director's Report

## 15.1 Summary of Statements as Per Rule 17 Of Public Sector

Companies Corporate Governance Rules, 2013

### 15.1.1 Compliance with The Relevant Principles of Corporate Governance

Company has complied with the relevant principles of corporate Governance as per Public Sector Companies (Corporate Governance) Rules, 2013.

### 15.1.2 State of Affairs, Result of Operations and Cash Flows

The financial statements prepared by the Management of the Company present fairly its state of affairs, the result of its operations and cash flows.

### 15.1.3 Books of Accounts

Proper books of accounts of the company have been maintained

### 15.1.7 Board Meetings and Attendance of Board Members

Total meetings of the Board of Directors and Board Committees held during the Financial Year 2018-19 are as follows:

### 15.1.4 Appropriate Accounting Policies

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment

### 15.1.5 Sound System of Internal Control

Directors hereby recognize the responsibility to establish and maintain sound system of internal control, which is regularly reviewed and monitored. Implementation of an ERP system is a major step in this direction.

### 15.1.6 Appointment of Chairman and Other Members of The Board

The appointment of Chairman and other members of the Board and the terms of their appointment along with the remuneration policy adopted are in the best interests of the Company as well as in line with the best practices.

Table 1: Meetings attended by the Directors

| Sr.No. | Meeting   | No. of Meetings Held in 2018-19 |
|--------|---|---------------------------------|
| 1      | Board of Directors                              | 13                              |
| 2      | Procurement Committee of Board                  | 09                              |
| 3      | HR Committee of Board                           | 13                              |
| 4      | Risk Management Committee of Board              | 06                              |
| 5      | Audit Committee of Board                        | 06                              |
| 6      | Finance Committee of Board                      | 02                              |
| 7      | Special Committee on IT Implementation          | 02                              |
| 8      | Nomination Committee                            | Nil                             |
| 9      | Special Committee on MISC                       | 02                              |
| 10     | Special Committee on K-Electric                 | 01                              |
| 11     | Special Committee on HUBCO First Fill           | 01                              |
| 12     | Special Committee on Etihad Power               | 03                              |
| 13     | Special Committee on Net Metering               | 02                              |
| 14     | Special Committee on Power Purchase Price Model | 02                              |

Table 2: Meetings attended by the Directors

| S. No. | Name of Directors         | No. of Meetings Attended |
|--------|---------------------------|--------------------------|
| 1      | Mr. Rizwan Memon          | 02                       |
| 2      | Mr. Irfan Ali             | 11                       |
| 3      | Mr. Zargham Eshaq Khan    | 45                       |
| 4      | Dr. Khaqan Hassan Najeeb  | 35                       |
| 5      | Mr. Zafar Abbas           | 31                       |
| 6      | Dr. Amer Ahmad            | Nil                      |
| 7      | Mr. Mian Muhammad Imran   | 28                       |
| 8      | Mr. Basit Zaman Ahmad     | 02                       |
| 9      | Mr. Shahid Iqbal Chaudhry | 13                       |
| 10     | Mr. Abid Latif Lodhi      | 52                       |
| 11     | Mr. Ghias ud Din Ahmad    | 28                       |
| 12     | Mr. Hamid Ali Khan        | 29                       |
| 13     | Ms. Ayla Majid            | 17                       |

### 15.1.8 Remuneration of Board Members

Members of the Board are paid a fixed lump sum fee for attending the Board meetings or Board Committee meetings. The fee paid to various Board members for attending the Board meetings and Board Committee meetings is as follows:

Table 3: Fees paid to the Directors during FY 2018-19

| Sr. No. | Name of Directors         | Fees Paid<br>(Rs. in Millions) |
|---------|---------------------------|--------------------------------|
| 1       | Mr. Rizwan Memon          | 0.063                          |
| 2       | Mr. Irfan Ali             | 0.038                          |
| 3       | Mr. Zargham Eshaq Khan    | 2.813                          |
| 4       | Dr. Khaqan Hassan Najeeb  | 2.188                          |
| 5       | Mr. Zafar Abbas           | 2.0                            |
| 6       | Dr. Amer Ahmad            | Nil                            |
| 7       | Mr. Mian Muhammad Imran   | 1.688                          |
| 8       | Mr. Basit Zaman Ahmad     | 0.013                          |
| 9       | Mr. Shahid Iqbal Chaudhry | 0.813                          |
| 10      | Mr. Abid Latif Lodhi      | 0.063                          |
| 11      | Mr. Ghias ud Din Ahmad    | 1.750                          |
| 12      | Mr. Hamid Ali Khan        | 1.750                          |
| 13      | Ms. Ayla Majid            | 1.063                          |

During the FY 2018-19 the Remuneration of the Chief Executive Officer of the Company is Rs. 1.18 million per month along with vehicle monetization allowance as per company policy

### 15.1.9 Subsidy or Other Financial Support from The Government

Company gets its revenue requirements through Agency Fee which is duly approved by NEPRA every year. Therefore, all the expenditures of the Company are met within this Agency Fee. Company is not reliant on any subsidy or other financial support from the Government for meeting its expenditures.

### 15.1.10 Significant Deviations from Last Year in Operating Results Of The Company

There are no significant deviations from last year in operating results of the Company

### 15.1.11 Key Operating and Financial Data

Key operating and Financial Data for the month of June-2015, FY 2015-16, FY 2016-17, FY 2017-18 and FY 2018-19 is as follows;

Table 4: Income and Expenditure Data

| Financial Year | Revenue<br>(Rupees in<br>Thousands) | Expenditures<br>(Rupees in Thousands) |
|----------------|-------------------------------------|---------------------------------------|
| FY 2014-15     | 42,070/-                            | 42,399/-                              |
| FY 2015-16     | 397,230/-                           | 368,054/-                             |
| FY 2016-17     | 822,235/-                           | 548,870/-                             |
| FY 2017-18     | 640,504/-                           | 658,496/-                             |
| FY 2018-19     | 854,989/-                           | 709,447/-                             |

Table 5: Balance Sheet Data

| As at 30 <sup>th</sup> June | Assets<br>(Rupees in Thousands) | Liabilities<br>(Rupees in Thousands) | General Fund<br>(Rupees in<br>Thousands) |
|-----------------------------|---------------------------------|--------------------------------------|--|
| 2015                        | 487,089,338/-                   | 487,101,138/-                        | -11,799/-                                |
| 2016                        | 438,052,298/-                   | 438,153,909/-                        | -101,610/-                               |
| 2017                        | 571,955,960/-                   | 571,921,397/-                        | 34,563/-                                 |
| 2018                        | 1,412,632,025/-                 | 1,412,607,924/-                      | 24,100/-                                 |
| 2019                        | 1,827,942,514/-                 | 1,822,837,314/-                      | 105,200                                  |

### 15.1.12 Statutory Payments on Account of Taxes, Duties Levies

Company has created provisions of taxation in the Financial Statements as per the prevailing tax rates on the Balance Sheet date.

### 15.1.13 Significant Plans and Decisions

CPPA has been mandated by the ECC to lead the development of competitive wholesale electricity in Pakistan. The Authority has also authorized CPPA to serve as the Market Operator of the existing as well as future electricity market (ref: Condition 10.1 of the Certification of CPPA G as a MO issued by NEPRA on Nov 16, 2018). Keeping in view the arising conflict of interest of the two CPPA primary functions i.e. the MO function and the Agency Function, Authority has also directed to commence the operational and legal bifurcation of the company functions through organizational restructuring before commencement of the competitive market regime. This call for an immediate configuration of the overall functional structure and organizational hierarchy of the company in the light of the existing operational objectives as well as the future business requirements. CPPA has started working the restructuring activity and plans to conclude the same before the start of CTBCM.

Work on the transition of the existing market from the single buyer model to a competitive wholesale power market by 2020 is in progress at full pace at CPPA-G. The conceptual design of CTBCM model and plan was submitted by the CPPA-G to NEPRA for regulatory review and approval. This year, CPPA has submitted CTBCM Detailed Design Report to NEPRA. As soon as the approval for the CTBCM model and plan is granted by the Authority, which is expected in early next year, the scope of detailed design will be further expanded to finalize nitty-gritties of each and individual component of the detailed design (entailing action on 17 group-actions identified under the CTBCM plan). The opening

of competitive bilateral wholesale market is envisaged in July 2021.

These emerging trends will require the CPPA-G to evolve its market software platforms and acquire and retain talented employees to operate and plan the markets of the future. CPPA-G will continue to develop its technology and infrastructure to ensure that its information systems are capable of meeting CPPA's business objectives and stay aligned with CPPA-G's strategic focus. CPPA-G's technology development is rooted in a collaborative effort in which multiple IT strategy components are formulated to guide the overall technology direction. The IT strategy of CPPA-G comprises significant investments in its electricity market application development programs, digital integration with all the market participants and investments in components such as software solution delivery, cloud computing services, and enterprise security etc.

### 15.1.14 Value of Investment of Provident, And Gratuity Funds

FY 2018-19 provident fund and gratuity fund investments were of Rupees 26.6 million and Rupees 20.1 million. (FY 2017-2018: Rupees 14.9 million and Rupees 7.3 million) respectively.

Company has further transferred the provident fund and gratuity fund contributions to CPPA Employees Contributory Provident Fund and CPPA Employees Gratuity Fund as per actual liabilities as at the close of the year.

### 15.2 Auditor's Report

The Auditors' report to the members will be provided for consideration and adoption in the AGM.

### 15.3 Acknowledgement

The Directors wish to place on record their appreciation for the work put in and the cooperation displayed by the staff and management of CPPA.



Chief Executive Officer, CPPA-G



Director, CPPA-G



# 16

## Auditor's Report & Financial Statements

Independent Auditor's Report  
Financial Statements  
Notes to the Financial Statements

**CENTRAL POWER PURCHASING  
AGENCY (GUARANTEE) LIMITED**

**FINANCIAL STATEMENTS WITH  
ACCOMPANYING INFORMATION**

**JUNE 30, 2019**

## INDEPENDENT AUDITOR'S REPORT

**To the members of Central Power Purchasing Agency (Guarantee) Limited**

**Report on the Audit of the Financial Statements**

### Qualified Opinion

We have audited the annexed financial statements of Central Power Purchasing Agency (Guarantee) Limited ('the Company'), which comprise the statement of financial position as at June 30, 2019, and the income and expenditure statement, the statement of comprehensive income, the statement of changes in general fund, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of matters described in the Basis for Qualified Opinion section of our report, the statement of financial position, the income and expenditure statement, the statement of comprehensive income, the statement of changes in general fund and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2019 and of the surplus, other comprehensive income, the changes in general fund and its cash flows for the year then ended.

### Basis for Qualified Opinion

(i) As explained in Note 6.1 of the accompanying financial statements, Power Purchase Agency Agreement with K-Electric have not been signed till the date of authorization for issue of these financial statements. However, the Company has accounted for the transactions relating to K-Electric in the accompanying financial statements as an agent of K-Electric based on assessment by the management that it shall be successful in signing the Power Purchase Agency Agreement with K-Electric with effect from back date. If the Power Purchase Agency Agreement with K-Electric is not signed with back date effect, accounting for the transactions relating to K-Electric will not be done by the Company as its agent and will be routed through income and expenditure statement.

(ii) As explained in Note 6.2 of the accompanying financial statements, government-owned distribution companies (DISCOs) and K-Electric do not acknowledge / recognize delayed payment surcharge paid by the Company and NTDC, in periods prior to the transfer of Market Operations Undertaking under the Business Transfer Agreement (BTA) to the Company, to power producers passed through to DISCOs and K-Electric, on the grounds that the same is disallowed to them by NEPRA in their tariff determination. As at June 30, 2019, DISCOs and K-Electric have not recognized delayed payment surcharge

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amounting to Rupees 110.630 billion in their books of account and accordingly DISCOs have not confirmed the same in their balance confirmations. The Company has requested NEPRA for reconsideration of tariff determination of DISCOs. Hence, pending the reconsideration of tariff determination, no adjustments in these financial statements have been made.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan ('the Code') and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of Matter**

We draw attention to the matters discussed in note 8.2, note 10, note 13.1.3.2 and note 15 to the accompanying financial statements, the ultimate outcome of which cannot presently be determined, and hence, pending the resolution thereof, no adjustments in these financial statements have been made. Our opinion is not qualified in respect of the matters discussed above.

### **Information Other than the Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Company and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going

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concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

*Riaz*

# Riaz Ahmad & Company

Chartered Accountants

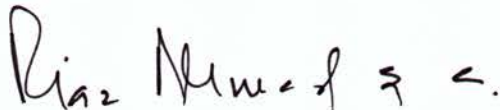
We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion except for the effects of matters described in basis for qualified opinion section of our report:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the income and expenditure statement, the statement of comprehensive income, the statement of changes in general fund and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Raheel Arshad.



**RIAZ AHMAD & COMPANY**  
Chartered Accountants *Raheel*

**ISLAMABAD**

**Date: 07 OCT 2019**

**CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2019**

|   | NOTE | 2019<br>(Rupees in thousand) | 2018                        |
|---|------|------------------------------|-----------------------------|
| <b>ASSETS</b>                                     |      |                              |                             |
| <b>Non-current assets</b>                         |      |                              |                             |
| Property and equipment                            | 3    | 94,785                       | 60,126                      |
| Intangible assets                                 | 4    | 40,213                       | 32,838                      |
| Deferred tax asset                                | 5    | -                            | -                           |
| Long term security deposit                        |      | <u>21,264</u>                | <u>-</u>                    |
|   |      | 156,262                      | 92,964                      |
| <b>Current assets</b>                             |      |                              |                             |
| Due from principals                               | 6    | 1,709,214,290                | 1,289,325,361               |
| Receivable from NTDC through loan notes           | 7    | 41,648,936                   | 42,412,169                  |
| Advances, prepayments and other receivable        | 8    | 6,617,352                    | 6,434,485                   |
| Accrued mark-up                                   | 9    | -                            | -                           |
| Mark-up receivable                                | 10   | 45,785,131                   | 58,049,360                  |
| Bank balances - deposit accounts                  | 11   | 24,520,543                   | 16,317,686                  |
|   |      | <u>1,827,786,252</u>         | <u>1,412,539,061</u>        |
| <b>Total assets</b>                               |      | <u><u>1,827,942,514</u></u>  | <u><u>1,412,632,025</u></u> |
| <b>FUND AND LIABILITIES</b>                       |      |                              |                             |
| <b>FUND</b>                                       |      |                              |                             |
| General fund                                      |      | 105,200                      | 24,101                      |
| <b>LIABILITIES</b>                                |      |                              |                             |
| <b>Non-current liability</b>                      |      |                              |                             |
| Net worth   | 1.2  | -                            | 7,163,233                   |
| <b>Current liabilities</b>                        |      |                              |                             |
| Energy payables swapped by Government of Pakistan | 12   | 784,462,871                  | 577,639,647                 |
| Energy and other payables                         | 13   | 1,043,328,713                | 827,790,251                 |
| Provision for taxation                            | 14   | 45,730                       | 14,793                      |
|   |      | <u>1,827,837,314</u>         | <u>1,405,444,691</u>        |
| <b>Total liabilities</b>                          |      | <u>1,827,837,314</u>         | <u>1,412,607,924</u>        |
| <b>Contingencies and commitments</b>              | 15   |                              |                             |
| <b>Total fund and liabilities</b>                 |      | <u><u>1,827,942,514</u></u>  | <u><u>1,412,632,025</u></u> |

The annexed notes form an integral part of these financial statements.

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

  
**CHIEF FINANCIAL OFFICER**

**CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED**  
**INCOME AND EXPENDITURE STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2019**

|  | NOTE | 2019<br>(Rupees in thousand) | 2018<br>(Rupees in thousand) |
|--|------|------------------------------|------------------------------|
| <b>INCOME</b>                              |      |                              |                              |
| Market operation fee                       | 16   | 520,896                      | 399,123                      |
| Profit on bank accounts                    |      | 334,093                      | 241,381                      |
|  |      | 854,989                      | 640,504                      |
| <b>EXPENDITURE</b>                         |      |                              |                              |
| Operating expenses                         | 17   | (708,141)                    | (657,246)                    |
| Finance cost - bank charges                |      | (1,306)                      | (1,250)                      |
|  |      | (709,447)                    | (658,496)                    |
| <b>SURPLUS / (DEFICIT) BEFORE TAXATION</b> |      | 145,542                      | (17,992)                     |
| <b>TAXATION</b>                            |      |                              |                              |
| Current                                    | 18   | (61,047)                     | (31,930)                     |
| Prior                                      |      | -                            | 31,976                       |
|  |      | (61,047)                     | 46                           |
| <b>SURPLUS / (DEFICIT) AFTER TAXATION</b>  |      | 84,495                       | (17,946)                     |

The annexed notes form an integral part of these financial statements. *San.*

  
 \_\_\_\_\_  
**CHIEF EXECUTIVE OFFICER**

  
 \_\_\_\_\_  
**DIRECTOR**

  
 \_\_\_\_\_  
**CHIEF FINANCIAL OFFICER**

**CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2019**

|   | <b>2019</b>                 | <b>2018</b> |
|---|-----------------------------|-------------|
|   | <b>(Rupees in thousand)</b> |             |
| <b>SURPLUS / (DEFICIT) AFTER TAXATION</b>                                       | 84,495                      | (17,946)    |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                             |             |
| Items that will not be reclassified to income and expenditure statement         | (3,396)                     | 7,484       |
| Items that may be reclassified subsequently to income and expenditure statement | -                           | -           |
|   | (3,396)                     | 7,484       |
| <b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>                         | 81,099                      | (10,462)    |

The annexed notes form an integral part of these financial statements. *Raw.*

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

  
**CHIEF FINANCIAL OFFICER**

**CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

|  | <b>2019</b>                 | <b>2018</b>   |
|--|-----------------------------|---------------|
|  | <b>(Rupees in thousand)</b> |               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |                             |               |
| <b>Surplus / (deficit) before taxation for year ended</b>                  | 145,542                     | (17,992)      |
| <b>Adjustments for non-cash charges and other items:</b>                   |                             |               |
| Depreciation   | 25,888                      | 12,482        |
| Amortization   | 7,785                       | 3,305         |
| Provision for gratuity   | 13,059                      | 4,859         |
| Profit on bank deposits  | (334,093)                   | (241,381)     |
| Finance cost - bank charges  | 1,306                       | 1,250         |
| <b>Cash flows from operating activities before working capital changes</b> | (140,513)                   | (237,477)     |
| <b>Working capital changes</b>   |                             |               |
| <b>(Increase) / decrease in assets</b>                                     |                             |               |
| Long term security deposit   | (21,264)                    | -             |
| Due from principals  | (419,888,929)               | (475,382,311) |
| Receivable from NTDC through loan notes                                    | 763,233                     | -             |
| Advances, prepayments and other receivable                                 | (133,598)                   | 47,650,461    |
| Market operation fee receivable  | -                           | 94,779        |
| Mark-up receivable   | 12,264,229                  | 16,008,993    |
| <b>Increase / (decrease) in liabilities</b>                                |                             |               |
| Net worth  | (7,163,233)                 | -             |
| Energy payables swapped by Government of Pakistan                          | 206,823,224                 | 146,165,555   |
| Energy and other payables  | 215,522,007                 | 266,808,545   |
|  | 8,165,669                   | 1,346,022     |
| <b>Cash generated from operations</b>                                      | 8,025,156                   | 1,108,545     |
| Income tax paid  | (30,110)                    | (125,098)     |
| Gratuity paid  | (94)                        | (10,041)      |
| Finance cost paid  | (1,306)                     | (1,250)       |
| Profit on bank deposit received  | 284,918                     | 241,381       |
| <b>Net cash generated from operating activities</b>                        | 8,278,564                   | 1,213,537     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |                             |               |
| Capital expenditure on operating fixed assets                              | (60,547)                    | (47,357)      |
| Intangible asset purchased   | (15,160)                    | (22,608)      |
| <b>Net cash used in investing activities</b>                               | (75,707)                    | (69,965)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |                             |               |
| <b>Net increase in cash and cash equivalents</b>                           | 8,202,857                   | 1,143,572     |
| <b>Cash and cash equivalents at the beginning of the year</b>              | 16,317,686                  | 15,174,114    |
| <b>Cash and cash equivalents at the end of the year</b>                    | 24,520,543                  | 16,317,686    |

The annexed notes form an integral part of these financial statements.

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

  
**CHIEF FINANCIAL OFFICER**

**CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED**  
**STATEMENT OF CHANGES IN GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2019**

|   | <b>GENERAL FUND</b>         |
|---|-----------------------------|
|   | <b>(Rupees in thousand)</b> |
| <b>Balance as at June 30, 2017</b>                          | 34,563                      |
| Deficit for the year ended June 30, 2018                    | (17,946)                    |
| Other comprehensive income for the year ended June 30, 2018 | 7,484                       |
| Total comprehensive loss for the year ended June 30, 2018   | (10,462)                    |
| <b>Balance as at June 30, 2018</b>                          | 24,101                      |
| Surplus for the year ended June 30, 2019                    | 84,495                      |
| Other comprehensive loss for the year ended June 30, 2019   | (3,396)                     |
| Total comprehensive income for the year ended June 30, 2019 | 81,099                      |
| <b>Balance as at June 30, 2019</b>                          | 105,200                     |

The annexed notes form an integral part of these financial statements. *Law.*

  
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**CHIEF EXECUTIVE OFFICER**

  
 \_\_\_\_\_  
**DIRECTOR**

  
 \_\_\_\_\_  
**CHIEF FINANCIAL OFFICER**

# CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

### 1. THE COMPANY AND ITS OPERATIONS

**1.1** Central Power Purchasing Agency (Guarantee) Limited ("the Company") is a Company limited by guarantee and not having share capital incorporated in Pakistan on January 28, 2009 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). Its registered office is situated at 6th Floor, Shaheed-e-Millat Secretariat, Jinnah Avenue, Blue Area, Islamabad, Pakistan. The Company is incorporated to function as a not-for-profit organization, and the objects, for which the Company is established, are to implement and administer market mechanisms for electric power procurement and sale, by undertaking and performing functions and discharging responsibilities as are or may be laid down from time to time for the Company to undertake or perform in or pursuant to and in the manner prescribed under or pursuant to the provisions of the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2017, and in the secondary legislation pursuant thereto, as amended from time to time, and to do all such other things as are incidental or conducive to the attainment of or in furtherance of the aforesaid objects and in furtherance of the policies, objectives and provisions of or contemplated under the aforesaid Act and secondary legislation made thereunder.

To enable its function as market operator, the Company signed a Business Transfer Agreement (BTA) dated June 03, 2015 with National Transmission and Despatch Company Limited (NTDCL), a separate government owned company. NTDCL transferred its functions, operations, assets and liabilities related to CPPA and Contract Registrar and Power Exchange Administrator (CRPEA) to the Company (collectively referred to as Market Operations Undertaking). Pursuant to the commencement of National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 notified vide SRO 541(I)/2015 dated May 28, 2015, the Company was deemed to be authorized and registered as the market operator under the aforesaid rules to commence and conduct the market operations. On November 16, 2018, National Electric Power Regulatory Authority (NEPRA) has approved the registration of CPPA-G as market operator under Rule 3 of the Market Rules.

NEPRA also approved the Commercial Code vide SRO 542(I)/2015 dated June 02, 2015 under which the operations and responsibilities to be performed and discharged by the market operator include the following:

- (a) To acquire, take over or assume the functions and business of settlement and development of competitive power market from NTDCL and to carry on these functions and business;
- (b) Procurement of electric power on behalf of the DISCOs, including import of power from other countries;
- (c) Generation invoice verification on the basis of meter reading or dispatch scheduling report and term of the respective Power Purchase Agreements;
- (d) Billing to the DISCOs based on the meter readings at Common Delivery Points as per the procedure defined in the commercial code;
- (e) Collection from the DISCOs and settlement to the market participants as per the commercial code; and

*Ran.*



- (f) Management of cash flow, treasury management and other relevant banking functions for the purposes of collection and disbursement as per the commercial code.

The Company has signed Power Procurement Agency Agreements (PPAAs) with government-owned distribution companies (DISCOs). Hence, the DISCOs have appointed the Company as their agent to perform the designated purposes and procure power for and on behalf of the DISCOs, as per the regulatory framework prescribed by NEPRA and / or under the Commercial Code. The liabilities arisen out of power procurement on behalf of DISCOs shall always remain with DISCOs as provided in the Commercial Code and PPAAs as follows:

- a) Under Clause 8.8.2 of the Commercial Code;

"The CPPA-G in this process, shall act as an agent of DISCOs without assuming payment responsibilities. Payment and debts remain with DISCOs. CPPA-G shall not be held liable for non-payment to market participants."

- b) Under Article 3.1.7 of the PPAAs;

"Title to the purchased electrical energy and generation capacity procured by CPPA-G for and on behalf of DISCO as well as obligation of DISCO to make payment of transmission charge or use of system charge always vest in DISCO and shall not pass to CPPA-G at any time."

The Power Procurement Agency Agreement with K-Electric has not been signed till the date of authorization for issue of these financial statements. However, the management is confident that the Power Procurement Agency Agreement with K-Electric will shortly be signed with effect from back date.

The detail of assets and liabilities transferred to the Company as per resolution passed in meeting of Board of Directors of the Company held on February 13, 2017 are as follows:

**Assets transferred to the Company**

**Rupees in thousand**

|   |             |
|---|-------------|
| Property and equipment, net of accumulated depreciation   | 4,137       |
| Trade receivables   | 316,074,535 |
| Advances, deposits and prepayments                        | 2,926,482   |
| Advances to suppliers and contractors                     | 2,445       |
| Accrued interest  | 7,570,720   |
| Other receivable from associated companies                | 802,000     |
| Current account IOT (net receivable)                      | 128,046,147 |
| Government loan mark-ups receivable adjustments in DISCOs | 68,551,593  |
| K-Electric differential of marginal cost (payable by GOP) | 6,400,000   |
| Events after the statement of financial position date     | 11,291,401  |
| Other receivable  | 65,493,054  |
| Cash and bank balances                                    | 6,339,070   |

**613,501,584**

**Liabilities transferred to the Company**

|                                   |             |
|-----------------------------------|-------------|
| Net worth                         | 7,163,233   |
| Trade payables                    | 480,873,218 |
| Miscellaneous accounts payable    | 874,327     |
| Provision for KESC accrued markup | 7,559,332   |
| Current account IOT (net payable) | 159,443,643 |

**655,913,753**

**Loan note receivable from NTDC**

**42,412,169**

*han*

In meeting held between the Company and NTDCL on January 26, 2017, both parties agreed that a net liability of Rupees 42,412 million is payable by NTDCL to the Company.

The settlement of this transaction through loan notes would be treated as full and final payment of the entire consideration in lieu of transfer of Market Operations Undertaking. However, as per BTA, any assets, receivable or liability relating to Market Operations not known to NTDCL and discovered by either party after the date of closing but within a period of two years (extended by further two years subsequently by both NTDCL and the Company), shall be immediately transferred to the Company. In case any assets, receivable or liability relating to Market Operations are discovered and transferred, it is expressly agreed between the parties that the purchase price of Rupees 42,412 million shall accordingly be adjusted. The parties agree and acknowledge that the purchase price of Rupees 42,412 million has been calculated on the basis of the actual book value of the Market Operations Undertaking (excluding the transferred employees). If, at any time, it is determined by both parties that the purchase price of Rupees 42,412 million is required to be revised on account of change in book value, or due to prior miscalculation of the book value, of the Market Operations Undertaking (excluding the transferred employees), then the parties shall in good faith re-calculate the purchase price.

Article 5 of the BTA deals with the process of secondment / transfer of employees from NTDCL to the Company. Clause 5.1 of the BTA specifies NTDCL's employees working for the Company shall be placed on secondment for a period of twelve months extendable by the Company. Further, during this period or till such time that any such employee accepts the offer to join the Company, he shall be deemed as the employee of NTDCL. Accordingly, the related retirement benefits of such employees have been retained by NTDCL as at June 30, 2015.

**1.2** During the year, the net worth amounting to Rupees 7,163 million and receivable from GOP in lieu of K-Electric previously allocated to GENCOs amounting to Rupees 6,400 million has been transferred back to NTDCL. Accordingly, loan note receivable from NTDCL has been reduced to Rupees 41,649 million.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these financial statements are set out below:

### **2.1 Basis of preparation**

#### **a) Statement of compliance**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The approved accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Accounting Standard for Not for Profit Organizations (Accounting Standard for NPOs) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017. *Ran.*

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS or the Accounting Standard for NPOs, the provisions of and directives issued under the Companies Act, 2017 have been followed.

**b) Accounting convention**

These financial statements have been prepared under the historical cost convention except defined benefit plan which is carried at present value.

**c) Critical accounting estimates and judgments**

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

**Useful lives, patterns of economic benefits and impairments**

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairments on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of operating fixed assets, with a corresponding effect on the depreciation charge and impairment.

**Taxation**

In making the estimates for income tax currently payable by the Company, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

**Defined benefit plan**

The cost of defined benefit plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

**d) Standards, interpretations and amendments to published approved accounting standards that are effective in current year and are relevant to the Company**

The following standards, interpretations and amendments to published approved accounting standards are mandatory for the Company's accounting periods beginning on or after July 01, 2018:

IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after January 01, 2018). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contracts; and recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 replaces IAS 11 'Construction Contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programs',

IFRIC 15 'Agreements for Construction of Real Estate', IFRIC 18 'Transfer of Assets from Customers' and SIC 31' Revenue-Barter Transactions Involving Advertising Services.

IFRS 15 (Amendments), 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after January 01, 2018). Amendments clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after January 01, 2018). A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 'Financial Instruments: Recognition and Measurement'. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. It introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after January 01, 2018). IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Annual Improvements to IFRS Standards 2014–2016 Cycle makes amendments to the following standards:

IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose. IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Company had to change its accounting policies and make certain adjustments without restating prior year results following the adoption of IFRS 15 and IFRS 9. These are disclosed in Note 2.9 and Note 2.16 respectively. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

*Law*

**e) Amendments to published standards that are effective in current year but not relevant to the Company**

There are amendments to published standards that are mandatory for accounting periods beginning on or after July 01, 2018 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

**f) Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant to the Company**

Following standards, interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after July 01, 2019 or later periods:

IFRS 16 'Leases' (effective for annual periods beginning on or after January 01, 2019). IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The management of the Company is in the process of evaluating the impacts of the aforesaid standard on the Company's financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after January 01, 2019). The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Company's financial statements.

Amendments to IFRS 9 (effective for annual periods beginning on or after January 01, 2019) clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest ('SPPI') condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendments are not likely to have significant impact on the Company's financial statements.

IAS 19 (Amendments) 'Employee Benefits' (effective for annual periods beginning on or after January 01, 2019) contains amendments regarding plan amendments, curtailments or settlements. The amendment is not expected to have a material impact on the Company's financial statements.

On December 12, 2017, IASB issued Annual Improvements to IFRSs: 2015 – 2017 Cycle, incorporating amendments to four IFRSs more specifically in IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs'. The amendments are effective for annual periods beginning on or after January 01, 2019. The amendments have no significant impact on the Company's financial statements and have therefore not been analyzed in detail.

On March 29, 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework. The new Framework: reintroduces the terms stewardship and prudence; introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument; removes from the asset and liability definitions references to the expected flow

*Ran*

of economic benefits – this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement; discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability; states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use statement of comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability; and discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements. The Framework is not an IFRS standard and does not override any standard, so nothing will change in the short term. The revised Framework will be used in future standard-setting decisions, but no changes will be made to current IFRS. Preparers might also use the Framework to assist them in developing accounting policies where an issue is not addressed by an IFRS. It is effective for annual periods beginning on or after January 01, 2020 for preparers that develop an accounting policy based on the Framework.

The amendments in definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

**g) Standards and amendments to published standards that are not yet effective and not considered relevant to the Company**

There are other standards and amendments to published standards that are mandatory for accounting periods beginning on or after July 01, 2019 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

## **2.2 Provisions and contingencies**

Provisions are recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past events and it is probable that outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. However, provisions are reviewed at each statement of financial position date and adjusted to reflect current best estimate.

Where the outflow of resources of embodying economics benefits is not probable, a contingent liability is disclosed, unless the possibility of outflow is remote.

## **2.3 Taxation**

### **Current**

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the period for such periods.

### **Deferred**

Deferred tax is accounted for using the statement of financial position liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

*Law*

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is charged or credited in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in statement of comprehensive income or directly in equity, respectively.

## **2.4 Foreign currencies**

The financial statements are presented in Pak Rupees, which is the Company's functional currency. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the statement of financial position date. Transactions in foreign currencies are translated into Pak Rupees at the spot rate. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gains and losses, where applicable, are recognized in income and expenditure statement.

## **2.5 Operating fixed assets**

Operating fixed assets are stated at cost less accumulated depreciation and any identified impairment loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is charged to income and expenditure statement on straight line method at the rates specified in Note 3. Depreciation on addition to operating fixed assets is charged from the month in which the asset is available for use and continued till the month preceding the month of disposal.

An item of operating fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset which is calculated as the difference between the net disposal proceeds and carrying amount of the asset, is included in the income and expenditure statement in the year the asset is derecognized.

## **2.6 Impairment**

### **a) Financial assets**

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated with reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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## **b) Non-financial assets**

The Company assesses at each statement of financial position date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where the carrying value exceeds the recoverable amount, assets are written down to the recoverable amount and the difference is charged to the income and expenditure statement. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in income and expenditure statement.

### **2.7 Loans and advances**

These are initially recognized at cost, which is fair value of the consideration given. Subsequent to initial recognition, an assessment is made at each statement of financial position date to determine whether an indication of impairment exist or not. If such indication exist, the estimated recoverable amount of that asset or group of assets is determined and impairment loss is recognized in the income and expenditure statement.

### **2.8 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise of cash at bank.

### **2.9 Revenue from contracts with customers**

The Company has adopted IFRS 15 from July 01, 2018 by applying the modified retrospective approach according to which the Company is not required to restate the prior year results. Key changes in accounting policies resulting from application of IFRS 15 are as follows:

#### **i) Revenue recognition**

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

#### **Rendering of services**

Revenue from a contract to provide services is recognized over time as the services are rendered based on a fixed price rate determined by National Electric Power Regulatory Authority (NEPRA) from time to time.

The Company is acting as an agent as it does not have exposure to the significant risks and rewards associated with the sale of electricity. In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increase in equity for the Company. The amounts collected on behalf of the principal are not revenue. Instead,

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revenue is the amount of market operator fee. One feature that indicates that the Company is acting as an agent is that the amount the Company earns is predetermined i.e. market operator fee as determined by National Electric Power Regulatory Authority (NEPRA).

Further, the Company has no responsibility for providing the goods to the customers, has no inventory risk, has no latitude in establishing prices and does not bears the customer's credit risk for the amount receivable from the customer.

### **Interest**

Profit on deposits with banks is recognized on time proportion basis taking into account the amounts outstanding and rates applicable thereon.

### **ii) Impacts of adoption of IFRS 15 on these financial statements as on July 01, 2018**

The adoption of IFRS 15 has not resulted in any adjustments in the financial statements as on July 01, 2018.

#### **2.10 Due from principals and other receivables**

Due from principals and other receivables are carried at original invoice amount.

#### **2.11 Energy and other payables**

Liabilities for energy and other amounts payable are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Company or not.

#### **2.12 Off setting**

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legal enforceable right to set off and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

#### **2.13 Geographical segment**

The decision makers of the Company consider the whole Company as a single operating segment.

#### **2.14 Employee benefits**

##### **Provident fund**

The Company operates a contributory provident fund scheme for all its employees. Monthly contributions are made to the fund @ 5% of the basic salary both by the Company and employees.

##### **Gratuity fund**

The Company operates approved funded gratuity scheme covering all of its employees who have completed the minimum qualifying period of service as defined under the scheme. The gratuity scheme is managed by trustees. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation carried out annually using the "Projected Unit Credit Method"

*Ran*

## 2.15 Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified impairment loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Amortization is charged to income and expenditure statement on straight line method at the rates specified in Note 4 from the month in which the asset is available for use and continued till the month preceding the month of disposal.

An item of intangible assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset which is calculated as the difference between the net disposal proceeds and carrying amount of the asset, is included in the income and expenditure statement in the year the asset is derecognized.

## 2.16 "Financial instruments"

The Company has adopted IFRS 9 "Financial Instruments" from July 01, 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the Company makes an irrevocable election on initial recognition to present gains and losses on equity instruments in other comprehensive income. Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the Company's own credit risk to be presented in other comprehensive income (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the Company. New impairment requirements use an 'expected credit loss' ('ECL') model to recognize an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Securities and Exchange Commission of Pakistan (SECP) through S.R.O. 985 (I)/2019 dated September 02, 2019, deferred the applicability of the requirements contained in IFRS 9 with respect to application of Expected Credit Losses method till June 30, 2021 in respect of companies holding financial assets due from the Government of Pakistan. The aforementioned exemption is provided on the condition that such companies shall follow relevant requirements of IAS 39, in respect of above referred financial assets during the exemption period. The Company has adopted IFRS 9 without restating the prior year results. Key changes in accounting policies resulting from application of IFRS 9 are as follows:

*None.*

## **i. Recognition of financial instruments**

The Company initially recognizes financial assets on the date when they are originated. Financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

## **ii. Classification and measurement of financial instruments**

IFRS 9 largely retains the existing requirements in IAS 39 "Financial Instruments: Recognition and Measurement" for the classification and measurement of financial liabilities. However, it replaces the previous IAS 39 categories for financial assets i.e. loans and receivables, fair value through profit or loss (FVTPL), available for sale and held to maturity with the categories such as amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI).

### **Investments and other financial assets**

#### **a. Classification**

From July 01, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

#### **b. Measurement**

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

### **Debt instruments**

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

#### **i. Amortized cost**

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other

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income / (other expenses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

## **ii. Fair value through other comprehensive income (FVTOCI)**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses (and reversal of impairment losses), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other income / (other expenses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/ (other expenses) and impairment losses are presented as separate line item in the statement of profit or loss.

Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other income / (other expenses) in the period in which it arises.

## **Financial liabilities**

### **Classification and measurement**

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in statement of profit or loss. Any gain or loss on de-recognition is also included in profit or loss.

### **De-recognition**

### **Financial assets**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

### **Financial liabilities**

The Company derecognizes a financial liability (or a part of financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legal enforceable right to set off and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

*Law*

## Impacts of adoption of IFRS 9 on these financial statements as on July 01, 2018

On July 01, 2018, the Company's management has assessed which business models apply to the financial assets held by the Company at the date of initial application of IFRS 9 (July 01, 2018) and has classified its financial instruments into appropriate IFRS 9 categories.

### Reclassifications of financial instruments on adoption of IFRS 9

As on July 01, 2018, the classification and measurement of financial instruments of the Company were as follows:

| Measurement category |                 | Carrying amounts   |     |            |
|----------------------|-----------------|--------------------|-----|------------|
| Original<br>(IAS 39) | New<br>(IFRS 9) | Original           | New | Difference |
|                      |                 | Rupees in thousand |     |            |

#### Current financial assets

|   |                       |                |               |               |   |
|---|-----------------------|----------------|---------------|---------------|---|
| Receivable from NTDC through loan notes | Loans and receivables | Amortized cost | 42,412,169    | 42,412,169    | - |
| Advance to HUBCO                        | Loans and receivables | Amortized cost | 802,000       | 802,000       | - |
| Due from principals                     | Loans and receivables | Amortized cost | 1,289,325,361 | 1,289,325,361 | - |
| Markup receivable                       | Loans and receivables | Amortized cost | 58,049,360    | 58,049,360    | - |
| Bank balances                           | Loans and receivables | Amortized cost | 16,317,686    | 16,317,686    | - |

#### Current financial liabilities

|                                |                |                |             |             |   |
|--------------------------------|----------------|----------------|-------------|-------------|---|
| Energy payables swapped by GoP | Amortized cost | Amortized cost | 577,639,647 | 577,639,647 | - |
| Energy and other payables      | Amortized cost | Amortized cost | 827,491,582 | 827,491,582 | - |

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**NOTE**

**3 PROPERTY AND EQUIPMENT**

Operating fixed assets  
Capital work in progress

|     | 2019<br>(Rupees in thousand) | 2018<br>(Rupees in thousand) |
|-----|------------------------------|------------------------------|
| 3.1 | 59,640                       | 60,126                       |
| 3.2 | 35,145                       | -                            |
|     | 94,785                       | 60,126                       |

**3.1 Operating fixed assets**

Reconciliations of carrying amounts of operating fixed assets at the beginning and end of the year are as follows:

|                                 | Operating fixed assets<br>(Rupees in thousand) |                       |          |                  | Total    |
|---------------------------------|--|-----------------------|----------|------------------|----------|
|                                 | IT and networking equipment                    | Furniture and fixture | Vehicles | Office equipment |          |
| <b>At June 30, 2017</b>         |  |                       |          |                  |          |
| Cost                            | 23,415   | 11,400                | 27,637   | 6,810            | 69,262   |
| Accumulated depreciation        | (15,049)                                       | (2,260)               | (25,986) | (715)            | (44,010) |
| Net book value                  | 8,366  | 9,140                 | 1,651    | 6,095            | 25,252   |
| <b>Year ended June 30, 2018</b> |  |                       |          |                  |          |
| Opening net book value          | 8,366  | 9,140                 | 1,651    | 6,095            | 25,252   |
| Additions                       | 42,933   | 2,743                 | -        | 1,680            | 47,356   |
| Depreciation (Note 17)          | (8,447)  | (2,385)               | (183)    | (1,467)          | (12,482) |
| Closing net book value          | 42,852   | 9,498                 | 1,468    | 6,308            | 60,126   |
| <b>At June 30, 2018</b>         |  |                       |          |                  |          |
| Cost                            | 66,348   | 14,143                | 27,637   | 8,490            | 116,618  |
| Accumulated depreciation        | (23,496)                                       | (4,645)               | (26,169) | (2,182)          | (56,492) |
| Net book value                  | 42,852   | 9,498                 | 1,468    | 6,308            | 60,126   |
| <b>Year ended June 30, 2019</b> |  |                       |          |                  |          |
| Opening net book value          | 42,852   | 9,498                 | 1,468    | 6,308            | 60,126   |
| Additions                       | 24,266   | 312                   | -        | 824              | 25,402   |
| Transferred to NTDCL:           |  |                       |          |                  |          |
| Cost                            | -  | -                     | (7,807)  | -                | (7,807)  |
| Accumulated depreciation        | -  | -                     | 7,807    | -                | 7,807    |
| Depreciation (Note 17)          | (21,069)                                       | (2,836)               | (184)    | (1,799)          | (25,888) |
| Closing net book value          | 46,049   | 6,974                 | 1,284    | 5,333            | 59,640   |
| <b>At June 30, 2019</b>         |  |                       |          |                  |          |
| Cost                            | 90,614   | 14,455                | 19,830   | 9,314            | 134,213  |
| Accumulated depreciation        | (44,565)                                       | (7,481)               | (18,546) | (3,981)          | (74,573) |
| Net book value                  | 46,049   | 6,974                 | 1,284    | 5,333            | 59,640   |
| Annual rate of depreciation (%) | 33%  | 20%                   | 10%      | 20%              |          |

Annual rate of depreciation (%)

3.1.1 As explained in Note 1.1, certain assets were transferred to the Company on June 03, 2015 by NTDCL in accordance with the terms and conditions of the Business Transfer Agreement between NTDCL and the Company. However, transfer of title of the 25 vehicles (June 30, 2018: 48 vehicles) in the name of the Company is under process with the Vehicle Registration Authorities. *Law.*

**NOTE** **2019** **2018**  
(Rupees in thousand)

**3.2 Capital work in progress**

|                                     |   |
|-------------------------------------|---|
| Opening balance                     | - |
| Additions                           | - |
| - Leasehold improvements            | - |
| - Advance for purchase of generator | - |
| Closing balance                     | - |

|  |        |
|--|--------|
|  | 30,249 |
|  | 4,896  |
|  | 35,145 |
|  | 35,145 |

**4 INTANGIBLE ASSETS**

**At June 30, 2017**

|                          |   |
|--------------------------|---|
| Cost                     | - |
| Accumulated amortization | - |
| Net book value           | - |

**Year ended June 30, 2018**

|                                  |         |
|----------------------------------|---------|
| Opening net book value           | -       |
| Additions                        | 22,608  |
| Transferred to intangible assets | 13,535  |
| Amortization (Note 17)           | (3,305) |
| Closing net book value           | 32,838  |

**At June 30, 2018**

|                          |         |
|--------------------------|---------|
| Cost                     | 36,143  |
| Accumulated amortization | (3,305) |
| Net book value           | 32,838  |

**Year ended June 30, 2019**

|                        |         |
|------------------------|---------|
| Opening net book value | 32,838  |
| Additions              | 1,400   |
| Amortization (Note 17) | (7,136) |
| Closing net book value | 27,102  |

**At June 30, 2019**

|                          |          |
|--------------------------|----------|
| Cost                     | 37,543   |
| Accumulated amortization | (10,441) |
| Net book value           | 27,102   |

Annual rate of amortization (%)

20%

20%

4.1 This represents payments made in respect of implementation of Enterprise Resource Planning Solution (Phase II) and Enterprise Content Management Solution which are under development. *Par*

## 5 DEFERRED TAX ASSET

As at the reporting date, the Company had the following deferred tax assets items:

|  | 2019                 | 2018      |
|--|----------------------|-----------|
|  | (Rupees in thousand) |           |
| <b>Deferred tax debits:</b>                        |                      |           |
| Unused tax losses                                  | 100,471              | 146,165   |
| Accelerated accounting depreciation / amortization | 4,744                | 1,129     |
| Provision for gratuity                             | 3,787                | 1,409     |
|  | 109,002              | 148,703   |
| Less: Unrecognized deferred tax asset              | (109,002)            | (148,703) |
|  | <u>-</u>             | <u>-</u>  |

- 5.1 Deferred tax asset as at June 30, 2019 to the extent of Rupees 109.002 million (2018: Rupees 148.703 million) has not been recognized as the Company is uncertain about the timing and extent of future taxable profits against which such benefits can be utilized.

|  | NOTE      | 2019                 | 2018                 |
|--|-----------|----------------------|----------------------|
|  |           | (Rupees in thousand) |                      |
| <b>6 DUE FROM PRINCIPALS</b>                         | 6.1 & 6.2 |                      |                      |
| Lahore Electric Supply Company Limited (LESCO)       |           | 201,444,068          | 146,160,021          |
| Faisalabad Electric Supply Company Limited (FESCO)   |           | 92,285,188           | 73,979,686           |
| Multan Electric Power Company Limited (MEPCO)        |           | 148,532,072          | 122,099,808          |
| Quetta Electric Supply Company Limited (QESCO)       |           | 350,931,113          | 277,537,896          |
| Gujranwala Electric Power Company Limited (GEPCO)    |           | 29,258,673           | 2,667,136            |
| Islamabad Electric Supply Company Limited (IESCO)    |           | 131,207,225          | 99,647,553           |
| Peshawar Electric Supply Company Limited (PESCO)     |           | 393,703,961          | 344,856,905          |
| Tribal Areas Electric Supply Company Limited (TESCO) |           | 23,113,480           | 19,565,997           |
| Hyderabad Electric Supply Company Limited (HESCO)    |           | 274,822,691          | 243,008,666          |
| Sukkur Electric Power Company Limited (SEPCO)        |           | 236,591,677          | 199,587,956          |
|  |           | <u>1,881,890,148</u> | <u>1,529,111,624</u> |
| Government equity adjustments                        | 6.3       | (308,096,000)        | (308,096,000)        |
| Tariff Rationalization Surcharge                     |           | -                    | (109,866)            |
|  |           | <u>1,573,794,148</u> | <u>1,220,905,758</u> |
| K-Electric Limited                                   | 6.4       | 135,420,142          | 87,502,310           |
|  |           | <u>1,709,214,290</u> | <u>1,308,408,068</u> |
| Tariff Differential Subsidy                          |           | -                    | (20,000,000)         |
| Unbilled costs                                       |           | -                    | 917,293              |
|  |           | <u>1,709,214,290</u> | <u>1,289,325,361</u> |

- 6.1 These represent amounts against settlement of energy to DISCOs and K-Electric. The Company has signed Power Procurement Agency Agreements with all DISCOs to perform the designated purposes on the terms and conditions set forth in the agreements subject to the stipulations prescribed by NEPRA and / or commercial code. Power Procurement Agency Agreement with K-Electric has not been signed till the date of authorization of these financial statements. However, the management is confident that the Power Procurement Agency Agreement with K-Electric will shortly be signed with effect from back date.
- 6.2 The balances of amounts due as transferred from NTDCL under BTA, include mark-up on delayed payment amounting to Rupees 110,630 million charged to DISCOs and K-Electric which has not been acknowledged on the grounds that NEPRA disallowed the respective DISCOs and K-Electric for claiming these charges in their tariff determination. The Company pursued the matter with NEPRA and as per NEPRA's instruction, the Company has filed petition for regularization of supplemental charges vide letter No. CPPA-G/2018/CEO/5924-25 dated June 29, 2018 followed by the reminders dated October 17, 2018 and May 29, 2019. However, the matter is pending for settlement till the date of authorization of these financial statements.

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|  | <b>2019</b>                 | <b>2018</b>        |
|--|-----------------------------|--------------------|
|  | <b>(Rupees in thousand)</b> |                    |
| <b>6.3 Government equity adjustments</b>           |                             |                    |
| Lahore Electric Supply Company Limited (LESCO)     | 37,155,296                  | 37,155,296         |
| Faisalabad Electric Supply Company Limited (FESCO) | 19,415,216                  | 19,415,216         |
| Multan Electric Power Company Limited (MEPCO)      | 30,599,566                  | 30,599,566         |
| Quetta Electric Supply Company Limited (QESCO)     | 44,468,132                  | 44,468,132         |
| Gujranwala Electric Power Company Limited (GEPCO)  | 15,923,907                  | 15,923,907         |
| Islamabad Electric Supply Company Limited (IESCO)  | 19,651,788                  | 19,651,788         |
| Peshawar Electric Supply Company Limited (PESCO)   | 64,094,476                  | 64,094,476         |
| Hyderabad Electric Supply Company Limited (HESCO)  | 46,187,768                  | 46,187,768         |
| Sukkur Electric Power Company Limited (SEPCO)      | 30,599,851                  | 30,599,851         |
|  | <u>308,096,000</u>          | <u>308,096,000</u> |

During the year 2012-13, President of Islamic Republic of Pakistan sanctioned payment of Rupees 341,958 million to PEPCO on account of settlement of circular debts. Under this transaction the State Bank of Pakistan was advised to credit the said amount to PEPCO for onward transmission to concerned IPPs / Entities as per mapping of the transaction through the Company. On April 28, 2016, Ministry of Finance vide its letter No. F1(4)-CF.I/2015-16/443 reduced the amount by Rupees 23,962 million with corresponding decrease in DISCOs. During previous year, Ministry of Finance vide its letter dated January 22, 2018 further reduced the amount to Rupees 308,096 million.

- 6.4 NTDCL has entered into Energy Supply Agreement (ESA) with K-Electric on January 26, 2010 which expired in January 2015. According to expired ESA, the invoice for every month is to be cleared by K-electric within 15 days while the remaining amount payable along with next month invoice. Mark-up @ KIBOR plus 3% is chargeable on any delayed payment of invoices. The Company has filed a suit for recovery of Rupees 83,990 million along with interest from the date of default against K-Electric in Civil Court, Islamabad where the matter is pending adjudication and next hearing is fixed on September 24, 2019. K-Electric is of view that this should be adjusted against its subsidy receivable from GoP.

|   | <b>NOTE</b> | <b>2019</b>                 | <b>2018</b>          |
|---|-------------|-----------------------------|----------------------|
|   |             | <b>(Rupees in thousand)</b> |                      |
| <b>7 RECEIVABLE FROM NTDCL THROUGH LOAN NOTES</b>   | 1.1 & 1.2   |                             |                      |
| Total liabilities transferred by NTDCL              |             | 648,750,520                 | 655,913,753          |
| Total assets transferred by NTDCL                   |             | <u>(607,101,584)</u>        | <u>(613,501,584)</u> |
| Loan note receivable from NTDCL                     |             | <u>41,648,936</u>           | <u>42,412,169</u>    |
| <b>8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLE</b> |             |                             |                      |
| <b>Advances - unsecured, considered good:</b>       |             |                             |                      |
| Advance to Lakhra Power Generation Company Limited  | 8.1         | 5,540,844                   | 5,540,844            |
| Advance to HUBCO                                    | 8.2         | 802,000                     | 802,000              |
| Advance to QESCO                                    | 8.3         | 161,444                     | 77,563               |
| Advance to employees gratuity fund                  |             | -                           | 3,891                |
| Staff advances                                      |             | 3,793                       | 6,906                |
| Advances to suppliers                               |             | 3,542                       | 868                  |
|   |             | 6,511,623                   | 6,432,072            |
| Prepaid expenses                                    |             | 6,489                       | 2,413                |
| Accrued profit                                      |             | 99,240                      | -                    |
|   |             | <u>6,617,352</u>            | <u>6,434,485</u>     |

- 8.1 This represents advance given against operations and maintenance expenses and for fuelling of power complex.

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- 8.2 This represents receivable from HUBCO on account of HUBCO first fuel fill, sanctioned by GOP through Pakistan State Oil (PSO). Ministry of Finance made the subject payment to PSO and instructed HUBCO to book a payable towards WAPDA. HUBCO has denied the payment of this amount and has disputed with WAPDA, and it was agreed between both the parties on April 01, 2009 that both parties will have the legitimate opportunity on commencement of 20th anniversary of plant to raise this matter. The Company approached HUBCO on November 01, 2017 to settle the matter but HUBCO refused to recognize the said balance. Resultantly, the Board in a meeting held on May 09, 2018 resolved to adjust the cost of first fill along with interest against overdue late payment charges invoiced by HUBCO and in case HUBCO disagrees, resolve the issue through dispute resolution mechanism. HUBCO has disputed the adjustment and filed case against the Company in Sindh High Court on July 06, 2018 where the matter is pending adjudication.
- 8.3 This represents advance given for custom clearance of import of energy from Tavanir.

|   | NOTE | 2019<br>(Rupees in thousand) | 2018               |
|---|------|------------------------------|--------------------|
| <b>9 ACCRUED MARK-UP</b>                    | 1.1  |                              |                    |
| Interest on K-Electric receivables          |      | 7,559,332                    | 7,559,332          |
| Provision for doubtful interest receivables |      | <u>(7,559,332)</u>           | <u>(7,559,332)</u> |
|   |      | <u>-</u>                     | <u>-</u>           |

#### 10 MARK-UP RECEIVABLE

This represents aggregate receivable from DISCOs on account of mark-up on syndicated term finance facility as explained in Note 12. These balances are being repaid to PHPL on recovery from DISCOs. However, certain DISCOs have not acknowledged the transfer of this mark-up amounting to Rupees 53,937 million (2018: Rupees 53,937 million). The management of the Company is of the view that there shall be no impact of the aforesaid matter on net assets or surplus / deficit of the Company on ultimate settlement of the matter in view of levy of Financing Cost Surcharge.

#### 11 BANK BALANCES

- 11.1 The balances in saving accounts carry return ranging from 6.96% to 10.25% (2018: 3.5% to 9%) per annum.
- 11.2 This includes an amount of Rupees 0.032 million (2018: Rupees 1,502 million) and Rupees 7,651.77 million (2018: Rupees Nil) held in escrow account for payment to WAPDA Hydel and escrow account for profit / rental payments of Pakistan energy sukuk-1, respectively.

#### 12 ENERGY PAYABLES SWAPPED BY GOVERNMENT OF PAKISTAN

The tariff and regulatory structure of the power sector ensures such working capital mechanism for the power producers, that enables them to keep a secured supply of electricity, which depends on the procurement of fuel. Since the payments to the power producers have been secured by sovereign guarantee issued by the Government of Pakistan (GoP), if the power producers are not paid on due dates, they shall start calling upon the sovereign guarantees. Further, a late payment surcharge is also imposed due to which the power sector remains under circular debt.

This leads GoP to swap the energy payables with commercial loans and ijara agreement from banks. In accordance with the Economic Coordination Committee (ECC) decisions, these syndicated term finance facilities are being parked in Power Holding (Private) Limited (PHPL) which transfers the funds received under these financing facilities to the Company on direction of Ministry of Energy, Power Division. The amounts transferred to the Company are repayable on demand as per instructions of the said Ministry to PHPL.

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Servicing of loans amounting to Rupees 290,862 million (2018: Rupees 301,873 million) are being managed by way of Financing Cost Surcharge levied under sub-section 5 of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 vide S.R.O. 908(I)/2014 dated October 03, 2014. Further, as per ECC decisions, servicing of loans amounting to Rupees 55,000 million (2018: Rupees 55,000 million) and Rupees 41,000 million (2018: Rupees 41,000 million) are the responsibility of GoP (Finance Division) and DISCOs respectively whereas servicing of loans amounting to Rupees 215,806 million (2018: Rupees 215,806 million) shall be managed by a surcharge yet to be levied by GoP.

During the year, PHPL has raised Rupees 200,000 million to swap the energy payable by issuance of shariah compliant Sukuk Certificates for a tenure of ten years.

|   | NOTE            | 2019<br>(Rupees in thousand) | 2018               |
|---|-----------------|------------------------------|--------------------|
| <b>13 ENERGY AND OTHER PAYABLES</b>                 |                 |                              |                    |
| Energy and other payables by principals             | 13.1            | 1,043,057,059                | 827,592,738        |
| Payables by the Company                             | 13.2            | 271,654                      | 197,513            |
|   |                 | <u>1,043,328,713</u>         | <u>827,790,251</u> |
| <b>13.1 Energy and other payables by principals</b> |                 |                              |                    |
| <b>Energy payables:</b>                             |                 |                              |                    |
| Energy creditors                                    | 13.1.1          | 959,861,521                  | 731,553,473        |
| Payable to NTDC                                     | 13.1.2          | -                            | 12,725,728         |
| Payable to WAPDA for HUBCO                          | 8.2             | 802,000                      | 802,000            |
| Neelum Jhelum surcharge                             |                 | 46,452                       | 15,535             |
| Electricity duty                                    |                 | 37,497                       | 24,144             |
| <b>Other payables:</b>                              |                 |                              |                    |
| Payable to WAPDA                                    | 13.1.3          | 82,209,683                   | 82,209,683         |
| Payable to PEPCO                                    |                 | 90,000                       | 80,693             |
| Unidentified receipts                               |                 | 9,906                        | 181,482            |
|   |                 | <u>1,043,057,059</u>         | <u>827,592,738</u> |
| <b>13.1.1 Energy creditors</b>                      | <b>13.1.1.1</b> |                              |                    |
| Generation companies (GENCOs)                       |                 | 50,758,125                   | 37,766,075         |
| WAPDA Hydel   |                 | 192,282,955                  | 98,517,754         |
| Chashma Nuclear Power Plant (Chasnupp)              |                 | 33,126,770                   | 33,787,054         |
| Independent Power Producers (IPPs)                  |                 | 683,693,671                  | 561,482,590        |
|   |                 | <u>959,861,521</u>           | <u>731,553,473</u> |

13.1.1.1 This includes an amount of Rupees 96,828.424 million (2018: Rupees 63,400.765 million) payable in respect of late payment interest. As on June 30, 2019, an amount of Rupees 69,986.461 million (2018: Rupees 63,028.839 million) is disputed in respect of liquidated damages penalties, imposed on power producers due to non-fulfilment of contractual provisions of PPAs. The actual payables are contingent to this extent subject to final outcome of the disputes.

13.1.2 As on June 30, 2019, Use of System Charges payable by DISCOs to NTDC remitted through the Company was Rupees 10,321 million (2018: Rupees 32,173 million).

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|                                | NOTE     | 2019<br>(Rupees in thousand) | 2018              |
|--------------------------------|----------|------------------------------|-------------------|
| <b>13.1.3 Payable to WAPDA</b> |          |                              |                   |
| Payable balance                | 13.1.3.1 | 135,710,601                  | 135,710,601       |
| Less: balance receivable       | 13.1.3.2 | (53,500,918)                 | (53,500,918)      |
|                                |          | <u>82,209,683</u>            | <u>82,209,683</u> |

13.1.3.1 This mainly represents balances transferred by WAPDA to NTDC in 2008-09.

13.1.3.2 This includes Rupees 47,164 million (2018: Rupees 47,164 million) on account of loan obtained by WAPDA for DISCOs. This also includes Rupees 2,318 million (2018: Rupees 2,318 million) receivable from WAPDA on behalf of Japan Power Generation Limited (JPGL) and Rupees 2.445 million (Rupees 2.445 million) on behalf of SEPCOL. The amount receivable from JPGL represents advance given for fueling of power complex. This advance was given with the objective to provide continuous electricity supply to the general public during the times of heavy loadsheddings as JPGL did not have funds for fuel purchasing. Recovery suit has been filed against JPGL and SEPCOL for the recovery of outstanding amount before competent jurisdictions. As per the latest audited financial statements of JPGL, its financial position is adverse and its equity has been eroded and its total liabilities have exceeded its total assets. However, the management of the Company is of the view that there shall be no impact of the aforesaid matter on net assets or surplus / deficit of the Company as the purchase price of Market Operations Undertaking receivable from NTDC (as more fully explained in note 1.1) can be adjusted in case of non-resolution of this matter.

|  | NOTE   | 2019<br>(Rupees in thousand) | 2018           |
|--|--------|------------------------------|----------------|
| <b>13.2 Payables by the Company</b>              |        |                              |                |
| Advance against market operation fee             |        | 192,089                      | 102,284        |
| Accrued liabilities                              |        | 10,625                       | 53,723         |
| Withholding tax payable                          |        | 6,198                        | 8,968          |
| Payable to employees contributory provident fund |        | 1,258                        | 1,063          |
| Payable to employees gratuity fund               | 13.2.1 | 12,470                       | -              |
| Sales tax payable - net                          |        | 9,946                        | 5,935          |
| Payable to suppliers                             |        | 31,431                       | 18,863         |
| Other liabilities                                |        | 7,637                        | 6,677          |
|  |        | <u>271,654</u>               | <u>197,513</u> |

#### 13.2.1 Payable to employees gratuity fund

##### 13.2.1.1 Statement of financial position

|  |               |                |
|--|---------------|----------------|
| Present value of defined benefit obligations | 32,913        | 16,459         |
| Less: fair value of plan assets              | (20,443)      | (20,349)       |
| Balance sheet liability / (asset)            | <u>12,470</u> | <u>(3,890)</u> |

##### 13.2.1.2 Changes in present value of defined benefit obligations

|  |               |               |
|--|---------------|---------------|
| Present value of defined benefit obligation at beginning | 16,459        | 8,775         |
| Current service cost                                     | 13,413        | 9,885         |
| Interest cost on defined benefit obligation              | 1,425         | 436           |
| Benefits due but not paid                                | -             | -             |
| Benefits paid  | (1,244)       | (2,224)       |
| Remeasurement of defined benefit obligation:             |               |               |
| Actuarial loss from changes in demographic assumptions   | 185           | -             |
| Actuarial loss from changes in financial assumptions     | 412           | 46            |
| Experience adjustments                                   | 2,263         | 1,584         |
| Transitional asset                                       | -             | (2,043)       |
| Present value of defined benefit obligation at end       | <u>32,913</u> | <u>16,459</u> |

##### 13.2.1.3 Changes in present value of plan assets

|  |               |               |
|--|---------------|---------------|
| Fair value of plan assets at beginning           | 20,349        | -             |
| Contributions                                    | 94            | 14,412        |
| Interest income on plan assets                   | 1,780         | 1,090         |
| Benefits paid during the year                    | (1,244)       | (2,224)       |
| Benefits due but not paid                        | -             | -             |
| Return on plan assets, excluding interest income | (536)         | (898)         |
| Transitional asset                               | -             | 7,969         |
| Fair value of plan assets at end                 | <u>20,443</u> | <u>20,349</u> |

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|   | 2019                     | 2018                     |
|---|--------------------------|--------------------------|
|   | (Rupees in thousand)     |                          |
| <b>13.2.1.4 Expenses to be charged to income and expenditure statement</b>                                  |                          |                          |
| Current service cost  | 13,413                   | 9,885                    |
| Interest cost on defined benefit obligation   | 1,425                    | 436                      |
| Interest income on plan assets  | (1,780)                  | (1,090)                  |
|   | <u>13,058</u>            | <u>9,231</u>             |
| <b>13.2.1.5 Remeasurements chargeable to statement of comprehensive income</b>                              |                          |                          |
| Remeasurement of plan obligation:   |                          |                          |
| Actuarial losses from changes in demographic assumptions  | 185                      | -                        |
| Actuarial losses from changes in financial assumptions  | 412                      | 46                       |
| Experience adjustments  | 2,263                    | 1,584                    |
| Transitional asset  | -                        | (10,012)                 |
|   | <u>2,860</u>             | <u>(8,382)</u>           |
| Return on plan assets, excluding interest income  | 536                      | 898                      |
|   | <u>3,396</u>             | <u>(7,484)</u>           |
| <b>13.2.1.6 Changes in net asset</b>  |                          |                          |
| Statement of financial position (asset) / liability at beginning  | (3,890)                  | 8,775                    |
| Expenses to be charged to income and expenditure statement  | 13,058                   | 9,231                    |
| Remeasurements chargeable to statement of comprehensive income  | 3,396                    | (7,484)                  |
| Contributions   | (94)                     | (14,412)                 |
| Present value of net liability / (assets) at end  | <u>12,470</u>            | <u>(3,890)</u>           |
| <b>13.2.1.7 Significant actuarial assumptions</b>   |                          |                          |
| Discount rate used for interest cost  | 9.00%                    | 7.75%                    |
| Discount rate used for year end obligation  | 14.25%                   | 9.00%                    |
| Salary increase rate used for year end obligation:  |                          |                          |
| - Financial year 2019   | N/A                      | 8.00%                    |
| - Financial year 2020 onward  | 13.25%                   | 8.00%                    |
| Next salary is increased at   | July 01,2019             | July 01,2018             |
| Mortality rates   | SLIC 2001-2005           | SLIC 2001-2005           |
|   | Setback 1 Year           | Setback 1 Year           |
| Withdrawal rates  | Age based (per appendix) | Age based (per appendix) |
| Retirement assumption   | Age 60                   | Age 60                   |
| <b>13.2.1.8 Estimated expenses to be charged in income and expenditure statement in financial year 2020</b> |                          | <b>June 30, 2020</b>     |
| Current service cost  |                          | 17,857                   |
| Interest cost on defined benefit obligation   |                          | 4,621                    |
| Interest income on plan assets  |                          | (2,851)                  |
|   |                          | <u>19,627</u>            |
| <b>13.2.1.9 Plan assets at June 30, 2019 comprise:</b>  |                          |                          |
|   | <b>June 30, 2019</b>     | <b>June 30, 2018</b>     |
| Bond  | 98.32%                   | 36.05%                   |
| Cash  | 1.68%                    | 63.95%                   |
|   | <u>100.00%</u>           | <u>100.00%</u>           |
| <b>13.2.1.10 Year end sensitivity analysis on defined benefit obligation</b>                                |                          |                          |
| Discount rate +100 bps  |                          | 30,386                   |
| Discount rate -100 bps  |                          | 35,854                   |
| Salary increase +100 bps  |                          | 35,900                   |
| Salary increase -100 bps  |                          | 30,303                   |

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13.2.1.11 **Expected benefit payments for next 10 years and beyond**

|                             | <b>Rupees in thousands</b> |
|-----------------------------|----------------------------|
| Financial year 2020         | 965                        |
| Financial year 2021         | 6,826                      |
| Financial year 2022         | 6,132                      |
| Financial year 2023         | 9,092                      |
| Financial year 2024         | 10,098                     |
| Financial year 2025         | 19,586                     |
| Financial year 2026         | 8,171                      |
| Financial year 2027         | 11,792                     |
| Financial year 2028         | 44,482                     |
| Financial year 2029         | 73,551                     |
| Financial year 2030 onwards | 3,738,577                  |

13.2.1.12 **Average duration of the defined benefit obligation**

8 years

13.2.1.13 **Risks associated with the scheme**

- a) **Final Salary Risk** (linked to inflation risk) – the risk that the final salary at the time of cessation of service is greater than what we assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macroeconomic factors), the benefit amount increases as salary increases.
- b) **Demographic Risks:**
- Mortality Risk** - The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.
- Withdrawal Risk** - The risk of actual withdrawals experience is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.
- c) **Investment Risk** – the risk of the investment underperforming and being not sufficient to meet the liabilities.

**2019**                      **2018**  
**(Rupees in thousand)**

**14 PROVISION FOR TAXATION**

|  |               |               |
|--|---------------|---------------|
| Balance at the beginning of the period                 | 14,793        | (44,195)      |
| Provision made during the period - net                 | 61,047        | (46)          |
| Income tax paid / deducted at source during the period | (30,110)      | (125,098)     |
| Adjustments  | -             | 184,132       |
| Balance at the end of period                           | <u>45,730</u> | <u>14,793</u> |

**15 CONTINGENCIES AND COMMITMENTS**

As a result of BTA, all disputed balances and litigations pertaining to Market Operations Undertaking have been transferred to the Company from NTDC. Charges raised due to litigation / arbitration proceedings on the Company are allowed as pass through to the power purchaser as capacity component. As the Company is acting as an agent on behalf of the Distribution Companies and accordingly the litigation / arbitration expense incurred on actual basis are being charged as pass through item as capacity transfer price.

- 15.1 The Company has disputed Capacity Purchase Price (CPP) of various IPPs amounting to Rupees 13,526 million on account of non-availability of power complex for electricity generation due to working capital difficulties. The concerned IPPs have taken the plea that the power complex has been technically available for electricity generation, whereas, the default is on the Company's end as it does not make timely payments to the IPPs due to which they were unable to make timely payments to fuel suppliers. On June 28, 2013, IPPs have taken this matter for Expert Determination (ED) and the experts gave their recommendations in favour of IPPs along with impleading Government of Pakistan through Private Power and Infrastructure Board (PPIB). While the experts proceedings were going on, IPPs filed a premature request for arbitration in the London Court of International Arbitration (LCIA) on July 08, 2014 in contravention of PPAs, and requested the Company for arbitration, whereby an Arbitrator was appointed. Meanwhile, PPIB challenged the ED before Civil Court where injunctive orders were issued suspending the operation of ED and barring the parties to the arbitration. On continuation of proceedings by IPPs, PPIB has also filed contempt petitions against IPPs which are pending in Lahore High Court for further proceedings.

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The Company requested a stay in the arbitration proceedings on November 30, 2015 citing the injunctive orders obtained by PPB which was denied by the Arbitrator. The parties were required to file their submissions by April 03, 2017, and since injunctive orders were in field, the Company could not formally make its submissions. However, the Company filed notional submission to avoid ex-parte determination. On July 08, 2017, injunctive orders were suspended enabling the Company to participate in the arbitration, however on August 04, 2017, both injunctive orders were reinstated and ED was once again suspended. The Arbitrator, on June 08, 2017 and October 29, 2017 declared his Partial and Final Award respectively and decided the matter principally in IPPs favour in contravention of orders of Courts of Pakistan. IPPs filed an application before Lahore High Court (LHC) for implementation of Final Award that is pending adjudication. The Company challenged the Awards before the Civil Court, Lahore under the Arbitration Act, 1940, however on May 04, 2018, Commercial Court of England issued a decision, thereby preventing the Company from pursuing case in Pakistan Civil Courts against Partial / Final Award issued by the arbitrator. The Company sought the permission to appeal in Court of Appeal through its foreign counsel on June 07, 2018 which was refused and now the case shall be proceeded under the New York Convention. Further, the Company also contested the enforcement proceedings initiated by the 9 IPPs, which matter is presently pending before the Lahore High Court. As per advice of the legal counsel of the Company, the Partial and the Final Awards cannot be enforced until they are rendered into a decree by the courts of Pakistan and no right / obligation can be established till the issuance of decree. Such a decree cannot be issued until the aforementioned proceedings are not resolved in favour of the 9 IPPs. Therefore, the Company has made no adjustment in this respect in these financial statements.

- 15.2 The Company has disputed claims of Atlas Power Limited, Nishat Chunian Power Limited, Liberty Powertech Limited and Nishat Power Limited amounting to Rupees 2,390 million along with interest on account of compounding of late payment interest, interest on interest, interest period, implementation of FIFO method in payment of invoices, and certain technical grounds, being not covered under the PPAs. Recognition and enforcement petition filed by Atlas Power Limited and related objection filed by the Company is pending in Lahore High Court. Matter with Nishat Power Limited is pending before Arbitral Tribunal appointed by LCIA where the final award is awaited. Final award issued to Nishat Chunnian Power Limited and Liberty Powertech Limited on July 25, 2019 has been challenged by the Company in the Civil Court, Lahore where the matter is pending for arguments. Pending the outcome of the case, no adjustment has been made in these financial statements.
- 15.3 The Company has adjusted USD 0.447 million from FFC Energy Limited and USD 2.659 million (along with interest of Rupees 283.5 million) from Orient Power Company (Private) Limited in respect of liquidated damages on account of non-commissioning of operations on the Required Commercial Operation Date (RCOD). The matter with FFC Energy Limited, instituted on April 11, 2017 is pending for arguments in Islamabad High Court while the last hearing with Orient Power Company (Private) Limited was fixed at February 14, 2019 in Lahore High Court. Pending the outcome of these cases, no adjustment has been made in these financial statements.
- 15.4 The Southern Electric Power Company Limited (SEPCOL) has filed a suit in the International Court of Arbitration ("ICA") against the Company claiming damages amounting to Rupees 5,000 million. However, the said suit has been kept in abeyance by the SEPCOL in an attempt to resolve the matters amicably out-of-court. Whereas, the Company has raised the liquidated damages (LDs) of Rupees 2,500 million which has been disputed by the SEPCOL. The management is confident that the matter will be resolved in Company's favour. The matter is pending before Civil Court Lahore.
- The Company has booked an amount of Rupees 1,300 million as payable to SEPCOL on account of capacity purchase price which relates to the period June 2008 to May 2009. The management is of the view that it has no intention of paying the due amount as the power producer is in arbitration with the Company. Further, the Company has paid an advance of Rupees 533 million for purchase of fuel.
- 15.5 The Company has disputed mark up charged by WAPDA amounting to Rupees 4,900 million on pre-BTA loan obtained by WAPDA to fulfil the working capital requirement of the Company. However, the Company has denied the payment of the said mark up with argument that in the absence of any formal PPA with WAPDA Hydro Electric, it is unable to entertain the same and accordingly no adjustment for this has been made in these financial statements.
- 15.6 The Company filed an appeal before Lahore High Court (LHC) against Appellate Tribunal Inland Revenue (ATIR) followed by Commissioner Inland Revenue (Appeals) (CIR(A)) wherein the order of Assistant Commissioner Inland Revenue (ACIR) creating demand of Rupees 1,514 million, Rupees 816 million and Rupees 934 million for tax years 2016 and 2017 under section 153(1)(b) of the Income Tax Ordinance, 2001 was upheld. The taxation authorities have recovered tax amounting to Rupees 1,751 million against the collective demand of Rupees 3,264 million vide notices dated January 11, 2017 and September 15, 2017 for tax year 2016 and 2017 through attachment of bank accounts of the Company whereas the Company recovered that tax from NTDC and obtained stay from ATIR against remaining outstanding demand. On November 07, 2018, LHC set aside the orders of ATIR and CIR(A) and remanded back the case to the taxation officer for re-determination of tax liability. No provision has been made in these financial statements as the Company is hopeful of a favorable outcome of the case.
- 15.7 Tax authorities have created a demand of Rupees 1,915 million and Rupees 5,567 million on May 12, 2016 and November 20, 2018 respectively to pay minimum and super tax under section 113 of the Income Tax Ordinance, 2001 against which writ petition has been filed by the Company in Islamabad and Lahore High Courts where the matter is pending adjudication.
- 15.8 Tax authorities have issued two notices amounting to Rupees 46,790 million and 62,640 million on August 23, 2016 and February 07, 2017 respectively for the year 2015-16 in respect of suppression of sales / inadmissible input, against which writ petitions have been filed in Islamabad and Lahore High Courts which are still to be decided. The revised monthly sales return supported by complete record including sales tax invoices, supply registers have been provided to FBR. The matter was resolved with FBR and a MOU was signed with FBR as a result Rupees 6,094 million was paid to FBR. MOU includes a clause that FBR would only proceed further if any discrepancy of non compliance would be observed in this regard.

*Law*

- 15.9 Tax authorities have issued notice dated December 10, 2018 stating that input credit amounting to Rupees 466.266 million claimed prior to registration is not allowable in term of section 59 of the ITO, 2001. The Company has filed writ petition to challenge the impugned notice in Lahore High Court.
- 15.10 Tax authorities have issued notice dated April 23, 2019 for amount of Rupees 5.135 million alleging the Company for making supplies to unregistered person i.e M/s Laraib Energy, TPS Quetta and Bulk supplies (Back feed energy invoice; declared as bulk supplies in Return) hence 2% further tax shall be paid by the Company under section 3 of the Sales Tax Act, 1990. The Company has challenged the impugned notice before Commissioner Appeals.
- 15.11 Tax authorities have issued notice dated April 23, 2019 for amount of Rupees 4.673 million alleging inadmissible input credits against the purchases of Computers, Office equipment, Vehicle parts, Hotel charges, Furniture bedding fittings which were not used for furtherance of taxable supplies and adjusted against output tax paid on Market Operation fee. The Company has challenged the impugned notice before Commissioner Appeals.
- 15.12 The ACIR imposed a penalty amounting to Rupees 221.066 million and default surcharge amounting to Rupees 646.446 million on April 17, 2017 on account of late payment of sales tax during the period from December 2015 to June 2016. The output tax charged by the Company to DISCOs should be equal to the input tax claimed by the Company, however, the Company records purchase of energy based on provisional invoices resulting in inflation of input tax and corresponding output tax charged to DISCOs. This is subsequently adjusted through issuance of credit notes to DISCOs. The Company obtained condonation from tax authorities of the time limit for issuance of credit notes to its customers which was granted by ATIR however extension for the same was rejected against which a writ petition for further stay was filed in LHC. On November 13, 2018, LHC rejected the appeal of the Company and upheld the orders of taxation authorities who recovered the above-mentioned amounts through bank attachment against which the Company has filed tax reference in LHC where the matter is pending adjudication.
- 15.13 The Company has stopped payments to JDW-II, JDW-III, RYK Mills Limited and Chiniot Power Limited on account of fixed components of NEPRA's tariff over and above of 45% of APCF since January 2018, and recovery of already paid fixed component beyond 45% APCF is being executed, since NEPRA's upfront tariffs for bagasse-based co-generation 2013 doesn't allow compensation was performance beyond the benchmark of 45% of the Annual Plant Capacity Factor (APCF) which is inconsistent with the Framework for Power Cogeneration 2013 Bagasse and Biomass' as an addendum to the Renewable Energy Policy 2006, effective for all high-pressure cogeneration projects utilizing bagasse and biomass. JDW has filed writ petition on April 04, 2019 against the matter before Islamabad High Court where the matter is pending adjudication.
- 15.14 The Company has a long pending dispute with JPGL on various issues excavating from the application of PPA with JPGL. In view of the disputes, JPGL filed a request for arbitration in the International Court of Arbitration (ICA) on January 12, 2009 claiming Rupees 5,000 million from the Company against which the Company also submitted its counter claims for Rupees 2,400 million.

On 07 March 2014, ICA announced its final award and declared that WAPDA is liable to pay Rupees 596 million, Rupees 50 million and Rupees 134 million for pre-award interest on additional capacity claim, NEC / indexation and interest thereon and pre-award interest under the settlement agreement claim, respectively.

Further, WAPDA is liable to pay to JPGL post-award interest at the base rate plus 2% compounded semi-annually on settlement agreement claim and additional capacity claim from 12 February 2014 onwards and on Rupees 100 million fuel advance refund from 09 July 2013 onwards all down to the date of actual payment of such mentioned claims. Furthermore, WAPDA is also liable to reimburse to JPGL Rupees 109 million on account of lawyer's fees, hearing costs and travel and accommodation costs.

On the other hand, ICA directed JPGL to pay forthwith Liquidated Damages (LDs) amounting to Rupees 778 million along with Rupees 558 million and Rupees 796 million on account of pre-award interest on LD's and fuel advance claim, respectively.

Each party was further advised to equally share cost of arbitration amounting to Rupees 108 million.

As per clause 15.3 of PPA signed and executed between the Company and JPGL, any dispute between the parties shall be finally settled through arbitration according to rules of arbitration of International Chamber of Commerce. According to PPA, the final award of ICA becomes contractual obligation of the parties. The Company has not accounted for the financial impact of the final award of ICA and has filed a petition in Civil Court Lahore pointing out certain concerns in the award, and the matter is pending adjudication.

|           |  | <b>2019</b>                 | <b>2018</b>     |
|-----------|--|-----------------------------|-----------------|
|           |  | <b>(Rupees in thousand)</b> |                 |
| 15.15     | Contractual commitments:               |                             |                 |
|           | - in respect of intangibles            | 24,959                      | 22,831          |
|           | - in respect of property and equipment | <u>34,976</u>               | -               |
|           |  | <u>59,935</u>               | <u>22,831</u>   |
| <b>16</b> | <b>MARKET OPERATION FEE</b>            |                             |                 |
|           | Market operation fee                   | 587,360                     | 462,786         |
|           | Less: sales tax                        | <u>(66,464)</u>             | <u>(63,663)</u> |
|           |  | <u>520,896</u>              | <u>399,123</u>  |

*laco*



- 16.1 This represents market operation fee determined by National Electric Power Regulatory Authority (NEPRA) for the administration, maintenance and implementation of the Commercial Code, NEPRA (Market Operator Registration, Standards and Procedure) Rules, supervision of compliance by market participants and billing, collection, settlement and payments procedures.

|                              | NOTE        | 2019<br>(Rupees in thousand) | 2018           |
|------------------------------|-------------|------------------------------|----------------|
| <b>17 OPERATING EXPENSES</b> |             |                              |                |
| Salaries and other benefits  | 17.1 & 17.2 | 508,643                      | 510,752        |
| Repair and maintenance       |             | 8,065                        | 9,482          |
| Legal and professional       |             | 27,193                       | 30,901         |
| Auditors' remuneration       | 17.3        | 650                          | 726            |
| Depreciation                 | 3           | 25,888                       | 12,482         |
| Amortization                 | 4           | 7,785                        | 3,305          |
| Rent                         |             | 63,060                       | 40,939         |
| Utilities                    |             | 7,172                        | 1,549          |
| Communication                |             | 6,280                        | 6,309          |
| Travelling                   |             | 5,211                        | 9,662          |
| Vehicles' running            |             | 4,625                        | 5,809          |
| Training expenses            |             | 25,869                       | 11,981         |
| Office supplies              |             | 3,828                        | 2,681          |
| Printing and stationery      |             | 2,839                        | 2,731          |
| Fee and subscriptions        |             | 3,346                        | 2,685          |
| Advertisement                |             | 3,193                        | 2,402          |
| Miscellaneous                |             | 4,494                        | 2,850          |
|                              |             | <u>708,141</u>               | <u>657,246</u> |

17.1 This includes salaries paid to employees of NTDC transferred to the Company on deputation.

17.2 Salaries and other benefits include provident fund and gratuity fund contributions of Rupees 6.692 million and Rupees 13.059 million (2018: Rupees 5.676 million and Rupees 4.859 million) respectively by the Company.

|                                       | 2019<br>(Rupees in thousand) | 2018       |
|---------------------------------------|------------------------------|------------|
| <b>17.3 Auditors' remuneration</b>    |                              |            |
| Statutory audit                       | 500                          | 500        |
| Employees retirement funds            | 100                          | 100        |
| Certification for regulatory purposes | 50                           | 50         |
| Out of pocket expenses                | -                            | 76         |
|                                       | <u>650</u>                   | <u>726</u> |

## 18 TAXATION

18.1 Provision for current tax on market operation fee recovered from DISCOs represents minimum tax on services rendered. Further, provision against income from other sources is made under the relevant provisions of the Income Tax Ordinance, 2001.

## 19 PROVIDENT FUND RELATED DISCLOSURE

19.1 The investments of provident fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

## 20 FINANCIAL RISK MANAGEMENT

### 20.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Company's finance department under policies approved by the Board of Directors (the Board). The Company's finance department evaluates financial risk. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

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**(a) Market risk****(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is not exposed to currency risk since the Company, being an agent of DISCOs, passes on all exchange gains / losses on translation of foreign exchange denominated financial liability to DISCOs.

**(ii) Other price risk**

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to other price risk.

**(iii) Interest rate risk**

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant interest-bearing assets except for bank balances on deposit accounts.

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

|                                  | 2019<br>(Rupees in thousand) | 2018<br>(Rupees in thousand) |
|----------------------------------|------------------------------|------------------------------|
| <b>Floating rate instruments</b> |                              |                              |
| <b>Financial assets</b>          |                              |                              |
| Bank balances - deposit accounts | <u>24,520,543</u>            | <u>16,317,686</u>            |

**Cash flow sensitivity analysis for variable rate instruments**

If interest rates at the year end date, fluctuate by 1% higher / lower with all other variables held constant, surplus / deficit for the year would have been Rupees 245.205 million higher / lower (2018: Rupees 163.177 million), mainly as a result of higher / lower interest income on bank balances. This analysis is prepared assuming the amounts of bank balances at reporting dates were outstanding for the whole year.

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk at the reporting date was as follows:

|               | 2019<br>(Rupees in thousand) | 2018<br>(Rupees in thousand) |
|---------------|------------------------------|------------------------------|
| Bank balances | <u>24,520,543</u>            | <u>16,317,686</u>            |

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

|  | Rating     |           |         | 2019                 | 2018              |
|--|------------|-----------|---------|----------------------|-------------------|
|  | Short term | Long term | Agency  | (Rupees in thousand) |                   |
| <b>Banks</b>                               |            |           |         |                      |                   |
| National Bank of Pakistan                  | A1+        | AAA       | PACRA   | 2,761,600            | 2,673,177         |
| Allied Bank Limited                        | A1+        | AAA       | PACRA   | 2,143,011            | 1,758,821         |
| Askari Bank Limited                        | A1+        | AA+       | PACRA   | 1,083,532            | 645,613           |
| Faysal Bank Limited                        | A1+        | AA        | PACRA   | 376,992              | 459,066           |
| Habib Bank Limited                         | A-1+       | AAA       | JCR-VIS | 1,706,130            | 3,079,225         |
| The Bank of Punjab                         | A1+        | AA        | PACRA   | 2,325,555            | 1,952,837         |
| Standard Chartered Bank (Pakistan) Limited | A1+        | AAA       | PACRA   | 110,083              | 58,353            |
| United Bank Limited                        | A1+        | AAA       | JCR-VIS | 999,573              | 1,233,328         |
| MCB Bank Limited                           | A1+        | AAA       | PACRA   | 2,691,402            | 2,030,949         |
| Bank Alfalah Limited                       | A1+        | AA+       | PACRA   | 358,119              | 257,220           |
| Bank Al-Habib Limited                      | A1+        | AA+       | PACRA   | 1,548,635            | 1,237,860         |
| Citibank, N.A. Pakistan                    | P-1        | A1        | Moody's | -                    | 22,070            |
| First Women Bank Limited                   | A2         | A-        | PACRA   | 65,374               | 8,181             |
| Habib Metropolitan Bank Limited            | A1+        | AA+       | PACRA   | 305,073              | 213,131           |
| Meezan Bank Limited                        | A-1+       | AA+       | JCR-VIS | 8,045,464            | 687,855           |
|  |            |           |         | <u>24,520,543</u>    | <u>16,317,686</u> |

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Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Being an agent, the Company bears no liquidity risk. The obligations towards the energy suppliers are passed on to the principals and are backed by sovereign guarantee of Government of Pakistan.

**20.2 Financial instruments by categories**

**Financial assets as per balance sheet**

Receivable from NTDCL through loan notes  
 Long term security deposit  
 Due from principals  
 Advance to HUBCO  
 Accrued profit  
 Mark-up receivable  
 Bank balances - deposit accounts

| At amortized cost    |                      |
|----------------------|----------------------|
| 2019                 | 2018                 |
| (Rupees in thousand) |                      |
| 41,648,936           | 42,412,169           |
| 21,264.00            | -                    |
| 1,709,214,290        | 1,289,325,361        |
| 802,000              | 802,000              |
| 99,240               | -                    |
| 45,785,131           | 58,049,360           |
| 24,520,543           | 16,317,686           |
| <u>1,822,091,404</u> | <u>1,406,906,576</u> |

**Financial liabilities as per balance sheet**

Energy payables swapped by Government of Pakistan  
 Energy and other payables

| At amortized cost    |                      |
|----------------------|----------------------|
| 2019                 | 2018                 |
| (Rupees in thousand) |                      |
| 784,462,871          | 577,639,647          |
| 1,043,110,574        | 827,491,582          |
| <u>1,827,573,445</u> | <u>1,405,131,229</u> |

**21 RECOGNIZED FAIR VALUE MEASUREMENTS - FINANCIAL INSTRUMENTS**

**(i) Fair value hierarchy**

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts. Judgements and estimates are made in determining the fair values of the financial instruments that are recognised and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company classify its financial instruments into the following three levels. However, as at the reporting date, the Company has no such type of financial instruments which are required to be grouped into these levels. These levels are explained as under:

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## 22 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

The aggregate amounts charged in these financial statements in respect of remuneration including certain benefits to the Chief Executive Officer and Directors of the Company are given below:

|                                       | Chief Executive Officer          |               | Executives     |                |
|---------------------------------------|----------------------------------|---------------|----------------|----------------|
|                                       | 2019                             | 2018          | 2019           | 2018           |
|                                       | ----- (Rupees in thousand) ----- |               |                |                |
| <b>Managerial remuneration</b>        | 8,591                            | 8,182         | 153,699        | 154,896        |
| <b>Allowances:</b>                    |                                  |               |                |                |
| House rent                            | 3,866                            | 3,682         | 69,165         | 69,696         |
| Utilities                             | 859                              | 818           | 15,370         | 15,492         |
| Medical                               | 859                              | 818           | 15,370         | 15,492         |
| Conveyance                            | 1,375                            | 1,474         | 34,548         | 41,148         |
| Bonus                                 | 716                              | 682           | 11,407         | 11,575         |
| Leave encashment                      | 716                              | 682           | 8,879          | 12,242         |
|                                       | 8,391                            | 8,156         | 154,739        | 165,645        |
| <b>Contribution to provident fund</b> | 430                              | 409           | 4,768          | 4,512          |
|                                       | <u>17,412</u>                    | <u>16,747</u> | <u>313,206</u> | <u>325,053</u> |
| Number of persons                     | 1                                | 1             | 69             | 70             |

The aggregate amount charged in these financial statements in respect of meeting fee paid to 8 (2018: 7) directors is Rupees 14.350 million (2018: 13.640 million).

No remuneration except meeting fee, was paid to non-executive directors of the Company.

## 23 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of Government of Pakistan and related entities under control of GoP including DISCOs, GENCOs, WAPDA, PAEC and NTDC, provident fund, gratuity fund, directors of the Company and key management personnel. The amount due from and due to related parties are shown under respective receivables and payables. Detail of transactions with related parties other than specifically disclosed in these financial statements are as follows:

### Market operation fee:

|       | 2019                             |                | 2018           |                |
|-------|----------------------------------|----------------|----------------|----------------|
|       | Invoicing                        | Receipts       | Invoicing      | Receipts       |
|       | ----- (Rupees in thousand) ----- |                |                |                |
| FESCO | 61,849                           | 72,624         | 61,367         | 83,831         |
| GEPCO | 44,723                           | 53,837         | 43,434         | 59,720         |
| HESCO | 28,228                           | 33,734         | 27,984         | 38,548         |
| IESCO | 42,866                           | 51,543         | 41,802         | 57,275         |
| LESCO | 97,508                           | 114,913        | 92,058         | 125,285        |
| MEPCO | 80,450                           | 95,298         | 76,463         | 104,062        |
| PESCO | 57,395                           | 68,921         | 53,809         | 73,233         |
| QESCO | 27,270                           | 32,509         | 26,004         | 35,778         |
| SEPCO | 19,927                           | 23,390         | 19,314         | 26,488         |
| TESCO | 5,379                            | 6,147          | 5,918          | 8,449          |
|       | <u>465,595</u>                   | <u>552,916</u> | <u>448,153</u> | <u>612,669</u> |

## 24 NUMBER OF EMPLOYEES

|   |            |            |
|---|------------|------------|
| Number of employees as on June 30           | <u>234</u> | <u>196</u> |
| Average number of employees during the year | <u>215</u> | <u>188</u> |

## 25 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 07 OCT 2019 by the Board of Directors of the Company.

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**26 CORRESPONDING FIGURES**

26.1 No significant reclassifications / rearrangements of corresponding figures have been made in these financial statements except for the following, which have been made for better presentation:

| Description                                       | From                  | To                        | Amount<br>(Rupees in<br>thousand) |
|---|-----------------------|---------------------------|-----------------------------------|
| Receivable from NTDC through loan notes           |                       |                           |                                   |
|   | Non-current assets    | Current assets            | 42,412,169                        |
| Advance to HUBCO                                  | Non-current assets    | Current assets            | 802,000                           |
| Energy payables swapped by Government of Pakistan | Non-current liability | Current liabilities       | 577,639,647                       |
| Payable to WAPDA for HUBCO                        | Non-current liability | Energy and other payables | 802,000                           |
| Advance to QESCO                                  | Unbilled costs        | Advances and prepayments  | 77,563                            |

**27 GENERAL**

Figures have been rounded off to the nearest thousand of Rupees unless otherwise stated. *Ran.*

  
 \_\_\_\_\_  
**CHIEF EXECUTIVE OFFICER**

  
 \_\_\_\_\_  
**DIRECTOR**

  
 \_\_\_\_\_  
**CHIEF FINANCIAL OFFICER**





17

# Corporate Governance Report

**Riaz Ahmad & Company**  
Chartered Accountants

# **CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED**

**COMPLIANCE WITH THE PUBLIC SECTOR COMPANIES  
(CORPORATE GOVERNANCE) RULES, 2013**

**JUNE 30, 2019**



# Riaz Ahmad & Company

Chartered Accountants

2-A, ATS Centre, 30-West  
Fazal-ul-Haq Road, Blue Area  
Islamabad, Pakistan

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racoisd@racopk.com

www.racopk.com

September 18, 2019

Our ref:C-11-095

Board of Directors  
Central Power Purchasing Agency (Guarantee) Limited  
Shaheen Plaza, Fazal-ul-Haq Road  
Blue Area  
ISLAMABAD

Gentlemen

## **STATEMENT OF COMPLIANCE WITH THE PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013**

We are pleased to enclose draft review report to the Members on Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013 as applicable to Central Power Purchasing Agency (Guarantee) Limited for the year ended June 30, 2019.

We shall be glad to sign our report in present or amended form after we have received:

- the enclosed Statement of Compliance approved by you and signed by the chief executive and chairman on your behalf;
- directors' report; and
- your specific approval for the related party transactions incorporated in the books of account.

Finally, we wish to express our appreciation for the co-operation and courtesy extended to us by the management and other staff members in accomplishing our task.

Very truly yours

*Riaz Ahmad & Co.*

## **Review Report to the Members On the Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors of Central Power Purchasing Agency (Guarantee) Limited (the Company) for the year ended June 30, 2019.

The responsibility for compliance with the Rules is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Rules.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Rules requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Company for the year ended June 30, 2019.

  
**RIAZ AHMAD & COMPANY**  
Chartered Accountants *Ran.*

**ISLAMABAD**

**Date: 07 OCT 2019**

## Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013

Name of Company : **Central Power Purchasing Agency (Guarantee) Limited**  
 Name of the line Ministry : **Ministry of Energy (Power Division)**  
 For the year ended : **June 30, 2019**

I. This statement is being presented to comply with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector Company is managed in compliance with the best practices of public sector governance.

II. The Company has complied with the provisions of the Rules in the following manner:

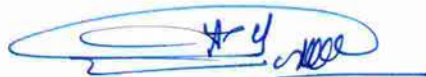
| S. No.                         | Provision of the Rules  | Rule No.            | Y                     | N                   |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|--------------------------------|---|---------------------|-----------------------|---------------------|-----------------------|-------------------|------------|------------------------|------------|--------------------------------|------------|-------------------------|------------------|--------------------------|-------------------------|---------------------|------------|--------------------------------|------------|------------------------|------------|-------------------------|------------|--------------------------|------------|----------------|------------|--|--|
|                                |   |                     | Tick the relevant box |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 1.                             | The independent director meets the criteria of independence, as defined under the Rules.  | 2(d)                | ✓                     |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 2.                             | The Board has the requisite percentage of independent directors. At present the Board includes:   | 3(2)                | ✓                     |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Category</th> <th style="width: 55%;">Names</th> <th style="width: 30%;">Date of Appointment</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Independent Directors</td> <td>1. HAMID ALI KHAN</td> <td>27-12-2018</td> </tr> <tr> <td>2. GHIAS UD DIN AHMAD</td> <td>27-12-2018</td> </tr> <tr> <td>3. AYL MAJID</td> <td>27-12-2018</td> </tr> <tr> <td>Executive Director</td> <td>ABID LATIF LODHI</td> <td>14-03-2016</td> </tr> <tr> <td rowspan="6">Non-Executive Directors</td> <td>1. IRFAN ALI</td> <td>31-08-2018</td> </tr> <tr> <td>2. MUHAMMAD ZARGHAM ESHAQ KHAN</td> <td>27-12-2013</td> </tr> <tr> <td>3. MUHAMMAD IMRAN MIAN</td> <td>16-01-2015</td> </tr> <tr> <td>4. KHAQAN HASSAN NAJEEB</td> <td>27-12-2013</td> </tr> <tr> <td>5. SHAHID IQBAL CHAUDHRY</td> <td>02-11-2018</td> </tr> <tr> <td>6. ZAFAR ABBAS</td> <td>19-09-2018</td> </tr> </tbody> </table> | Category            | Names                 | Date of Appointment | Independent Directors | 1. HAMID ALI KHAN | 27-12-2018 | 2. GHIAS UD DIN AHMAD  | 27-12-2018 | 3. AYL MAJID                   | 27-12-2018 | Executive Director      | ABID LATIF LODHI | 14-03-2016               | Non-Executive Directors | 1. IRFAN ALI        | 31-08-2018 | 2. MUHAMMAD ZARGHAM ESHAQ KHAN | 27-12-2013 | 3. MUHAMMAD IMRAN MIAN | 16-01-2015 | 4. KHAQAN HASSAN NAJEEB | 27-12-2013 | 5. SHAHID IQBAL CHAUDHRY | 02-11-2018 | 6. ZAFAR ABBAS | 19-09-2018 |  |  |
| Category                       | Names   | Date of Appointment |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| Independent Directors          | 1. HAMID ALI KHAN   | 27-12-2018          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 2. GHIAS UD DIN AHMAD   | 27-12-2018          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 3. AYL MAJID  | 27-12-2018          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| Executive Director             | ABID LATIF LODHI  | 14-03-2016          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| Non-Executive Directors        | 1. IRFAN ALI  | 31-08-2018          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 2. MUHAMMAD ZARGHAM ESHAQ KHAN  | 27-12-2013          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 3. MUHAMMAD IMRAN MIAN  | 16-01-2015          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 4. KHAQAN HASSAN NAJEEB   | 27-12-2013          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 5. SHAHID IQBAL CHAUDHRY  | 02-11-2018          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | 6. ZAFAR ABBAS  | 19-09-2018          |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 3.                             | The directors have confirmed that none of them is serving as a director on more than five public sector Companies and listed Companies simultaneously, except their subsidiaries.   | 3(5)                |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
|                                | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Names</th> <th style="width: 50%;">Declaration</th> </tr> </thead> <tbody> <tr> <td>1. IRFAN ALI</td> <td>No</td> </tr> <tr> <td>2. ZAFAR ABBAS</td> <td>No</td> </tr> <tr> <td>3. MUHAMMAD IMRAN MIAN</td> <td>Yes</td> </tr> <tr> <td>4. MUHAMMAD ZARGHAM ESHAQ KHAN</td> <td>Yes</td> </tr> <tr> <td>5. KHAQAN HASSAN NAJEEB</td> <td>Yes</td> </tr> <tr> <td>6. SHAHID IQBAL CHAUDHRY</td> <td>Yes</td> </tr> <tr> <td>7. ABID LATIF LODHI</td> <td>Yes</td> </tr> <tr> <td>8. HAMID ALI KHAN</td> <td>Yes</td> </tr> </tbody> </table>   | Names               | Declaration           | 1. IRFAN ALI        | No                    | 2. ZAFAR ABBAS    | No         | 3. MUHAMMAD IMRAN MIAN | Yes        | 4. MUHAMMAD ZARGHAM ESHAQ KHAN | Yes        | 5. KHAQAN HASSAN NAJEEB | Yes              | 6. SHAHID IQBAL CHAUDHRY | Yes                     | 7. ABID LATIF LODHI | Yes        | 8. HAMID ALI KHAN              | Yes        |                        | ✓          | ✓                       |            |                          |            |                |            |  |  |
| Names                          | Declaration   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 1. IRFAN ALI                   | No  |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 2. ZAFAR ABBAS                 | No  |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 3. MUHAMMAD IMRAN MIAN         | Yes   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 4. MUHAMMAD ZARGHAM ESHAQ KHAN | Yes   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 5. KHAQAN HASSAN NAJEEB        | Yes   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 6. SHAHID IQBAL CHAUDHRY       | Yes   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 7. ABID LATIF LODHI            | Yes   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |
| 8. HAMID ALI KHAN              | Yes   |                     |                       |                     |                       |                   |            |                        |            |                                |            |                         |                  |                          |                         |                     |            |                                |            |                        |            |                         |            |                          |            |                |            |  |  |

|     |   |            |                  |  |             |   |
|-----|---|------------|------------------|--|-------------|---|
|     | 9. GHIAS UD DIN AHMAD<br>10. AYLA MAJID   | Yes<br>Yes |                  |  | ✓<br>✓      |   |
| 4.  | The appointing authorities have applied the fit and proper criteria given in the Annexure to the rules in making nominations of the persons for election as Board members under the provisions of the Act.  |            | 3(7)             |  | N/A         |   |
| 5.  | The chairman of the Board is working separately from the chief executive of the Company.  |            | 4(1)             |  | ✓           |   |
| 6.  | The chairman has been elected by the Board of Directors except where Chairman of the Board has been appointed by the Government.  |            | 4(4)             |  | ✓           |   |
| 7.  | The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission. (Not applicable where the Chief Executive has been nominated by the Government)   |            | 5(2)             |  | ✓           |   |
| 8.  | (a) The company has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place.<br>(b) The Board has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures, including posting the same on the company's website. (www.cppa.gov.pk)<br>(c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices. |            | 5(4)             |  | ✓<br>✓<br>✓ |   |
| 9.  | The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.   |            | 5(5)             |  | ✓           |   |
| 10. | The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.  |            | 5(5)(b)<br>(ii)  |  | ✓           |   |
| 11. | The Board has developed and implemented a policy on anticorruption to minimize actual or perceived corruption in the company.   |            | 5(5)(b)<br>(vi)  |  | ✓           |   |
| 12. | The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.   |            | 5(5)(c)<br>(ii)  |  | ✓           |   |
| 13. | The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.   |            | 5(5)(c)<br>(iii) |  | ✓           |   |
| 14. | The Board has developed a vision or mission statement and corporate strategy of the Company.  |            | 5(6)             |  | ✓           |   |
| 15. | The Board has developed significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved and amended, has been maintained.<br><br>(a) the formal approval and adoption of the annual report of the Public Sector Company, including the financial statements;<br><br>(b) the implementation of an effective communication policy with all the   |            | 5(7)             |  | ✓<br><br>✓  | ✓ |

|            |   |       |  |                           |
|------------|---|-------|--|---------------------------|
|            | <p>stakeholders of the Public Sector Company;</p> <p>(c) the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company;</p> <p>(d) procurement of goods and services so as to enhance transparency in procurement transactions;</p> <p>(e) marketing of goods to be sold or services to be rendered by the Public Sector Company;</p> <p>(f) determination of terms of credit and discount to customers;</p> <p>(g) write-off of bad or doubtful debts, advances and receivables;</p> <p>(h) acquisition or disposal of fixed assets and investments;</p> <p>(i) borrowing of moneys up to a specified limit, exceeding which the amounts shall be sanctioned or ratified by a general meeting of shareholders;</p> <p>(j) corporate social responsibility initiatives including, donations, charities, contributions and other payments of a similar nature;</p> <p>(k) determination and delegation of financial powers to Executives and employees;</p> <p>(l) transactions or contracts with associated Companies and related parties;</p> <p>(m) health, safety and environment;</p> <p>(n) development of whistle-blowing policy and protection mechanism;</p> <p>(o) capital expenditure planning and control;</p> <p>(p) protection of public interests; and</p> <p>(q) human resource policy including succession planning.</p> |       | <p>✓</p> <p>✓</p> <p>NA</p> <p>NA</p> <p>NA</p> <p>✓</p> <p>NA</p> <p>NA</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>NA</p> <p>NA</p> <p>✓</p> | <p>✓</p> <p></p> <p>✓</p> |
| <b>16.</b> | The Board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and has submitted its request for appropriate compensation to the Government for consideration.  | 5(8)  | Not Applicable   |                           |
| <b>17.</b> | The Board has ensured the compliance with policy directions requirements received from the Government.  | 5(11) | ✓  |                           |
| <b>18.</b> | (a) The Board has met at least four times during the year.  | 6(1)  | ✓  |                           |
|            | (b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.   | 6(2)  | ✓  |                           |
|            | (c) The minutes of the meetings were appropriately recorded and circulated.   | 6(3)  | ✓  |                           |

| 19.                       | The Board has monitored and assess the performance of senior management on a annual / half-yearly / quarterly basis and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.   | 8(2)                        | ✓                 |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
|---------------------------|--|-----------------------------|-------------------|---------------|-----------------|----|------------|---------------------------|----|-----------------------------|---------------------------|----|----------------------|-----------------------|----|-------------|----------------------|----|-----------|----|------------------|--|
| 20.                       | The Board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.   | 9                           | ✓                 |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 21.                       | <p>(a) The Board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end.</p> <p>(b) In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors.</p> <p>(c) The Board has placed the annual financial statements on the Company's website.</p>  | 10                          | ✓<br>NA<br>✓      |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 22.                       | All the Board members underwent an orientation course arranged by the Company to apprise them of the material developments and information as specified in the Rules.  | 11                          |                   | ✓             |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 23.                       | <p>(a) The Board has formed the requisite committees, as specified in the Rules.</p> <p>(b) The committees were provided with written term of reference defining their duties, authority and composition.</p> <p>(c) The minutes of the meetings of the committees were circulated to all the board members.</p> <p>(d) The committees were chaired by the following non-executive directors:</p> <table border="1" data-bbox="316 1061 1206 1357"> <thead> <tr> <th>Committee</th> <th>Number of Members</th> <th>Name of Chair</th> </tr> </thead> <tbody> <tr> <td>Audit Committee</td> <td>04</td> <td>Ayla Majid</td> </tr> <tr> <td>Risk Management Committee</td> <td>04</td> <td>Muhammad Zargham Eshaq Khan</td> </tr> <tr> <td>Human Resources Committee</td> <td>05</td> <td>Khaqan Hassan Najeeb</td> </tr> <tr> <td>Procurement Committee</td> <td>05</td> <td>Zafar Abbas</td> </tr> <tr> <td>Nomination Committee</td> <td>03</td> <td>Irfan Ali</td> </tr> </tbody> </table> | Committee                   | Number of Members | Name of Chair | Audit Committee | 04 | Ayla Majid | Risk Management Committee | 04 | Muhammad Zargham Eshaq Khan | Human Resources Committee | 05 | Khaqan Hassan Najeeb | Procurement Committee | 05 | Zafar Abbas | Nomination Committee | 03 | Irfan Ali | 12 | ✓<br>✓<br>✓<br>✓ |  |
| Committee                 | Number of Members  | Name of Chair               |                   |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| Audit Committee           | 04   | Ayla Majid                  |                   |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| Risk Management Committee | 04   | Muhammad Zargham Eshaq Khan |                   |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| Human Resources Committee | 05   | Khaqan Hassan Najeeb        |                   |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| Procurement Committee     | 05   | Zafar Abbas                 |                   |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| Nomination Committee      | 03   | Irfan Ali                   |                   |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 24.                       | The Board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, by whatever name called with their remuneration and terms and conditions of employment.   | 13                          | ✓<br>✓<br>✓       |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 25.                       | The Chief Financial Officer and the Company Secretary have requisite qualification prescribed in the Rules.  | 14                          | ✓                 |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 26.                       | The Company has adopted International Financial Reporting Standards notified by the Commission in term of subsection (1) of section 225 of the Act.  | 16                          | ✓                 |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 27.                       | The directors' report for this year has been prepared in compliance with the requirements of the Act and the Rules and fully describes the salient matters required to be disclosed.   | 17                          | ✓                 |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |
| 28.                       | The directors, CEO and executives, or their relatives, are not, directly or indirectly, concerned or interested in any contract or arrangement entered into by or on behalf of the Company except those disclosed to the Company.  | 18                          | ✓                 |               |                 |    |            |                           |    |                             |                           |    |                      |                       |    |             |                      |    |           |    |                  |  |

| 29.   | i. A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place and no director is involved in deciding his own remuneration.  | 19                    | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|---|---|-----------------------|----|--|-------------------------------|-------------------------|-------------------------|------------|-------------------------------|----------------------|----------------|-------------------------------|--------------|---------------------|---------------|----------------------|-------------|---------------|--------------|
|   | ii. The annual report of the Company contains criteria and details of remuneration of each director.  |                       | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| 30.   | The financial statements of the Company were duly endorsed by the chief executive and chief financial officer, before consideration and approval of the Audit Committee and the Board.  | 20                    | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| 31.   | The board has formed an audit committee, with defined and written terms of reference, and having the following members:   | 21(1)<br>and<br>21(2) | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|   | <table border="1"> <thead> <tr> <th>Name of the member</th> <th>Category</th> <th>Professional Background</th> </tr> </thead> <tbody> <tr> <td>Ayla Majid</td> <td>Independent / Non - Executive</td> <td>Accounts and Finance</td> </tr> <tr> <td>Hamid Ali Khan</td> <td>Independent / Non - Executive</td> <td>Power Sector</td> </tr> <tr> <td>Muhammad Imran Mian</td> <td>Non-Executive</td> <td>Power Sector Finance</td> </tr> <tr> <td>Zafar Abbas</td> <td>Non-Executive</td> <td>Power Sector</td> </tr> </tbody> </table> |                       |    |  | Name of the member            | Category                | Professional Background | Ayla Majid | Independent / Non - Executive | Accounts and Finance | Hamid Ali Khan | Independent / Non - Executive | Power Sector | Muhammad Imran Mian | Non-Executive | Power Sector Finance | Zafar Abbas | Non-Executive | Power Sector |
|   | Name of the member  |                       |    |  | Category                      | Professional Background |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|   | Ayla Majid  |                       |    |  | Independent / Non - Executive | Accounts and Finance    |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|   | Hamid Ali Khan  |                       |    |  | Independent / Non - Executive | Power Sector            |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|   | Muhammad Imran Mian   |                       |    |  | Non-Executive                 | Power Sector Finance    |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| Zafar Abbas   | Non-Executive   | Power Sector          |    |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| The chief executive and chairman of the Board are not members of the audit committee.   |   | ✓                     |    |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| 32  | (a) The Chief Financial Officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed.  | 21(3)                 | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| (b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditors and other executives.                           |   | ✓                     |    |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| (c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of Chief Financial Officer and the external auditors. |   | ✓                     |    |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| 33.   | The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee   | 22                    | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|   | (b) The Chief Internal Auditor has requisite qualification and experience prescribed in the Rules.  |                       | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
|   | (c) The Internal audit reports have been provided to the external auditors for their review.  |                       | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| 34.   | The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.  | 23(4)                 | ✓  |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |
| 35.   | The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.  | 23(5)                 | NA |  |                               |                         |                         |            |                               |                      |                |                               |              |                     |               |                      |             |               |              |



**ABID LATIF LODHI**  
CHIEF EXECUTIVE OFFICER



**IRFAN ALI**  
CHAIRMAN

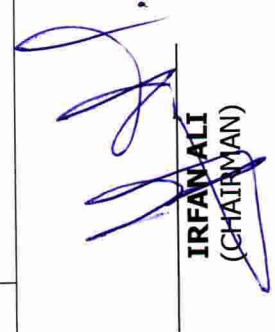
**SCHEDULE II**  
**Explanation for Non-Compliance with the**  
**Public Sector Companies (Corporate Governance) Rules, 2013**  
**For the Year Ended 30 June 2019**

We confirm that all other requirements envisaged in the Rules have been complied with (except for the following, toward which reasonable progress is being made by the Company to seek compliance by end of next accounting year).

| <b>S. No.</b> | <b>Rule/Sub-rule No.</b>   | <b>Reasons for Non Compliance</b>  | <b>Future Course of Action</b>   |
|---------------|--|--|--|
| 01            | <b>3(5)</b> The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.                        | Eight out of ten directors have confirmed that they are not serving as director in more than five public sector companies and listed companies, however two directors are directors of more than five companies due to their ex-officio positions. | Company has written a letter to SECP for exemption of said rule for the two directors. Response from SECP is awaited.                |
| 02            | <b>5(7)</b> The Board has developed significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved and amended, has been maintained. | Company has made all the policies, however following policies are under consideration of Board for approval;<br><br>Communication policy<br>Risk Policy<br>Health, safety and environment  | These policies have been made and currently under consideration of Board for approval and will be approved in Financial Year 2019-20 |
| 03            | <b>11.</b> All the board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.                                     | Company had arranged an orientation course from a professional institute however One director could attend the course and other directors could not spare time due to their official assignments.  | Company will arrange an orientation course in Financial Year 2019-20   |



**ABID LATIF LODHI**  
(CHIEF EXECUTIVE OFFICER)



**IRFAN ALI**  
(CHAIRMAN)