



Registrar

National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/DG(M&E)/LAG-01/ 15545

October 11, 2024

Chief Executive Officer,
Central Power Generation Company Ltd. (CPGCL)
Guddu Thermal Power Station, Guddu,
Tehsil Kashmore, District Jacobabad

Subject: Order in the matter of Show Cause Notice issued to Central Power Generation Company Limited under Section 27B of the NEPRA Act read with relevant Rules and Regulations

Please find enclosed herewith, Order of the Authority (total 12 Pages) in the subject matter for information and compliance.

Enclosure: Order of the Authority


(Wasim Anwar Bhinder)



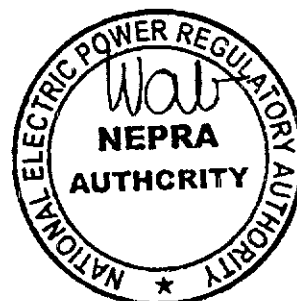
National Electric Power Regulatory Authority

In the matter of Show Cause Notice issued to Central Power Generation Company Limited under Section 27B of the NEPRA Act read with relevant Rules and Regulations

Order

1. Pursuant to Section 15 of NEPRA Act (now section 14B after promulgation of Regulation of Generation, Transmission and Distribution of Electric Power Amendment Act 2018), the Authority has granted a Generation License (No. GL/02/2002 dated 01.07.2002) to Central Power Generation Company Limited (hereinafter referred to as the "Licensee" or "CPGCL" or "GENCO-II") for TPS Guddu to engage in the generation business as stipulated in its Generation License.
2. The Generation License of the Licensee was modified on 26.04.2013 and Guddu 747 Combined Cycle Power Plant (hereinafter referred to as the "CCPP") was included in it.
3. Pursuant to Rule 3(8) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, any petition or communication, where in any statement of fact or opinion is made by the petitioner or the communicator, shall be verified by an affidavit, drawn up in the first person stating the full name, age, occupation and address of the deponent and the capacity in which he is signing and indicating that the statement made therein is true to the best of the knowledge of the deponent, information received by the deponent and belief of the deponent, and shall be signed and sworn before a person lawfully authorized to take and receive affidavits, provided that, a communication filed during the course of a hearing may be affirmed in person before the Authority by the person filing the same.
4. Pursuant to Rule 3(9) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, where any statement in an affidavit given under sub-rule (8) is stated to be true according to the information received by the deponent, the affidavit shall also disclose the source of such information.
5. Pursuant to Rule 8(3) of the NEPRA Licensing (Generation) Rules, 2000, subject to the provisions of sub-rules (2) and (4), and without limiting the generality of sub-rule (1), the occurrence of the, inter alia, following events shall constitute failure of the licensee to comply with the corresponding obligations which shall, unless expressly excluded or modified, be deemed to have been incorporated in each generation license, namely:-

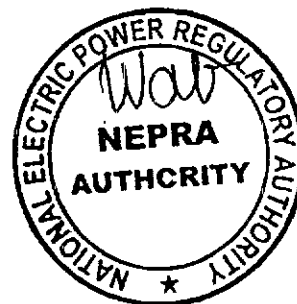
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- (b) breach of, or failure in compliance by the licensee with prudent utility practices, any provision of the applicable documents, any instructions issued pursuant to the applicable documents or any codes, programs or manuals required to be prepared pursuant to the applicable documents which materially and adversely affect the standards, safety, reliability, integrity, price and quality of services, the reliability and integrity of the transmission system, a distribution system, a generation facility or the safe, reliable and efficient operation of the electric power industry except where such breach or failure of compliance occurs without the willful or negligent default of the licensee, including without limitation, because of the breach by any other party to a power acquisition contract between such party and the licensee where such breach could not have been prevented by the licensee through adoption of reasonable measures;
- (i) any statement or representation made or information provided by the licensee in the application for the generation license or subsequently on the directions of the Authority or pursuant to any applicable documents which is incorrect, inaccurate or misleading in any material aspect and has a material adverse effect on the licensee's ability to perform its obligations under the generation license or causes the Authority to issue or renew the generation license in the belief of the accuracy and correctness of such statement, representation or information, irrespective of whether or not the Authority would have issued the generation license if it had knowledge of the incorrectness or inaccuracy of such statement, representation or information;
6. Northern Power Generation Company Limited (hereinafter referred to as the "NPGCL"), vide letter dated 16.10.2020, filed petition for modification/revision of reference tariff of Nandipur Power Plant, wherein, NPGCL, inter alia, requested to allow cost of plant conversion on Gas of Rs. 5,427.6 million against assessed amount of Rs. 2,089.9 million. One of the items of gas conversion cost pertained to the cost of Gas Booster Compressor Station (hereinafter referred to as the "GBCS"). Determination in the matter was issued on 11.04.2022, wherein, the said issue was discussed in detail as follows (the relevant part is reproduced as under):

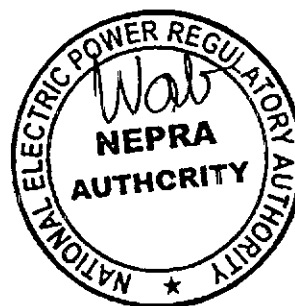
- 9.11. *The third item of gas conversion cost pertains to the cost of gas booster of Rs. 1,242 million. The gas booster compressor was transferred from GENCO-II (CPGCL). GENCO-II received the same from Engro Fertilizer free of cost in consideration of utilization of 60 MMCFD gas quota from 15.05.2015 to 31.03.2016. The fair value of the subject gas booster compressors was estimated on the basis of cost of compressors from M/s Jerrah from which CPGCL is procuring for its 747 MW plant. Fair value was estimated as 1,470 million which was reduced further by 10% and after charging depreciation of Rs. 46.308 million, the book value of Rs. 1,276.782 million was agreed and approved by BODs of both companies. Since the transfer occurred in April 2017, the book value was further reduced by 9 months depreciation of Rs. 34.731 million and a credit note amounting to Rs. 1242.052 million was issued by NPGCL in favour of CPGCL to settle the price of gas booster compressors.*
- 9.12. *While determining tariff of 747 MW Guddu power plant, the Authority allowed gas booster compressor station cost of Rs. 1.465 billion. CPGCL did not inform during the proceedings*

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of the determination of tariff about the acquisition of free of cost gas booster station from Engro Fertilizer and its transfer to GENCO-III in consideration of Rs. 1.242 billion. Had it been informed at that time, the cost of CPGCL's booster station would have been reduced by the equivalent amount. Since the adjustment was not made at that time, it would be necessary to make appropriate adjustment. The Authority has decided to treat the transfer of gas booster station at zero rate. NPGCL is directed to cancel the credit note in favour of CPGCL for gas booster or issue a debit note for equivalent amount in pursuance of the directions of the Authority.

7. Moreover, the Authority decided to constitute an Investigation Committee (hereinafter referred to as the "IC") to conduct an investigation, under Section 27A of the NEPRA Act, into the subject matter. The IC visited power houses, sites and offices in the process of investigation. During the course of investigation, the matter was examined in detail by investigating the concerned officials and in the process, relevant documents were also obtained to arrive at the right conclusion.
8. The IC noticed that:
 - i. The Licensee extended its facilitation to Engro Fertilizers to use its allocation of 60 MMCFD gas from Mari Shallow Gas Field from January 01, 2016 to March 31, 2016 in consideration of Engro transferring the ownership of GBCS to the Licensee without any ECC decision.
 - ii. The Licensee did not inform the Authority during the entire proceedings of the determination of tariff for Guddu 747 CCPP about the acquisition of free of cost GBCS from Engro Fertilizers and its subsequent transfer to NPGCL in consideration of Rs. 1.242 billion.
 - iii. The Licensee transferred GBCS to NPGCL against Rs. 1.242 billion instead of zero rate despite the fact that the Licensee received the same from Engro Fertilizers free of cost in consideration of utilization of 60 MMCFD gas quota from 15.05.2015 to 31.03.2016 and the Licensee was allowed the entire cost of Rs. 1,465 million (as requested by the Licensee on account of acquiring GBCS from M/s ATL) by the Authority in the tariff determination issued for Guddu 747 CCPP.
 - iv. The Licensee wrongly recorded the cost of GBCS in its books of accounts (difference of more than 0.626 billion) and sold the same at a much higher price to NPGCL than what was its actual value at that time.
 - v. The Licensee did not provide written statements, duly signed, of the CEO and concerned officers involved in the subject transaction.
9. In view of the foregoing, the Authority observed that the Licensee has failed to perform its operations and discharge its responsibilities in accordance with Rule 3(8) & 3(9) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, Rule 8(3)(b) & (i) of the NEPRA Licensing (Generation) Rules, 2000 and the provisions of other applicable documents.



Therefore, the Authority decided to issue a Show Cause Notice to the Licensee, under Section 27B of the NEPRA Act read with relevant Rules and Regulations.

Show Cause Notice to CPGCL:

10. Accordingly, a Show Cause Notice dated 18.07.2023 was issued to the Licensee. The salient features of the Show Cause Notice are as follows:

WHEREAS, the National Electric Power Regulatory Authority (hereinafter referred to as the "Authority" or the "NEPRA") established under Section 3 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (herein after referred to as the "NEPRA Act") is mandated to regulate the provisions of electric power services; and

2. **WHEREAS**, pursuant to Section 15 of the NEPRA Act (now section 14B after promulgation of Regulation of Generation, Transmission and Distribution of Electric Power Amendment Act 2018), the Authority has granted a Generation License (No. GL/02/2002 dated 01.07.2002) to Central Power Generation Company Limited (hereinafter referred to as the "Licensee") for TPS Guddu to engage in the generation business as stipulated in its Generation License; and

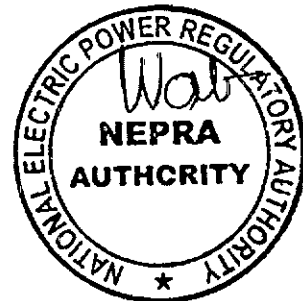
3. **WHEREAS**, the Generation License of the Licensee was modified on 26.04.2013 and Guddu 747 CCPP was included in it; and

4. **WHEREAS**, Northern Power Generation Company Limited (hereinafter referred to as the "NPGCL"), vide letter dated 16.10.2020, filed petition for modification/revision of reference tariff of Nandipur Power Plant, wherein, NPGCL, inter alia, requested to allow cost of plant conversion on Gas of Rs. 5,427.6 million against assessed amount of Rs. 2,089.9 million. While processing the case, it was observed that one of the items of gas conversion cost pertains to the cost of Gas Booster Compressor Station (hereinafter referred to as the "GBCS"); and

5. **WHEREAS**, the GBCS was transferred from the Licensee against Rs. 1,242.052 million. The Licensee received the same from Engro Fertilizers free of cost in consideration of utilization of 60 MMCFD gas quota from 15.05.2015 to 31.03.2016. The fair value of the subject GBCS was estimated on the basis of cost of compressors from M/s Jerrah from which the Licensee is procuring for its Guddu 747 CCPP. Fair value was estimated as 1,470 million which was reduced further by 10% and after charging depreciation of Rs. 46.308 million, the book value of Rs. 1,276.782 million was agreed and approved by BODs of both companies. Since the transfer occurred in April 2017, the book value was further reduced by 9 months depreciation of Rs. 34.731 million and a credit note amounting to Rs. 1242.052 million was issued by NPGCL in favour of the Licensee to settle the price of GBCS; and

6. **WHEREAS**, determination in the matter was issued on 11.04.2022, wherein, the Authority observed that while determining tariff of Guddu 747 CCPP, the Authority allowed GBCS cost of Rs. 1.465 billion. The Licensee did not inform during the proceedings of the determination of tariff about the acquisition of free of cost GBCS from Engro Fertilizers and its transfer to NPGCL in consideration of Rs. 1.242 billion. Had it been informed at that time, the cost of the Licensee's GBCS would have been reduced by the equivalent amount. Since the adjustment was not made at

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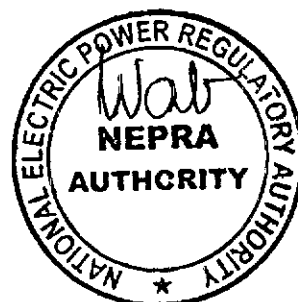


that time, it was necessary to make appropriate adjustment. Therefore, the Authority decided to treat the transfer of GBCS at zero rate and directed NPGCL to cancel the credit note in favor of the Licensee for GBCS or issue a debit note for equivalent amount in pursuance of the directions of the Authority; and

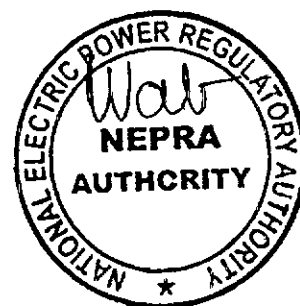
7. **WHEREAS**, the Authority further constituted an Investigation Committee (hereinafter referred to as the "IC") to probe into the matter. The IC visited power houses, sites and offices in the process of investigation. During the course of investigation, the matter was examined in detail by investigating the concerned officials and in the process, relevant documents were also obtained to arrive at the right conclusion; and

8. **WHEREAS**, the IC noticed that:

- i. On July 02, 2013, ECC in its decision vide case No. ECC-93/08/2013 directed the MoW&P to make arrangement for provision of the unutilized 60 MMCFD gas, dedicated for Guddu Power Plant from Mari Gas Field, to the fertilizer sector to help produce 50,000 tons of fertilizer per month to meet the requirement of the country for the Kharif Crop.
- ii. As per the Licensee, at that time, the Licensee was receiving 304 MMCFD gas for power generation at its power plants at Guddu, which consisted of 200 MMCFD gas from the Kandhkot Gas Field, 60 MMCFD gas from the Mari Shallow Gas Field and 44 MMCFD gas from the Mari Deep Gas Field. However, due to low pressure of the gas, only 140 MMCFD gas was being utilized by the Licensee from the Kandhkot Gas Field.
- iii. Similarly, as per Engro Fertilizers, during that period, SNGPL could also not provide the full supply of gas to the Engro Fertilizer's urea plant as envisaged in the Gas Supply Agreement. Therefore, Engro Fertilizers requested the Minister for Petroleum & Natural Resources to allocate the Guddu Gas to its plant.
- iv. According to the Licensee, when Guddu 747 CCPP was commissioned in December, 2014, it required 140 MMCFD gas at a minimum pressure of 35 Bar against the available gas pressure of 23 Bar. Therefore, the Licensee initiated the process for installation of compressors of its own. However, the said process got delayed.
- v. In order to use the Licensee's gas allocation of 60 MMCFD from Mari Shallow until the end of the year 2015, Engro offered their services to assist the Licensee in installing, commissioning, operating, and maintaining a GBCS from their own resources until the Licensee can either install its own GBCS or is able to make alternate arrangements to draw its full allocation of gas.
- vi. On December 23, 2014, the MoW&P moved a summary to the ECC to approve the proposed agreement between the Licensee and Engro Fertilizers for the usage of Guddu Gas from Mari Shallow by Engro Fertilizers till December 31, 2015 in lieu of installation of gas booster compressors for Guddu 747 CCPP at the cost of Engro Fertilizers. The same was approved by the ECC on December 24, 2014, vide case no. ECC-168/28/2014.



- vii. To implement the ECC Decision, the Licensee and Engro Fertilizers executed an agreement on March 06, 2015. Accordingly, a GBCS consisting of three (03) gas boosting compressors was assembled, installed and commissioned for Guddu 747 CCPP by Engro Fertilizers on May 10, 2015.
- viii. Thereafter, the Licensee extended its facilitation to Engro Fertilizers to use the Licensee's allocation of 60 MMCFD gas from Mari Shallow Gas Field until March 31, 2016, in consideration of Engro transferring the ownership of GBCS to the Licensee. Accordingly, the Licensee and Engro Fertilizers executed a transfer deed on April 09, 2016 and the ownership of GBCS was transferred to the Licensee. The Licensee has failed to provide copy of any ECC decision in support of this transaction, meaning thereby, that the said transaction was made without any ECC decision.
- ix. Even though the Licensee acquired GBCS from Engro Fertilizers, the Licensee still went ahead with the contract awarded to M/s ATL for GBCS.
- x. NPGCL desired to install a GBCS at Nandipur CCPP to maintain and to ensure the achievement of performance bench marks to avoid the penalties as stipulated in the PPA by running the CCPP Nandipur as per NPCC's despatch instructions even when the pressure of Gas (RLNG) supplied by SNGPL is low. Accordingly, NPGCL acquired the same from the Licensee. Consequently, the GBCS was transferred from the Licensee to NPGCL at CCPP Nandipur against Rs. 1.242 Billion and a credit note was issued to the Licensee by NPGCL in October 2017.
- xi. According to the Licensee, the cost of GBCS as on 01.07.2015 was Rs. 1,323,090,967/- and the depreciation rate was 3.5% so the accumulated depreciation till 31.03.2017 was Rs. 81,039,321.73 and the GBCS was transferred to NPGCL against Rs. 1,242,051,645.27. However, the purchase order received from Engro Fertilizers (issued on 22.01.2015) confirms the purchase price of USD 6,942,000 for the GBCS. Since 1 USD was of about Rs. 100.5 at that time, therefore, the actual cost of GBCS was around Rs. 0.697 billion in January, 2015. Whereas, the Licensee recorded the same in its books of accounts as Rs. 1.323 billion as on 01.07.2015, however, it should have been even less than 0.697 billion as on 01.07.2015 after taking into account the depreciation of GBCS from 10.05.2015 to 30.06.2015. Hence, the Licensee wrongly recorded the cost of GBCS in its books of accounts (difference of more than 0.626 billion) and transferred the same at a much higher price to NPGCL than what was its actual value at that time.
- xii. The GBCS was commissioned by M/s ATL for Guddu 747 CCPP on March 17, 2019, meaning thereby, that the Guddu 747 CCPP didn't have any GBCS from April 01, 2017 to March 16, 2019 (as the GBCS received from Engro Fertilizers was transferred to NPGCL), then how Guddu 747 CCPP generated power during this period as according to the Licensee, the said plant requires 140 MMCFD gas at a minimum pressure of 35 Bar against the available gas pressure of 23 Bar for which GBCS is required.
- xiii. The Licensee filed a tariff petition on June 04, 2015 for determination of tariff in respect of Guddu 747 CCPP, wherein, the Licensee, inter alia, requested to allow cost of Rs. 1,465 on account of acquiring GBCS from M/s ATL. Accordingly, the Authority allowed the said



cost to the Licensee. Determination in the matter was issued on April 26, 2016. In response, the Licensee filed a review petition in respect of different items of the impugned determination. Accordingly, the same was decided by the Authority vide determination dated April 07, 2017. However, the Licensee did not inform the Authority during the entire proceedings of the determination of tariff as mentioned above about the acquisition of free of cost GBCS from Engro Fertilizers and its subsequent transfer to NPGCL in consideration of Rs. 1.242 billion.

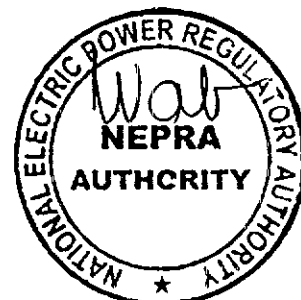
- xiv. The Licensee was directed to provide written statements, duly signed, of the CEO and concerned officers involved in the subject transaction. However, the Licensee has not provided the same and submitted that the concerned officers involved in the subject transactions have been retired from their services.

9. **AND WHEREAS**, pursuant to Rule 3(8) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, any petition or communication, where in any statement of fact or opinion is made by the petitioner or the communicator, shall be verified by an affidavit, drawn up in the first person stating the full name, age, occupation and address of the deponent and the capacity in which he is signing and indicating that the statement made therein is true to the best of the knowledge of the deponent, information received by the deponent and belief of the deponent, and shall be signed and sworn before a person lawfully authorized to take and receive affidavits, provided that, a communication filed during the course of a hearing may be affirmed in person before the Authority by the person filing the same; and

10. **WHEREAS**, pursuant to Rule 3(9) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, where any statement in an affidavit given under sub-rule (8) is stated to be true according to the information received by the deponent, the affidavit shall also disclose the source of such information; and

11. **WHEREAS**, pursuant to Rule 8(3) of the NEPRA Licensing (Generation) Rules, 2000, subject to the provisions of sub-rules (2) and (4), and without limiting the generality of sub-rule (1), the occurrence of the, inter alia, following events shall constitute failure of the licensee to comply with the corresponding obligations which shall, unless expressly excluded or modified, be deemed to have been incorporated in each generation license, namely:-

- (b) breach of, or failure in compliance by the licensee with prudent utility practices, any provision of the applicable documents, any instructions issued pursuant to the applicable documents or any codes, programs or manuals required to be prepared pursuant to the applicable documents which materially and adversely affect the standards, safety, reliability, integrity, price and quality of services, the reliability and integrity of the transmission system, a distribution system, a generation facility or the safe, reliable and efficient operation of the electric power industry except where such breach or failure of compliance occurs without the willful or negligent default of the licensee, including without limitation, because of the breach by any other party to a power acquisition contract between such party and the licensee where such breach could not have been prevented by the licensee through adoption of reasonable measures;
- (i) any statement or representation made or information provided by the licensee in the application for the generation license or subsequently on the directions of the Authority or



pursuant to any applicable documents which is incorrect, inaccurate or misleading in any material aspect and has a material adverse effect on the licensee's ability to perform its obligations under the generation license or causes the Authority to issue or renew the generation license in the belief of the accuracy and correctness of such statement, representation or information, irrespective of whether or not the Authority would have issued the generation license if it had knowledge of the incorrectness or inaccuracy of such statement, representation or information;

12. **AND WHEREAS**, in terms of observations given in Para 8 to 11 above, the Licensee has failed to perform its operations and discharge its responsibilities in accordance with Rule 3(8) & 3(9) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, Rule 8(3)(b) & (i) of the NEPRA Licensing (Generation) Rules, 2000 and the provisions of other applicable documents; and

13. **WHEREAS**, pursuant to Section 27B of the NEPRA Act, any person who acts in contravention of this Act or the rules and regulations made thereunder or fails to comply with the conditions of a license issued or registration granted to that person and such person is a party to such contravention shall be punishable in case of a company, with a minimum fine of ten million Rupees which may extend to two hundred million Rupees and, in the case of a continuing default, with an additional fine which may extend to one hundred thousand Rupees for every day during which the contravention continues; and

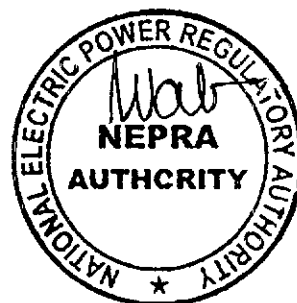
14. **NOW THEREFORE**, the Licensee is hereby called upon to Show Cause immediately but not later than fifteen (15) days of receipt of this notice as to why an appropriate legal action may not be taken against it under the NEPRA Act for above-referred violations of the rules and other applicable documents.

15. In the event no response is received from you within given time, it shall be presumed that the Licensee has nothing to say in its defense and the matter shall be decided in accordance with the law on the basis of available record that may result in imposition of any penalties provided in the NEPRA Act.

Submissions of CPGCL:

11. The Licensee was directed to submit its response within fifteen (15) days. However, the Licensee vide letter dated 27.07.2023 (received on 03.08.2023), requested to grant an extension of thirty (30) days for submitting its response to the subject Show Cause Notice on account of the reasons contained therein. Subsequently, the Licensee vide letter dated 05.09.2023 (received on 11.09.2023), submitted its reply to the said Show Cause Notice. The same is summarized as follows:

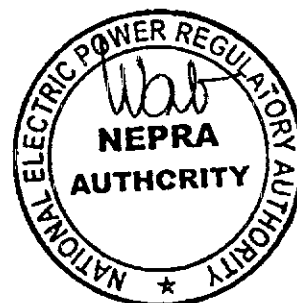
- i. The assertion that CPGCL did not procure, and likewise provide, the requisite ECC decision is incorrect. CPGCL has already provided both the ECC decisions vide this office letter No. CPGCL/CEO/CE-TD/MIS/23/1807-11 dated 23.02.2023.
- ii. The tariff petition that was submitted by CPGCL on 04.06.2015 was submitted before CPGCL entered into a formal agreement with Engro and therefore, this issue



was not factored into that petition at the time. Furthermore, since it was not agreed at the time that CPGCL would actually get to keep these compressors, CPGCL proceeded with the execution of the EPC Contract with M/s ATL for a gas booster compressor station, which was entered into on 03.02.2014. Therefore, CPGCL's tariff petition, both at the time of filing and during the subsequent hearing, accurately accounted for the cost of the gas booster compressor station being supplied by ATL, as it represented the appropriate solution for the specific requirements of the 747 MW CCPP Guddu.

- iii. CPGCL firmly refutes the assertion that it received gas booster compressors from M/s Engro Fertilizers without any cost. In reality, CPGCL acquired the GBCS from M/s Engro Fertilizers as part of compensation for the temporary transfer of its allocation of 60 MMCFD gas from the Mari Shallow Gas Field to Engro. This arrangement was approved by the ECC of the Cabinet on 24.12.2014, whereby CPGCL agreed to divert 60 MMCFD gas from TPS Guddu to the Engro Fertilizer, enabling the production of an additional 50,000 tons of fertilizer per month, till December 2015.
 - iv. The value estimation of Engro-supplied compressors for CPGCL involved considering the depreciation cost of gas booster compressors installed by ATL. CPGCL hasn't received any consideration from NPGCL yet, with the value based solely on a debit note. Both CPGCL and NPGCL are government-owned entities, likely settling transactions through book accounting. To optimize costs, NPGCL opted to use Engro's compressors instead of purchasing new ones, as the former would be redundant for CPGCL after ATL installed gas booster compressors. This decision aims to avoid unnecessary expenses, benefiting consumers and the national economy.
 - v. CPGCL admitted, without prejudice, that it did not provide written statements, duly signed, of the CEO and concerned officers involved in the subject transaction.
12. Subsequently, the Licensee vide letter dated 30.10.2023, submitted a supplementary reply to the subject Show Cause Notice. The same is summarized as follows:
- i. The allocation of 60 MMCFD Mari Gas of CPGCL was temporarily diverted to M/s Engro Fertilizers by the Ministry of Petroleum for a period from 15.05.2015 to 31.12.2015.
 - ii. The decision of Government for diversion was made since the gas remained unutilized due to outage of Units of CPGCL. In lieu of said diversion, M/s Engro Fertilizers provided GBCS to CPGCL for use only, on returnable and on free of cost basis.

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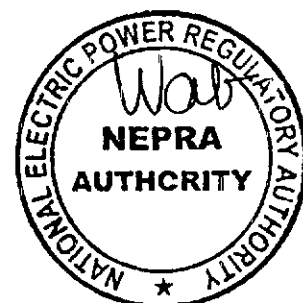
- iii. However, CPGCL's units remained unavailable even by the end of Dec-2015, M/s Engro offered CPGCL that they can transfer the ownership of said Compressor on free-of-cost basis if CPGCL further concur to allow M/s Engro to use said gas quota up to 31.03.2016.
- iv. The offer of M/s Engro Fertilizers agreed by CPGCL and the ownership of the Compressor was transferred to CPGCL. M/s Engro Fertilizers had not shared the actual cost of said Compressors. Hence, fair value of the same was calculated based on cost of Compressors that CPGCL was incurring in procurement of Compressors from M/s Jerih.

Hearing:

13. In view of the above, the Licensee was provided an opportunity of hearing before proceeding further. Hearing in the matter was held on 27.11.2023, wherein, the representatives of the Licensee participated and made their submissions.
14. During the hearing, the Authority directed the Licensee to settle its accounts with NPGCL. In this regard, a letter dated 27.12.2023 followed by reminder dated 04.03.2024 was also issued to the Licensee. However, the Licensee vide letter dated 09.05.2024 (received on 14.05.2024) submitted that the matter was presented to the Board of Directors (BoD) for their necessary approval and directive regarding the settlement of accounts with NPGCL for the transfer of GBCS at zero rate instead of net book value of Rs. 1,242,051,646/-. However, the BoD has instructed vide resolution dated 07.05.2024, to submit a petition/appeal to the NEPRA Appellate Tribunal to challenge the decision made by the Authority. Therefore, the Licensee intends to file a writ petition with the NEPRA Appellate Tribunal for further processing of the case.

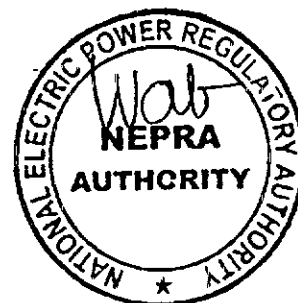
Analysis/Findings of the Authority:

15. The Licensee has submitted that the assertion that it did not procure, and likewise provide, the requisite ECC decision is incorrect, as the Licensee has already provided both the ECC decisions vide its office letter dated 23.02.2023. In this regard, the Authority observes that the copies of ECC's decisions provided by the Licensee vide letter dated 23.02.2023 pertain to the installation of GBCS for 747 MW CCPG Guddu by Engro Fertilizers in consideration of usage of 60 MMCFD gas from Mari Shallow by Engro Fertilizers till 31.12.2015 and the re-allocation of 60 MMCFD gas from Mari Shallow to TPS Guddu. The Licensee has not provided copy of any ECC decision in support of extending its facilitation to Engro Fertilizers to use its re-allocation of 60 MMCFD gas from Mari Shallow Gas from January 01, 2016 to March 31, 2016 in consideration of Engro Fertilizers transferring the ownership of GBCS to the Licensee. Hence, the stance adopted by the Licensee is unjustified.
16. Moreover, the Licensee has submitted that the tariff petition that was filed by it on 04.06.2015 was submitted before the Licensee entered into a formal agreement with Engro



and therefore, this issue was not factored into that petition at the time. In this regard, the Authority observes that on December 23, 2014, the MoW&P moved a summary to the ECC to approve the proposed agreement between the Licensee and Engro Fertilizers for the usage of Guddu Gas from Mari Shallow by Engro Fertilizers till December 31, 2015 in lieu of installation of gas booster compressors for Guddu 747 CCPP at the cost of Engro Fertilizers. The same was approved by the ECC on December 24, 2014, vide case no. ECC-168/28/2014. To implement the ECC Decision, the Licensee and Engro Fertilizers executed an agreement on March 06, 2015. Accordingly, a GBCS consisting of three (03) gas boosting compressors was assembled, installed and commissioned for Guddu 747 CCPP by Engro Fertilizers on May 10, 2015. Whereas, the tariff petition was filed by the Licensee on June 04, 2015. Therefore, the argument put forward by the Licensee does not merit consideration.

17. The Licensee has further refuted the assertion that it received gas booster compressors from M/s Engro Fertilizers without any cost, and submitted that the Licensee acquired the GBCS from M/s Engro Fertilizers as part of compensation for the temporary transfer of its allocation of 60 MMCFD gas from the Mari Shallow Gas Field to Engro. In this regard, the Authority observes that the allocation of 60 MMCFD Gas from Mari Gas Shallow Field to TPS Guddu serves the sole purpose of power generation for the Licensee and does not constitute a profit-making endeavor. It's important to clarify that the Licensee doesn't own this gas quota outright and it's not the Licensee's discretion that the Licensee utilizes it for power generation or temporarily transfers it to another entity in exchange for something of monetary value and then transfers the said thing to a third entity against money. The acquisition of GBCS from Engro Fertilizers in exchange for gas utilization from 15.05.2015 to 31.03.2016 should have been disclosed during the tariff petition filing before NEPRA. This disclosure would have allowed for a reduction in the cost of CPGCL's booster station equivalent to the value of the GBCS. Alternatively, if CPGCL chose to transfer the GBCS to NPGCL, it should have been done at zero cost rather than the significant sum of Rs. 1.242 billion. Hence, the stance adopted by the Licensee is unjustified.
18. In addition to this, the Licensee has submitted that the value estimation of Engro-supplied compressors for the Licensee involved considering the depreciation cost of gas booster compressors installed by ATL. In this regard, the Authority observes that the Licensee should have recorded the actual cost of GBCS in its books of accounts instead of considering the cost of the gas booster compressors installed by ATL and taking into account the applicable depreciation cost. Therefore, the argument put forward by the Licensee does not merit consideration.
19. The Licensee has itself admitted that it did not provide written statements, duly signed, of the CEO and concerned officers involved in the subject transaction.



20. The Licensee has not settled its accounts with NPGCL, despite repeated directions of the Authority, for the transfer of GBCS at zero rate instead of net book value of Rs. 1,242,051,646/-.

Decision of the Authority:


21. Keeping in view the relevant provisions of the NEPRA Act, Rules & Regulations made thereunder, other applicable documents, submissions of the Licensee and available record, the Authority observes that the Licensee has constituted violation of Rule 3(8) & 3(9) of the NEPRA (Tariff Standards and Procedure) Rules, 1998, Rule 8(3)(b) & (i) of the NEPRA Licensing (Generation) Rules, 2000 and the provisions of other applicable documents by acquiring GBCS from Engro Fertilizers free of cost in consideration of utilization of gas quota and subsequently transferring it to NPGCL against Rs. 1.242 billion. Therefore, the Authority decides to impose a fine of Fifty Million Rupees (**Rs. 50 Million**) on the Licensee.
22. Accordingly, the Licensee is directed to pay the fine of Fifty Million Rupees in designated bank of the Authority within a period of fifteen (15) days after the date of issuance of this order and forward a copy of the paid instrument to the Registrar Office for information, failing which the Authority shall recover the amount due under Section 41 of the NEPRA Act read with relevant provisions of the Fine Regulations as arrears of the land revenue.

Authority

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Member (Technical)



Engr. Maqsood Anwar Khan
Member (Licensing)



Mathar Niaz Rana (nsc)
Member (Tariff)



Amina Ahmed
Member (Law)



Waseem Mukhtar
Chairman



Announced on 11.10, 2024 at Islamabad.

