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National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Tariff)TRF-100/LIBOR to SOFR/18983-86

December 05, 2024

Subject: DECISION OF THE AUTHORITY IN THE MATTER OF SUO MOTO
PROCEEDING REGARDING TRANSITION FROM LONDON INTERBANK
OFFERED RATE (LIBOR) TO SECURED OVERNIGHT FINANCING RATE
(SOFR)

Dear Sir,

Enclosed please find herewith the subject Decision of the Authority along with Annex-I & II (total 08 Pages).

2. The Decision is being intimated to the Federal Government for the purpose of notification in the official Gazette pursuant to Section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 within 30 days from the intimation of this Decision. In the event the Federal Government fails to notify the subject tariff Decision or refer the matter to the Authority for reconsideration, within the time period specified in Section 31(7), then the Authority shall notify the same in the official Gazette pursuant to Section 31(7) of NEPRA Act.

Enclosure: As above


(Wasim Anwar Bhinder)

Secretary,
Ministry of Energy (Power Division),
'A' Block, Pak Secretariat,
Islamabad

Copy to:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
3. Chief Executive Officer, Central Power Purchasing Agency Guarantee Limited (CPPA-G),
Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad



DECISION OF THE AUTHORITY IN THE MATTER OF SUO MOTO PROCEEDING
REGARDING TRANSITION FROM LONDON INTERBANK OFFERED RATE (LIBOR) TO
SECURED OVERNIGHT FINANCING RATE (SOFR)

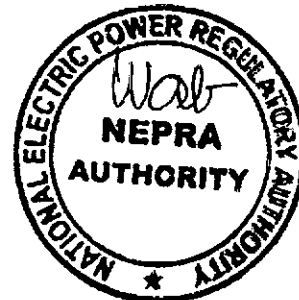
The Ministry of Energy - Power Division ("MoEPD") vide letter No. IPPs10(102)/2024 dated 16 February 2024 informed that Economic Coordination Committee ("ECC") of the Cabinet considered the MoEPD's summary dated 23 January 2024 on the subject matter and approved the proposals outlined in paragraph 7 of the summary in its meeting held on 01 February 2024. The ECC directed that the borrower companies with debt repayment schedules registered with State Bank of Pakistan ("SBP") shall notify SBP the revised repayment schedule after incorporating the applicable Secured Overnight Financing Rate ("SOFR") plus the relevant Credit Adjustment Spread ("CAS"), as recommended by International Swaps and Derivatives Association ("ISDA"). As per the ECC decision, all the project lenders were allowed to opt for any of the following options:

- i. *Daily Simple SOFR plus relevant ISDA recommended CAS (0.26161% for quarterly payment and 0.42826% for semi-annual payment); or*
- ii. *Term SOFR plus relevant ISDA recommended CAS.*

Provided, however, that all the terms & conditions as mentioned in the respective legacy contracts shall remain unchanged like settlement tenor i.e., three months & six months settlement period will have corresponding settlement periods.

2. Private Power Infrastructure Board ("PPIB") vide letter dated 04 March 2024 advised power projects with foreign financing to approach NEPRA for the replacement of LIBOR with SOFR, to be followed by amendments in the respective Power Purchase Agreements ("PPAs"), Energy Purchase Agreements ("EPAs"), Transmission Services Agreements ("TSAs"), and related financing documents.
3. Following the decision made by the ECC on February 01, 2024, letters were sent by NEPRA on 12 June 2024 to seventy-two (72) power projects with foreign financing, advising them to formally file tariff modification petitions for the transition from LIBOR to SOFR, in accordance with the NEPRA (Tariff Standards and Procedure) Rules, 1998 ("Tariff Rules").
4. In response, only two (02) Independent Power Producers ("IPPs") namely Harappa Solar (Private) Limited and Gharo Solar Limited complied with the Authority's directions and filed tariff modification petitions. Meanwhile, twenty three (23) other power projects merely submitted requests to transition from LIBOR to SOFR, without following the formal procedure to get their tariffs modified. Additionally, five (05) generation projects namely Metro Power Company Limited, Gul Ahmed Wind Power Limited, Jhimpir Power (Private) Limited, Hawa Energy (Private) Limited and Master Wind Energy requested NEPRA to exercise its suo moto power in this regard.
5. Subsequently, the PPIB forwarded a letter dated 20 July 2024, which it had received from RIAA Barker Gillette on behalf of the Pakistan Wind Energy Association, representing several wind energy power producers. In the letter, it was stated that the majority of the association's clients are partially or wholly

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foreign-funded, and their lenders have instructed them to seek PPIB's support for the transition from LIBOR to SOFR. The letter further argued in favor of NEPRA exercising its suo moto powers to expedite the decision, drawing a parallel to previous instances where NEPRA had used its suo moto powers, such as in the discontinuation of the Wholesale Price Index ("WPI") and the change of the base year for the Consumer Price Index ("CPI").

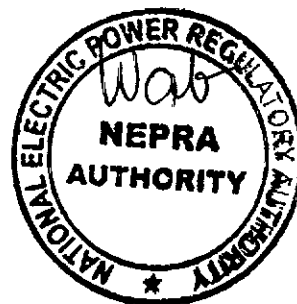

6. In addition to the above, on 30 July 2024, several Development Financial Institutions including the Asian Development Bank, British International Investment Plc, DEG, FMO, International Finance Corporation, Islamic Development Bank, Proparco, the Export-Import Bank of Korea and U.S. International Development Finance Corporation, among others, which provide financing to numerous IPPs in the Pakistani energy sector, collectively sent a letter to NEPRA. The letter requested the incorporation of the transition from LIBOR to term SOFR + CAS as the benchmark interest rate for foreign currency financing facilities in the approved tariff determinations of the relevant IPPs. These institutions stated that as the LIBOR will cease to be published after 30 September 2024, therefore, requested the Authority to:

- i. expedite the process to modify the tariff determinations of the relevant IPPs,
- ii. confirm that the Authority has no objection to the proposed Draft Amendment Agreements (EPA and IA),
- iii. in case the tariff determination is not modified prior to 30 September 2024, confirm by letter that each IPP can use term SOFR \pm CAS as an alternate benchmark for the purposes of invoicing until the modification is complete.

7. Regarding point (iii) of the aforementioned request, the Authority noted that the relevant EPAs/PPAs contain a provision addressing the indexation of tariff components in the event that any index becomes unavailable, as outlined below:

"If any index used herein ceases to be available, the Parties shall request NEPRA to determine an alternative index, which determination when made shall be binding on the Parties for all purposes of such index hereunder. Pending the determination by NEPRA, the last available value of such index shall be used for all relevant purposes hereunder. Upon the determination of such index by NEPRA, all payments made by either Party during the period of unavailability of a current value of the relevant index, shall be recomputed using the applicable value of the replacement index, and the differences, if any shall be paid by the owing Party without any interest/mark-up."

8. Considering the requests received from numerous stakeholders, the Authority decided to initiate suo moto proceedings in the matter. The hearing in this regard was scheduled for 05 September 2024 (2:00 pm) at NEPRA Headquarters. Accordingly, Advertisement/Notice of Hearing was published in the national daily newspapers on 17 August 2024, requesting the public to file intervention request or submit comments in the matter within seven days of the publication. Separate notices were also sent to all the stakeholders, considered relevant in the matter, on 20 August 2024, inviting them for participation in the said hearing. Following issues were framed for discussion during the proceedings:





- i. What should be the agreed-upon lookback period? Should there be a uniform lookback period for all relevant power projects, or would it be justified to have different lookback periods for different plants?
 - ii. Any other issues that may arise during the hearing with the approval of the Authority.
9. Through the Advertisement/Notice, the power projects with foreign lending linked to LIBOR, either wholly or partially, were directed to submit a written confirmation of the selected options as stated below, by or before 05 September 2024;

Option 1: Daily Simple SOFR plus the relevant ISDA recommended CAS.

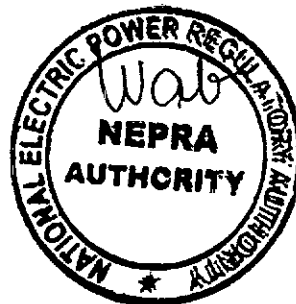
Option 2: Term SOFR plus the relevant ISDA recommended CAS.

10. Accordingly, the hearing was held on 05 September 2024 which was attended by the representatives of power projects, CPPA-G and PPIB. CPPA-G, PMLTC and Bridge Factor submitted their written comments on the above framed issues vide letters dated 09 September 2024, 18 September 2024 and 08 October 2024 respectively. The relevant submissions of the aforementioned parties and others are discussed in the ensuing paragraphs of this decision.

Options of term SOFR and daily SOFR and their Applicability

11. Out of total seventy-two (72) power projects, fifty-five (55) projects submitted their written confirmation. Twelve (12) power projects opted for daily simple SOFR and thirty-nine (39) projects opted for term SOFR. Two (02) projects namely Crest Energy Limited and Karot Hydro Power Project opted for both the options for different loans, i.e. daily SOFR for Chinese loan while term SOFR for other loan. The other two (02) power projects namely Uch-II Power (Private) Limited and Laraib Energy Limited requested to allow synthetic LIBOR for the remaining debt term of 1.5 year and 1 year respectively. Furthermore, a number of projects submitted that the transition should be applied prospectively, and the application of synthetic LIBOR as already approved, should not be changed.
12. Seventeen (17) power projects (72 – 55) did not submit any confirmation. Out of these, it is noted that the debt of Foundation Wind Energy-I Ltd and Foundation Wind Energy-II (Pvt.) Ltd expired on 09 June 2024 and 27 October 2024 respectively and their debt servicing components from 1st July 2023 have been adjusted on the basis of the available synthetic LIBOR. While the remaining projects have either not yet achieved Commercial Operation Date (“COD”), or their tariff adjustment applications at COD are in process with NEPRA.
13. K-Electric Limited (“KEL”) submitted that the over-night SOFR is applicable to facilities currently being utilized. However, for future financing, KEL requested the flexibility to have both options (daily simple SOFR or term SOFR) depending on lenders' requirement plus the applicable CAS and lookback period in accordance with terms of financing agreements.
14. Five (05) power projects namely UEP Wind Power Private Limited, Engro Powergen Thar (Private) Limited, Thal Nova Power Thar (Pvt.) Limited, Thar Energy Limited, Best Green Energy Limited and Crest Energy Limited were permitted quarterly debt repayments under their respective tariff determinations. However, they have requested a 6-month CAS of 0.42826% in line with their actual debt repayment terms with the lenders. Additionally, one project, Sachal Energy Development (Pvt.) Ltd. was

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allowed semi-annual debt repayments under its tariff determination but it has requested a 3-month CAS of 0.26161% based on its actual debt repayment terms with its lender.

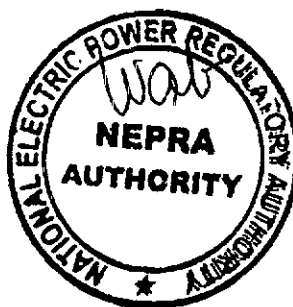
15. Considering the above submissions and keeping in view the decision taken by ECC, the Authority has decided to approve the application of term SOFR, in place of LIBOR, on the applicable debt of forty-five (45) power projects. Likewise, the Authority has decided to apply daily SOFR on the applicable debt of fourteen (14) projects. The relevant CAS, in line with the debt repayment terms as approved in the tariff determination of the respective power projects, shall be applied accordingly. The transition from LIBOR to SOFR shall be made effective from 01 July 2023 uniformly for all the power projects, including those projects whose debts have been paid off by the date this decision is issued. Accordingly, the differences due to application of SOFR from 01 July 2023 shall be settled by the owing Party following the relevant clauses of EPA/PPA agreements. For the projects who did not opt for any option, the decision to either apply term SOFR or daily SOFR will be made vide their tariff determinations/COD decisions, based on their financing arrangements.

Issue: What should be the agreed-upon lookback period? Should there be a uniform lookback period for all relevant power projects, or would it be justified to have different lookback periods for different plants?

16. This issue was framed due to a distinction between daily SOFR and term SOFR. The term SOFR is derived from futures markets and provides rate expectations over various periods (e.g., 1-month, 3-month, etc.). This way the term SOFR functions more like LIBOR, as it offers borrowers and lenders a projected fixed interest rate for a specified time frame. Given this, using term SOFR should pose no issues for the project companies regarding lenders' payment schedules, quarterly or semi-annual indexation requests to NEPRA, or invoicing to power purchasers. These processes would remain similar to those under LIBOR, ensuring consistency and reducing the likelihood of complications during the transition.
17. In contrast, the daily SOFR, in its traditional form, is not a forward-looking rate; rather, it is a backward-looking rate based on actual transactions in the U.S. Treasury repurchase market. Specifically, daily SOFR reflects the cost of borrowing overnight and is calculated daily, based on actual transactions. Hence, to ensure timely processing of tariff indexation, invoicing and on-time payments by power projects to their lenders, it is important to determine an appropriate look-back period for projects opting to use daily SOFR.
18. Following fourteen (14) companies have opted for the daily simply SOFR (including Crest Energy Limited, Karot Hydro Power Project and K-Electric who opted for both options for different loans). The lookback period as submitted by these companies is tabulated below:

S.No	List of Power Projects	Repayment	Look Back Period (Risk Free Rate Days)
1	K-Electric	Quarterly	5
2	Apollo Solar Development Pakistan Limited	Quarterly	40
3	Crest Energy Limited	Quarterly	50
4	China Power Hub Generation Company (Private) Limited	Quarterly	60

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5	China Three Gorges Second Wind Form Pakistan Limited	Quarterly	60
6	China Three Gorges Third Wind Form Pakistan (Private) Limited	Quarterly	60
7	Lucky Electric Power Company Limited (LEPCL)	Quarterly	60
8	Thar Coal Block 1 Power Generation Company (Private) Limited	Quarterly	-
9	UEP Wind Power Private Limited	Quarterly	60
10	Engro Powergen Thar (Private) Limited (EPTPL)	Quarterly	120
11	Thal Nova Power Thar (Pvt.) Limited (TPTPL)	Quarterly	120
12	Thar Energy Limited (TEL)	Quarterly	120
13	Karot Hydro Power Project	Semi Annual	120
14	Pak Matiari-Lahore Transmission Company (Pvt.) Ltd. (PMLTC)	Semi Annual	120

19. It can be seen that majority of companies with quarterly repayments have proposed 60 RFR (Risk Free Rate) days lookback period, whereas the projects with semi-annual debt repayments have requested 120 RFR days look back period. KE, Apollo, and Crest have proposed the look back periods of 5, 40 and 50 days respectively. CPPA-G recommended aligning lookback periods and terms for projects transitioning to "term SOFR" or "daily simple SOFR" with legacy contracts to ensure consistency. PMLTC and Bridge Factor suggested using a 120 business days lookback for semi-annual and 60 business days for quarterly payments to maintain uniformity in invoicing and indexation during the SOFR transition.
20. The Authority considered the above submissions and observed that a uniform look back should be approved for all IPPs opting for daily SOFR. Keeping in view the process of filing the tariff indexation with NEPRA, invoicing with CPPA-G and then payments to be made to lenders, the Authority has decided to use following look back periods for power projects opting for daily SOFR:
- Approved the look back period of previous quarter for quarterly repayments, i.e. for the quarter Jan-Mar, the look back period shall be the previous Oct-Dec quarter. This shall be uniformly applicable on all projects that have opted for daily SOFR and have quarterly debt adjustments approved in their tariffs.
 - Approved the look back period of previous-six months for bi-annual repayments, i.e. for the six-month period of Jan-Jun, the look period shall be the previous Jul-Dec period. This shall be uniformly applicable on all projects that have opted for daily SOFR and have bi-annual debt adjustments approved in their tariffs.
 - For non-business days the last available rate shall be used.

Order

21. The Authority hereby approves the following:
- The "revised LIBOR" in the interest component indexation formula in the relevant decisions of the projects has been replaced with "3 months/6 months term SOFR+ relevant ISDA recommended CAS (0.26161%/0.42826%)". The list of projects with transition from LIBOR to term SOFR is attached as Annex-I.

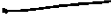
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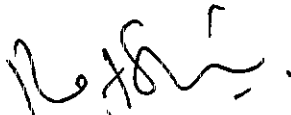


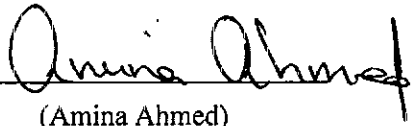
- ii. The “revised LIBOR” in the interest component indexation formula in the relevant decisions of the projects has been replaced with “daily simple SOFR” calculated based on approved lookback period (last quarter or semi-annual period) + ISDA recommended CAS (0.26161%/0.42826%). The list of projects with transition from LIBOR to daily simple SOFR is attached as **Annex-II**.
- iii. The transition from LIBOR to SOFR shall be applicable uniformly with effect from July 01, 2023.
- iv. For the remaining/upcoming projects, the decision to either apply term SOFR or daily simple SOFR will be made vide their tariff determinations/COD decisions, based on their financing arrangements.
22. The above Order of the Authority is intimated to the Federal Government for notification in the Official Gazette in terms of Section 31(7) of the Regulations of Generation, Transmission and Distribution of Electric Power Act, 1997.


AUTHORITY

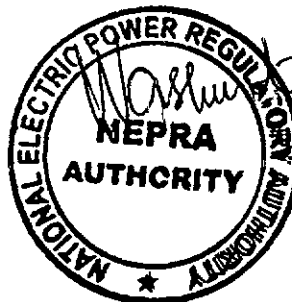

(Mathar Niaz Rana (nsc))
Member


(Engr. Maqsood Anwar Khan)
Member


(Rafique Ahmed Shaikh)
Member


(Amina Ahmed)
Member


(Waseem Mukhtar)
Chairman



Daily SOFR			
S.No	IPPs	S.No	IPPs
Quarterly Indexation		Semi Annual Indexation	
1	Apollo Solar Development Pakistan Limited	13	Karot Hydro Power Project
2	China Power Hub Generation Company (Private) Limited (CPHGCL)	14	Pak Matlari-Lahore Transmission Company (Pvt.) Ltd. (PMLTC)
3	China Three Gorges Second Wind Farm Pakistan Limited		
4	China Three Gorges Third Wind Farm Pakistan (Private) Limited		
5	Crest Energy Pakistan Limited		
6	Engro Powergen Thar (Private) Limited (EPTPL)		
7	Lucky Electric Power Company Limited (LEPCL)		
8	Thal Nova Power Thar (Pvt.) Limited (TPTPL)		
9	Thar Coal Block 1 Power Generation Company (Private) Limited		
10	Thar Energy Limited (TEL)		
11	UEP Wind Power Private Limited		
12	K-Electric		

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Term SOFR			
S.No	IPPs	S.No	IPPs
Quarterly Indexation		Semi Annual Indexation	
1	Act 2 Din Wind (Private) Limited (AWPL)	37	Foundation Wind Energy-I Ltd
2	AJ Power (Pvt.) Ltd.	38	Foundation Wind Energy-II (Pvt.) Ltd
3	Artistic Wind Power (Private) Limited	39	Karot Hydro Power Project
4	Atlas Solar Limited	40	Laralb Energy Limited (LEL)
5	Best Green Energy Pakistan Limited (BGEPL)	41	Metro Power Company Ltd. (MPCL)
6	Crest Energy Pakistan Limited	42	Mira Power Limited
7	Din Energy Limited	43	Sachal Energy Development (Pvt) Ltd (SEDPL)
8	Gharo Solar Ltd.	44	SK Hydro (Private) Limited
9	Gul Ahmed Electric Ltd.	45	Star Hydro Power Limited
10	Gul Ahmed Wind Power Ltd.		
11	Harappa Solar (Private) Limited		
12	Hawa Energy (Private) Ltd (HEPL)		
13	Hellos Power (Pvt.) Limited		
14	HNDS Energy (Pvt.) Limited		
15	Huaneng Shandong Ruyi (Pakistan) Energy (Private) Limited (HSRPEL)		
16	Hydrochina Dawood Power (Pvt.) Ltd (HDPPL)		
17	Indus Wind Energy Limited		
18	Jhimpr Power (Private) Limited (JPPL)		
19	Lakeside Energy Limited		
20	Liberty Wind Power 1 Limited]		
21	Liberty Wind Power 2 Limited		
22	Lucky Renewable (Private) Limited		
23	Master Green Energy Limited		
24	Master Wind Energy (MWEL)		
25	Meridian Energy (Pvt.) Limited		
26	Metro Wind Power Ltd. (MWPL)		
27	NASDA Green Energy Limited		
28	Oursun Pakistan Limited		
29	Port Qasim Electric Power Company (Private) Limited		
30	Sapphire Wind Power Company Limited		
31	Tenaga Generasi Limited		
32	Triconboston Consulting Corporation (Pvt) Limited-A		
33	Triconboston Consulting Corporation (Pvt) Limited-B		
34	Triconboston Consulting Corporation (Pvt) Limited-C		
35	UCH-II Power (Pvt) Ltd		
36	Zephyr Power Limited		

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