

No. CPPA-G/2016/CEO/1963

Dated: May 31, 2016

The Registrar NEPRA,  
NEPRA Tower,  
Islamabad.

Subject: **PETITION FOR THE DETERMINATION OF MARKET OPERATION FEE  
FOR JUNE 2015, FOR THE FY 2015-16 & FY 2016-17.**

Please find enclosed herewith the Petition for the Determination of Market Operation Fee for June, 2015, Financial Year 2015-16 & Financial Year 2016-17 in respect of CPPA-G.

Please feel free to contact us in case of any query.



(Abid Latif Lodhi)  
Chief Executive Officer CPPA-G

CC for information:

1. Secretary MoWP/ Chairman CPPA-G.
2. Joint Secretary (PF) MoWP.
3. General Manager CPPA-G.
4. Chief Financial Officer CPPA-G.

For information &

mya pl

— LA (leg)  
— Consultant (HP)

Q. No.:

— SA (Tech)  
— SA T-I  
— Dir (LIC)  
— M/F

02.06.16

cc: chairman  
vc/m(T)  
m(Lic)  
m(CA)

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**PETITION FOR DETERMINATION OF MARKET  
OPERATION FEE**

**For June 2015, FY 2015 - 16 and FY 2016 - 17**

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

5/31/2016

BEFORE

THE NATIONAL ELECTRIC POWER REGULATORY AUTHORITY (NEPRA)

MULTI YEAR MARKET OPERATOR'S FEE PETITION  
FOR THE MONTH OF JUNE 2015 & FY 2015-16 TO FY 2016-17  
(ONE MONTH & TWO YEARS)  
BASED ON THE ACTUAL RESULTS OF FY 2014-15

PETITION UNDER RULE 3 AND SUB-RULE 7 OF RULE 4 OF NEPRA (TARIFF  
STANDARDS AND PROCEDURES) RULES, 1998

ON BEHALF OF  
CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED (CPPA-G)  
FOR NEPRA'S APPROVAL OF MARKET OPERATORS FEE OF CPPA-G  
FOR JUNE 2015, FY 2015-16 & FY 2016-17

DATED: May 31, 2016

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED (CPPA-G)  
ADDRESS: 6<sup>TH</sup> Floor, Shaheed-e-Millat Secretariat, Jinnah Avenue, Blue Area, Islamabad  
Phone:- 051-9213616  
Fax:- 051-9213617

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## 1. Petitioner's Information

### 1.1 Name

Central Power Purchasing Agency (Guarantee) Limited (CPPA-G).

### 1.2 Address

6<sup>th</sup> Floor, Shaheed-e-Millat Secretariat, Jinnah Avenue, Blue Area, Islamabad.

### 1.3 Company Details

Central Power Purchasing Agency (CPPA-G) is a Company incorporated under the Companies Ordinance, 1984 and wholly owned by the Government of Pakistan (the "GOP"). Since June 2015, the petitioner has assumed the business of National Transmission and Dispatch Company (the "NTDC") pertaining to the market operations and presently functioning as the Market Operator in accordance with Rule-5 of the NEPRA Market Operator (Registration, Standards and Procedure) Rules, 2015 (the "Market Rules").

### 1.4 Company License

Rule-5 (1) of the NEPRA Market Operator (Registration, Standards and Procedure) Rules, 2015 (the "Market Rules") state that "Notwithstanding anything contained in these rules, for a period of two years from the commencement of these rules, CPPA-G shall be deemed to be authorized and registered as the Market Operator under these rules to commence and conduct the market operations and during this period shall apply for registration in accordance with the provisions of these rules".

### 1.5 Authorization

The resolution of the Board of Directors (BoD) of the petitioner, authorizing the Chief Executive Officer to sign and file this petition as well as authorizing other senior officers to sign and submit any additional document/information to the Authority as to represent the petitioner before the Authority is placed as (Annexure-1).

The affidavit of the Chief Executive Officer of the petitioner, in support of the application, is placed as (Annexure-2).

## 1.6 Company Representatives

The following officers of CPPA-G have been authorized by the BoD to sign necessary documents in support of the petition for the determination of Market Operators Fee for June 2015, FY 2015-16 and FY 2016-17 (individually or jointly) and also to appear before NEPRA as and when required.

Mr. Abid Latif Lodhi	Chief Executive Officer
Mr. Abdul Rehman	General Manager
Mr. Rihan Akhtar	Chief Financial Officer
Mr. Majid Khan	Chief Legal Officer

## 2. Grounds Giving Rise to Petitioner Interest

### 2.1 Background

That the background of operationalization of the petitioner as a market operator is submitted as under:-

- a) In furtherance to power sector reform, started in 1992, the strategy envisioned the creation of a competitive wholesale power market that would benefit the power sector in particular and the Pakistan's economy in general via newly introduced profit incentives and an increase in managerial autonomy and accountability, while ensuring overall transparency. An approach for creating a fully competitive wholesale power market consisted of the following three (3) phases:-
  - (i) Single Buyer
  - (ii) Single Buyer Plus, and
  - (iii) Competitive Trading and Bilateral Contracts (wholesale power market)
- b) This approach was incorporated in the NTDC Transmission License. NTDC in accordance with its Transmission License, TL/01/2002 issued by NEPRA on 31 December 2002, established the Central Power Procurement Agency (CPPA) in 2004. Under Article 8 of the Transmission License the functions of billing, settlement and payment to Generation Companies (GENCO, IPPs, and WAPDA Hydel) was to be discharged through its CPPA. Further in addition to the billing, settlement and payment

functions, NTDC/CPPA was to procure electric power on behalf of the DISCOs and to prepare the organizations and the sector for transition towards a competitive wholesale/bilateral market (envisaged not later than 1<sup>st</sup> July, 2012 under NEPRA Transition Order No.1 as well as in the Transmission License).

- c) In 2009, the GOP decided to create an independent company to perform the Market Operator functions. The GOP's main objectives for doing so were:
  - (i) The introduction of a new cash flow management system consistent with envisaged sector restructuring.
  - (ii) Improved fiscal discipline, i.e., DISCOs' ability to honour debts, especially those arising from new investments, and to attract further investments for the sector that will result in credibility of sector operations.
  - (iii) The introduction of measures to improve the power supply-demand balance, while ensuring a reasonable quality of service.
  - (iv) Paving the way toward the next phase of market reform, i.e., competitive trading bilateral contract power market and retail market.
- d) Accordingly, Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) was incorporated in 2009 in order to become the successor of the CPPA of NTDC and assume the existing market operations being performed by NTDC through its departments i.e. WAPDA Power Privatization Organization (WPPO), CPPA & Manager Finance Treasury.
- e) The National Energy (Power) Policy 2013, approved by the Council of Common Interests (the "CCI") on July 27, 2013, reiterated the need to reform CPPA of NTDC.
- f) In furtherance of the policy decision of CCI to reform CPPA of NTDC, the GOP decided to operationalize the petitioner as an independent legal entity having mandate to discharge the market operations.

## 2.2 Contractual Framework of CPPA-G

As per the approved policy of the GOP following contractual framework currently in place:

- a) Execution of Business Transfer Agreement (BTA) between NTDC and CPPA-G.

- b) Execution of the Power Procurement Agency Agreements between CPPA-G and each of the DISCOs.
- c) Execution of the Administration Agreement between CPPA-G and NTDC to authorize the CPPA-G to administer and deal with PPAs executed between the existing Generation Companies (IPPs under 1994 power policy and prior thereto, IPPs under the 2002 power policy and 2006 RE Policy, GENCOs, WAPDA Hydel) and WAPDA and/or NTDC.
- d) Execution of fresh Power Purchase Agreements between CPPA-G and GENCOs; and
- e) Novation and amendment of PPA between NTDC and WAPDA for Hydel generation to include CPPA-G as a party thereto responsible for the commercial aspects thereof.
- f) Entered into Reverse Administration Agreement with NTDC to ensure that, following the transfer of business from NTDC to CPPA-G, the functions and obligations to be performed by NTDC or WAPDA under Power Purchase Agreements or Energy Purchase agreements signed by NTDC or WAPDA, will continue to be assumed and exercised by NTDC as per its transmission license or Grid Code.

### 2.3 Regulatory Framework of CPPA-G

The regulatory framework, under the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the “NEPRA Act”), supporting the reform of CPPA of NTDC is as under:-

- a) Modification of NTDC Transmission License for carving out the Market Operations from NTDC.
- b) Approval and notification of the Market Rules, and
- c) Approval and notification of Commercial Code for regulating the payment and settlement.



## 2.4 Functions and Responsibilities of Market Operator

The development of the Electricity Sector in Pakistan will go through several phases, with the long term aim of becoming a self-sustaining commercial sector delivering electricity to end users efficiently and cost effectively. The sector has already been unbundled along horizontal lines, with separate entities responsible for the generation, transmission and distribution of electricity. The market model in the current phase is similar to that of a Single Buyer, in which all electricity is sold to a single entity and all electricity is bought from that entity; the Central Power Purchasing Agency-Guarantee Limited (CPPA-G).

The primary role of the CPPA is to settle the financial liabilities that exist between the suppliers of electricity (Generators, Importers and NTDC) and the wholesale consumers (Distribution Companies and Bulk Consumers). Over time, the CPPA will transform into a market administration role as bilateral contracts will be established. The CPPA is preparing for this, and striving to contribute in shaping of the bilateral and eventually a competitive marketplace (as per NEPRA Market Operator Registration, Standards and Procedures Rules, 2015, rule 2.1(f)).

The functions and responsibilities of CPPA-G being Market Operator in terms of the Grid Code and the Commercial Code are:

- a) Acquire, take over and / or assume the functions and business of settlement and development of competitive power market from CPPA of NTDC 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 terms 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

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

CPPA-G being Market Operator is also responsible for the 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 in accordance with the Commercial Code.

Additionally, as per Market Rules CPPA-G being Market Operator is responsible for:

- a) Updating, implementing, administering and enforcing the Commercial Code in relation to the Market Rules;
- b) Collecting information and statistics and publishing reports and information relating to the performance of the Market Operator administered market;
- c) Administering the development of and amendments to the Commercial Code for submission to NEPRA for approval;
- d) Developing and implementing competitive power markets based on policies guidelines of the Federal Government and/or requirements of NEPRA;
- e) Publishing such information on its website as may be required by NEPRA from time to time;
- f) Liaising with other bodies having market functions similar to the Market Operator or administering competitive power markets;
- g) Any additional functions pursuant to requirements and provisions under the Commercial Code.

In-order to become an effective Market Operator and ensure compliance with the Market Rules and Commercial Code as mentioned above, CPPA organization as a whole is envisaged to perform nine main functions. It is also important to mention here the two Stages envisaged in CPPA's internal organizational strengthening and capacity building and external market development journey. **Stage-I** (operationalization of CPPA) materialized in June 2015, however, a lot of effort has currently been exerted to strengthen the core functions of CPPA under this phase and to accomplish this at the earliest possible. Under **Stage-II** new functions are planned

to be added in-order to ensure CPPA's role as an effective Market Operator. This phase has also been initiated and will be largely materialized by 2017-18. The detail of the nine main functions under these two phases is placed at **Annexure-3**.

### 3. Grounds and Facts Forming Basis of this Petition

I) In order to meet with the expenses for discharging the functions and responsibilities mentioned above, the petitioner requires revenue to be approved by the Authority in terms of clause (e) of subsection 2 of Section 7 read with clause (j) of subsection 2 of Section 7 of the NEPRA Act and chapter 11 of the Commercial Code.

II) Chapter 11 of the Commercial Code deals with the Market Operation Fee and clause 11.1.1 provides that the existing cost associated with CPPA of NTDC shall be separated from the Use of System Charge (the "UoSC") of NTDC. In this manner, the UoSC of NTDC, already being paid by the ex-WAPDA DISCOs, shall be reduced by the amount corresponding to the expenses of CPPA-G.

III) As per the broad guidelines laid down in Chapter 11 of the Commercial Code, the general heads of costs associated with the operations of the petitioner have been provided in clause 11.1.2.

IV) In terms of these broad guidelines the petitioner is also permitted to include any cost estimate for future capital expenditure required for compliance with current and future provisions contained in the Commercial Code.

V) As such the total revenue requirement of the petitioner shall comprise of the existing cost separated from the UoSC of NTDC, additional operating cost in view of present operations independent of NTDC and the Capital cost required for effective operations of CPPA-G for compliance with present and future requirements of the Market Rules and Commercial Code shall form the Market Operation Fee of the petitioner.

VI) These guidelines also provide that the formula for calculating the Market Operation Fee shall be similar to the formula of calculating the UoSC i.e. dividing total determined cost by peak demand of ex-WAPDA DISCOs.

VII) Rule-9 (1) (d) of the NEPRA Market Operator (Registration, Standards and Procedure) Rules, 2015 (the "Market Rules") state that "In addition to the obligations in the applicable documents, each market participant shall have the obligation to pay the market operation fee as per Commercial Code and such other charges as specified by the Authority."

VIII) Rule 7 (4) of the NEPRA (Tariff Standards and Procedures) Rules, 1998 state that "The Authority may, while admitting a petition, allow the immediate application of the proposed tariff subject to an order for refund for the protection of consumers, or for satisfactory security to be provided for refund, while the proceedings are pending before the Authority"

#### 4. Revenue Requirements for CPPA-G:

- I. Since three departments (CPPA, WPPO & Manager Finance Treasury) of NTDC were involved in the discharge of market operations therefore, upon transfer of the business of market operation from NTDC to CPPA-G under the BTA, the staff working in these departments has also been seconded to CPPA-G for a an initial period of one year that is extendable for another year.

CPPA-G has total sanctioned positions of 374, against which 250 positions are currently staffed (including contractual management positions approved by the Board). The organization is in the process of restructuring which is being conducted in two phases. In Phase-I, the strategic restructuring process involves mainly (a) transition of existing Lahore based employees to Islamabad based on P to C (permanent to contract), secondment or other options, (b) staffing of key strategic C-level positions duly approved by the Board of Directors on contract basis (underway) and (c) inducting interns and functional/technical

In Phase-II, which will commence with the mobilization of Asian Development Bank's (ADB) consultants in July 2016, [REDACTED] will be carried out. The CPPA-G's C-level team recruited in Phase-I will play an instrumental role with the consultants to finalize the detailed organizational restructuring before June 2017. This restructuring will also reflect the back-office automation and other automation initiatives that are planned to be implemented in CPPA-G.

The HR related budget estimates prepared for the Market Fee are estimates (approved by BOD) which will be [REDACTED]

II. The bifurcated balances of receivables and payables and other balances (as on the date of execution of BTA) are under finalization between CPPA-G and NTDC. However, for the purpose of this petition, the provisional figures for June 2015, FY 2015-16 and FY 2016-17 are based on costs associated with the discharge of nuclear operations by the then three departments of NTDC for eleven months of FY 2014-15.

III. It is apprised that the ~~total income~~ income accrued by the petitioner, on the transitional ~~from the sale of power~~ from DISCOs, along with the amount received from DISCOs on account of the late payment surcharge collected from the consumers shall be utilized for off-~~setting~~ setting the mark-up claim by the Generators on account of ~~delayed payment~~.

IV. Presently all the positions and working staff of CPPA, WPPA and Treasury departments of NTDC have been shifted to the petitioner on secondment basis by NTDC under the BTA for a period of two year. During this period the petitioner will get its organizational structure and staff strength approved from the Authority and ~~establish~~ independent fund(s) for the post-retirement benefits in terms of policy to be approved by the Board of Directors. ~~It may be noted that the seconded staff may opt for transition to CPPA-G and for such staff the terms and conditions of employment, as were applicable to them in NTDC, will have to be protected and continued in CPPA-G. As such~~

the petitioner is presently not claiming any amount under the head of post-retirement benefits as the same is being dealt with by NTDC in the actuarial study. However, it is reiterated that the petitioner shall submit its claim of post-retirement benefits of its employees in terms of the policy to be approved by the Board of Directors of the petitioner.

V. Any charges, raised due to litigation / arbitration proceedings on CPPA-G will be passed to the power purchase as capacity component.

VI. Any Govt. taxes, levies or duties applicable to CPPA-G will be passed to the Power Purchaser to make CPPA-G cash neutral.

VII. The major components wise break up of revenue requirement is tabulated below:

#	Description	June 2015 Mln. Rs.	2015-16 Mln. Rs.	2016-17 Mln. Rs.
<b>Revenue Requirement</b>				
A	General Establishment and Administration Expenses	30.52	372.32	994.62
		9.43	85.65	117.45
B	Repair and Maintenance	2.05	42.61	26.30
C	Insurance	-	0.75	2.43
D	Depreciation	0.15	1.80	1.80
E	Finance Charges and other relevant costs	0.07	0.96	1.06
F	Capital Expenses	-	83.49	274.22
<b>Total</b>		<b>42.62</b>	<b>587.58</b>	<b>1,417.87</b>

VIII. Accordingly, the detail of costs under appropriate and permissible heads, along with the justification and prudence thereof, is given below:

#### 4.1 General Establishment and Administration Expenses

- The general establishment cost consists of expenses associated with pay & allowance and employee benefits whereas the administrative expenses consist of rent, rate & taxes, power light, office supplies, telephone, travelling and professional fee. The increase in General Establishment and Administrative cost for FY 2015-16 have been assumed at the rate of 10% (except for travelling expenses) over and above GE&A cost FY 2014-15. Moreover, increase in FY 2016-17 is due to the restructuring and revised pay structure.

Furthermore, the head office of the petitioner has been shifted from Lahore to Islamabad and it is expected that for initial period of two years the travelling expenses will be enhanced, accordingly the travel expenses are ~~estimated as Rs. 16.22 million~~ for FY 2015-16 and an increase therein at the rate of 10% has been assumed for FY 2016-17. The travelling expenditure will be decreased considerably once the whole set up would be established and back office operation would be automated within this period. The head-wise breakup of general establishment and administration cost is placed at Annexure-4.

- b. In order to comply with the direction of Authority with regard to registration of petitioner as Market Operator, preparation of Competitive Trading Bilateral Contract Market Plan (CTBCM Plan), framing of rules regarding billing, settlement and payment under the Single Buyer Plus and Wholesale Market, revision of Commercial Code and revision/novation of PPAs, an amount of ~~Rs. 43 million~~ (equivalent to USD 429,391) has been assumed. The details of assumptions and calculations for this amount are placed at Annexure-5.
- c. Another amount of ~~Rs. 7.2 million~~ has been included in the General Establishment and administration cost. This amount reflects the expenses to be incurred on the management trainees. The Board of Directors of the petitioner has duly approved a policy for capacity building of human resources by induction of management trainees. As per this policy, the management trainees will be inducted to move with future requirements under each of the stage of power market structure in accordance with the timelines mentioned in the Market Rules. Further, initially, these management trainees will also be utilized for implementation of back office automation through implementation of ERP and other associated software in CPPA-G.

#### 4.2 Repair and Maintenance

The repair and maintenance expenses for 2014-15 as per provisional figures of NTDC come around Rs. 23.87 million. An increase of 10% in this amount has been assumed for the year 2015-16 except for vehicle repair expense for which budgeted figure has been assumed. The breakdown of this amount is placed as Annexure-6.

#### 4.3 Insurance

The insurance expense of Rs 0.75 million for the year 2015-16 and Rs. 2.43 million for the year 2016-17 have been assumed at a rate of 3.5% of cost of vehicles planned to be procured as per the company policy including replacement vehicles.

#### 4.4 Depreciation

The depreciation expenses on the existing assets for 2015-16 and 2016-17 have been assumed to be at the same level as was for 2014-15 which is Rs. 1.80.

#### 4.5 Financial Charges AND OTHER RELEVANT COSTS

The financial charges for 2015-16 and 2016-17 have been assumed to increase by 10% over the actual expenses for 2014-15 as per provisional figures.

#### 4.6 Capital Expenses

- a. The requirements of capital expenses for 2015-16 and 2016-17 have been estimated in following categories:
  - i. Capital Expenditure requirements for implementation of Enterprise Resource Planning (ERP) for back office automation, other software and procurement of associated cost for licensing of software and hardware including the networking infrastructure;
  - ii. Capital Expenditure expenses relating to Management trainees;
  - iii. Additional operating and capital expenses required for office space of CPPA-G; and
  - iv. The cost of replacement and new vehicles as per the company policy.
- b. With first phase of operationalizing of CPPA under process, the newly created CPPA-G has teething problems. CPPA-G handles cash transactions over Rs. 1,000 billion annually. Thousands of transaction related to billing, settlements, payments,



taxation, energy sales and purchase are done manually and thus it is impossible to ensure effectiveness, transparency and control over these transactions.

For the reason that there are huge number and volume of commercial transactions, it's imperative to automate the back-office operations at CPPA-G through ERP implementation. ERP Financial Accounting specific solutions to deal with billing, settlement and payment mechanism will tremendously improve the agency's capability to operate more effectively, bring more transparency to market operations and provide timely information to all market participants. This intervention will also include provision of IT infrastructure, including LAN, WAN, computers and servers.

In future this system will be integrated with metering systems pertaining to purchase and sales of electricity at Combined Delivery Points (CDPs) that will enable timely verification and invoicing. It will further facilitate the settlement among the market participants through integration of online banking facility of concerned banks and integration with the billing and settlement systems that CPPA-G envisions to implement<sup>1</sup>. Trainings related to ERP operations, maintenance and operation of the IT hardware will also be part of the intervention.

Capital expenses are required for the effective enhancement of petitioner's back office automation through implementation of ERP, consolidation of all CPPA-G office and associated function at one office building and requirement for management trainees for building the professional capacity through research and on ground steps required for development of future power market structure in accordance with the timelines. The breakup of these amounts is attached at Annexure-7.

- c. ERP related estimates have been prepared on the basis of quotes obtained for comparable ERP project in power sector. The figures are adjusted based on the number of users. However actual cost will vary due to current market conditions and difference in on ground situation.

<sup>1</sup> ADB has already reached out to MWP and CPPA-G to provide Technical Assistance and funding to implement settlement system

## 5. Proposed Market Operators Fee<sup>2</sup>

In view of the foregoing and the formula mentioned in the Commercial Code the Market Operation Fee for the petitioner is worked out as follows:

#	Description	June-15	2015-16	2016-17
A	Estimated Average MDI of DISCOs - MW	20,493	18,403	19,157
B	Estimated GWh	9,170	96,018	99,954
C	Revenue Requirement - Mln. Rs.	42.62	587.58	1,417.87
D	Market Fee of CPPA-G - Rs / kW / Month	2.08	2.66	6.17
E	Market Fee of CPPA-G - Rs./ kWh	0.0046	0.0061	0.0142

\* As per actual figures of NTDC.

Accordingly, in terms of the provisions of the Commercial Code, the UoSC of NTDC may be reduced to the extent of actual cost associated with CPPA of NTDC.

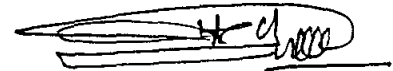
### Prayer:

- I. In view of above submissions, it is respectfully prayed that the Authority may very graciously approve the Market Operation Fee of the petitioner as per following:-
  - A. Rs 0.0046/kWh (equivalent to Rs. 2.08 per kW / Month) for the month of June, 2015;
  - B. Rs 0.0061/kWh (equivalent to Rs. 2.66 per kW / Month) for the FY 2015-16; &
  - C. Rs 0.0142/kWh (equivalent to Rs. 6.17 per kW / Month) for the FY 2016-17.
- II. Authority may allow immediate application of above mentioned Market Operations Fee under Sub-Rule 7 of Rule 4 of the NEPRA (Tariff Standards and Procedures) Rules, 1998.
- III. The Authority may allow the provisional Market Operation Fee to be recovered from NTDC's Use of System Charges (UoSC) for June 2015 and FY 2015-16. After the approval of the Market Fee through this petition by the Authority, CPPA-G will

<sup>2</sup> The 'Market Operator Petition Fee' is not part of the Market Operator Fee. Therefore, the determined amount of the Petition Fee may please be added to the Operator Fee of CPPA-G to cover this expense.

cover its expenses through the approved Market Fee independent of UoSC of NTDC.

- IV. Any other relief which the Authority deems fit in the circumstances may also be granted.



Abid Latif Lodhi

Chief Executive Officer CPPA-G

## ANNEXURES

The Resolution of the Board of Directors (BoD) of the Petitioner, Authorizing the Chief Executive Officer to File the Petition



**Central Power Purchasing Agency Guarantee Limited**  
A Company of Government of Pakistan



No. CPPA-G/CS/2016/1786-89

May 19, 2016

**BOARD RESOLUTION V / 15**

**APPLICATION TO NEPRA FOR THE PROPOSED MARKET OPERATORS (CPPA-G) FEE FOR RECOVERY OF REVENUE REQUIREMENTS OF CPPA-G**

A meeting of Board of Directors of Central Power Purchasing Agency (Guarantee) Limited held on 8<sup>th</sup> April 2016 at 2<sup>nd</sup> floor, Ministry of Water and Power, A Block, Pak Secretariat Islamabad.

The Board of Directors of Central Power Purchasing Agency Guarantee Limited (CPPA-G) has Resolved as under;

*Resolved that "Chief Executive Officer CPPA-G be and is hereby authorized to submit the petition for the Market Operators Fee of CPPA-G for June 2015, FY 2015-16 and FY 2016-17 to NEPRA for approval."*


*Further resolved that "Chief Executive Officer CPPA-G, General Manager CPPA-G, Chief Financial Officer CPPA-G & Chief Legal Officer CPPA-G be and are hereby authorized to;*

- i- Sign individually or jointly the necessary documents for the petition for Market Operator Fee of CPPA-G for June 2015, FY 2015-16 and FY 2016-17.*
- ii- File subsequent review petition after the determination on the said application for June 2015, FY 2015-16 and FY 2016-17.*
- iii- Pay the necessary fee for filing of Market Operator Fee petition of CPPA-G.*
- iv- To appear before the authority as needed and do all acts necessary for the completion and processing of application.*

**CERTIFIED TO BE TRUE COPY**

Certified that the above resolution was passed by the Board of Directors of Central Power Purchasing Agency (Guarantee) Limited in their 15<sup>th</sup> meeting held on 8<sup>th</sup> April 2016 and has been duly recorded in the minutes book of the Company.



  
Noman Rafiq  
Company Secretary  
CPPA (G) Ltd.

## The Affidavit of the Chief Executive Officer of the Petitioner, in Support of the Application

**AFFIDAVIT**

I, Abid Latif Lodhi, Chief Executive Officer, Central Power Purchasing Agency (Guarantee) Limited being duly authorized representative / attorney of Central Power Purchasing Agency (Guarantee) Limited, hereby by solemnly affirm and declared that the contents of the accompanying petition / application No. C.PPA-4/2016/CEO/1963 including all supporting documents are true and correct to the best of my knowledge and belief and that nothing has been concealed. I also affirm that all further documentations to be provided by me in connection with the accompanying petition shall be true to the best of my knowledge and belief.

Verified on oath this 31st May, 2016 that the contents hereof are true and correct to the best of my knowledge and belief and nothing has been concealed.



DEPONENT

Abid Latif Lodhi  
Chief Executive Officer

### Functional Write-up on Nine Main Functions of CPPA-G

Under this annexure, the **nine main functions** under the **two Transitional Stages** are elaborated:

#### Stage I

##### 1. Settlement – Core Function

The main objectives under this functions are to ensure that (a) meter audits and inspection are carried out as per specified schedule, (b) metering disputes are resolved in timely manner, (c) pre-settlement statements and DISCOs invoices are produced as per timescale in market rules, and (d) ensuring that information for all required reports is readily available each month.

The following main tasks are under this function:

- i. **Meter Readings Management:** Maintaining a database of past meter reads, ensuring the quality of new data, use of that information to validate incoming readings and resolve anomalies in the process.
- ii. **Supplier and NTDC Invoice Verification:** The validation of the supplier invoices, and calculation of the transfer charges based on generation and transmission costs for the DISCOs for the period in accordance with formulas provided by NEPRA.
- iii. **DISCOs and Bulk Consumers Billing:** Preparation and dispatch of bills to consumers using the transfer costs.
- iv. **Meter Audit:** Inspections and audits to ensure that the quality of information received from the meter installations is within operational boundaries.

##### 2. Finance – Core Function

The main objectives under this functions are to ensure that (a) accurate and complete record is maintained of internal expenditure, (b) suppliers, tax authorities and staff are paid full on-time, (c) complete and accurate record of financial transactions between market participants is maintained, (d) appropriate disbursements are made from Escrow accounts as per Market Rules and also highlighting cash imbalances, (e) where necessary, take appropriate action to collect unpaid debt, (f) manage relationship with auditors and (g) ensure information at month end is ready for reporting purpose.

All financial matters of CPPA, both internal and external will be performed under this function and entails the following tasks:

- i. **Internal Accounting:** This task is concerned with all of the internal finances of CPPA. This will entail preparation of annual budget for CPPA expenses, getting it approved by BOD, accounting for internal expenditure on salaries, accommodation costs, communications and IT etc. Preparation of the annual financial reports and collection of fees are also important activities under this task.
- ii. **Market Accounting:** This relates to maintaining record of all of the external transaction of CPPA. It includes ensuring all tax obligations are properly met by CPPA, preparation of financial reports, evaluation of financial cases for new IPPs and close interaction with the treasury department.
- iii. **Treasury:** This task relates to managing flow of funds through the system and entails monitoring the escrow accounts, issuing payment instructions, pursuing unpaid debts, initiating remedial activities in the case of cash shortfalls and also managing cash surpluses.
- iv. **Escrow Accounts Administration:** This function relates to administration of the escrow accounts jointly owned between DISCOs and CPPA where DISCO revenues will be collected for payment from DISCOs against billing by CPPA.

### 3. Power Procurement – Core Function

The objectives of this functions are to ensure that (a) proposed supplies are viable and economically efficient for the market, (b) the PPAs and the EPAs are drafted in-line with the market rules and (c) the supply contracts comply with the technical, legal and commercial conditions as prescribed in the market rules, the grid code, the commercial code and the relevant licenses.

As per NEPRA (Market Operator Registration, Standards and Procedures) Rules, 2015, rule 2.1(f), the arrangements and stages for the transition of power market to a competitive regime are laid down in Schedule-I. This schedule notes that the current structure of the Pakistani wholesale power market is a Single Buyer Arrangement. It also provides the timelines to transition the market from current state to Single Buyer Plus (2016-2020) and ultimately to Competitive Market Operations (July 2020 thereon).

The role and involvement of CPPA with regards to power procurement in these three phases will change over time. Currently, CPPA is involved in all power procurements (maintaining a central power pool), however, later the bilateral contracts and competitive market will be the mainstream power exchange systems, wherein CPPA's role will be limited to maintaining a pool of power procured from only strategic assets (power generation facilities to be approved by NEPRA under GOP Policies) and ensure transparent pricing.

The main tasks envisaged for power procurement function entails:



- i. Assessment of the viability of proposals for new sources of electricity.
- ii. Establishing contracts for supply.
- iii. Coordination with PPIB, AEDB, MWP, MoF, Ministry of Law, and other governmental agencies.

#### **4. Legal and Corporate Affairs – Core Function**

The main objective of this function is to ensure that the (a) CPPA acts within the Market Rules, tax and any other legislations at all times, (b) CPPA and its clients afforded the maximum legal protection in all its supply contracts and (c) all new supply contracts have explicit provision for novation.

Under this function the following main tasks are envisaged to be performed:

- i. Providing service to the other functions of CPPA and representing CPPA in all contractual matters, including drafting new supply contracts with CPPA on behalf of the DISCOs, and novation of existing contracts.
- ii. Ensuring compliance of CPPA in relation to financial and legal practices, as well as issues of corporate governance.
- iii. Ensuring that records of all transactions, both internal and external are accurate and complete. Conducting an internal audit on a periodic basis to assure the officers of the Company that all responsibilities and obligations are being complied. Also making these records available for scrutiny by an external auditor appointed by the BOD in accordance with the Market Rules.
- iv. Relationships management with the press, public bodies and institutions, parliament and other stakeholders etc.

#### **5. Human Resource – Support Function**

The objectives of this function are to (a) establish recruitment procedures, (b) maintain records of all staff, (c) establish and maintain grievances and disciplinary procedures, (d) maintain the code of conduct in co-operation from CEO and Directors, (e) monitor and comment on adherence of staff to the CPPA code of conduct, (f) ensure the provision of safe working environment including all equipment other than IT, (g) make training plans and execute them in consultation with management, and (h) continuously look for opportunities to improve the employee's motivation.

The main tasks under this function are the followings:

- i. Looking after general office administration and maintenance, procurement of office supplies.
- ii. Ensuring development of and compliance to company rules HR and administration related rule and procedures and maintenance of office record.
- iii. Recruitment of new staff.

- iv. Health and safety issues and looking after the welfare of the staff.
- v. Conducting training needs assessments, preparing training calendars and coordinating the training function.
- vi. Participate in the organizational restructuring process from HR perspective to ensure that CPPA organizational structure, processes, KPIs and JDs are all aligned over time to facilitate CPPA discharging its role and obligations as specified in Market Rules.
- vii. Continuously look for opportunities and embark on initiatives to improve the morale of the employees.

## 6. Information Technology – Support Function

The main objective of this function is to ensure that the (a) business has adequate support for network, application and software issue, (b) implement the IT strategy plan, (c) Select and project manage the selection, design and or development of applications, (d) procure IT equipment to meet business requirements, (e) ensure a disaster recovery plan is in place and (f) ensure data integrity and security.

Under this function the following main tasks are envisaged to be performed:

- i. Procurement and commission of IT hardware and software to support business.
- ii. Lead in preparation of IT strategy aligned with the business strategy and help implement it.
- iii. Prepare and or consolidate the requirement specifications.
- iv. Conduct requirement analysis of IT environment required to support the CPPA in the next phase of market evolution.

Under the current IT strategy of CPPA that is in-line with the business strategy of the company, the IT infrastructure will be established to ensure that the IT hardware and software are procured to be interoperable and compatible. Currently, CPPA has initiated the process of back-office processes automation through ERP. As a settlement center and future wholesale electricity market operator, CPPA also requires a settlement system (hardware and software) for billing, invoicing and financial transactions. IT strategy and the resulting IT Plan will ensure that the various IT systems implemented at CPPA are compatible and interoperable.

## Stage II

This stage has also been initiated and will be largely materialized by the mid of 2017. The following new functions are also envisaged to be performed by CPPA during this stage.

## 7. Market Administration – New Core Function

The main objectives of this function are to (a) ensure that induction procedures for the new market participants are in place, (b) new members are qualified and accepted as market participants within the timescales proposed in the market rules, (c) procedures for existing members are established, (e) all contracts of interest to CPPA are stored in a safe and easily retrievable manner, (f) Items of public interest are brought public attention in a professional and informative manner and (g) conduct internal audits of transactions and other compliance items periodically.

Under this function CPPA will maintain the registers and record of market participants. Another important role of this function will be to manage the process of submitting amendments to the Market Rules to NEPRA and later following up with NEPRA for their notification of the amendments. The following are main sub-tasks under this function:

- i. **Contract Registry and Monitoring:** Record all contracts that exist between CPPA and other entities, and monitor performance against contract to ensure all terms and conditions are complied with.
- ii. **Market Membership Administration:** Manage the process of qualifying and joining new wholesale consumers of suppliers into the single buyer market.
- iii. **Compliance Monitoring:** Ensure that all market rules and other regulations are complied with by CPPA and all market participants.

## 8. Strategy and Business Planning – New Core Function

The main objective of this functions are (a) preparation of the annual business plan, (b) research and document conclusions into the next stage of market reform, with reference to international practices and (c) Analysis of the suggested changes to the market rules from the market participants, with a recommendation to promote or discourage .

Under this function assistance will be provided to the CEO and other Directors for preparation of the annual business plan. The main tasks under this function are:

- i. Reporting on the market performance, co-ordinate efforts from all of the operating sections to prepare the annual business plan and assisting in preparation of budgets for CPPA.
- ii. Contribute towards the preparation of the sector towards the next phase of market development. Analysis and preparing for the next and subsequent phases in market evolution.
- iii. Suggesting and exploiting strategic opportunities of the CPPA.

- iv. Facilitate the preparation and evaluate the quality of the energy and demand forecasts prepared centrally by the System Operator. This involves coordination to provide aggregated demand forecasts to the appropriate planning authorities for procurement of new power. After review of CPPA, forecasts prepared by the System Operators will be submitted to NEPRA for approval. This approved forecast will form the basis of least cost generation plan prepared by the System Operator (linked with the energy plan of the country).
- v. Prepare long term forecast for the basket price based on the power procurement plan.
- vi. Assist to take reasonable steps to mitigate the risk of cash shortfalls resulting from seasonal price variation and/or short term tariff imbalances, or in the case of payment default from any party.

#### **9. Monitoring and Coordination**

This function is responsible for overall monitoring and coordination of the activities of different sections of CPPA. In addition, will maintain liaison with external institutions such as NEPRA, Ministry of Water and Power, Ministry of Finance, DISCOs, GENCOs, NTDC, banks etc. for initially setting up of the rules, procedures and institutional relationship along with the subsequent amendments therein to carry on with market evolution.

### Head-wise Breakup of General Establishment and Administration Cost

#	Description	June 2015 Mln. Rs.	2015-16 Mln. Rs.	2016-17 Mln. Rs.
<b>General Establishment Costs</b>				
1	Pay & Allowances - Working Employees*	24.51	280.26	494.19
2	Pay & Allowances - Vacant posts	-	-	234.99
3	Wages & Contractual Labour	0.05	0.60	0.66
4	Daily Wages	-	0.20	0.22
5	Employee Benefits	5.96	89.82	98.80
6	Trainings and Capacity Building	-	1.44	165.76
<b>Administrative Costs</b>				
1	Rent Rate & Taxes	6.73	36.14	39.75
2	Power Light etc.	0.21	0.87	0.96
3	Telephone Fax & Postage Telegram etc.	0.42	3.82	4.21
4	Office Supplies & Other Expenses	0.01	4.55	5.01
5	Subscription & Periodicals	0.01	0.12	0.13
6	Representation & Entertainment	0.01	0.12	0.13
7	Travelling Expenses	1.80	16.22	22.71
8	Professional Fee	-	11.97	13.17
9	Outside Service Employed	-	0.02	0.02
10	General Misc. Expenses	0.25	0.12	0.13
11	Outsources consultancy Expenses	-	11.70	31.24

\* The figures of June 2015 and FY2015-16 are without the cost of post-retirement benefits. The estimated amount for this cost is Rs.84 million.

### Cost of Studies to Ensure Compliance with Rules and Regulators

#	Description of Work	Unit	2015-16	2016-17
1	International resource	Rate/Month	20,868	20,868
2	Local resource	Rate/Month	13,002	13,002
<b>List of Important Tasks</b>				
1	Registration as Market Operators	\$	13,002	-
2	Preparation of CTBCM Plan	\$	26,004	98,880
3	Revision in Commercial Code	\$	-	46,872
4	Revision in Power Purchase Agreements	\$	78,012	-
5	Rules for Billing, Settlement and Payment under Single buyer plus and Wholesale market	\$	-	166,621
<b>Grant Total</b>			<b>117,018</b>	<b>312,373</b>

#### Task Wise - Local Consultants Man Months

#	Description of Work	Unit	2015-16 Man Months	2016-17 Man Months
1	Registration as Market Operators	#	1	-
2	Preparation of CTBCM Plan	#	2	6
3	Revision in Commercial Code	#	-	2
4	Revision in Power Purchase Agreements	#	6	-
5	Rules for Billing, Settlement and Payment under Single buyer plus and Wholesale market	#	-	8
<b>Grant Total</b>			<b>9</b>	<b>16</b>

#### Task Wise - International Consultants Man Months

#	Description of Work	Unit	2015-16 Man Months	2016-17 Man Months
1	Registration as Market Operators	#	-	-
2	Preparation of CTBCM Plan	#	-	1
3	Revision in Commercial Code	#	-	1
4	Revision in Power Purchase Agreements	#	-	-
5	Rules for Billing, Settlement and Payment under Single buyer plus and Wholesale market	#	-	3
<b>Grant Total</b>			<b>-</b>	<b>5</b>

Breakup of Repair and Maintenance Expenses

#	Description	June 2015 Mln. Rs.	2015- 16 Mln. Rs.	2016- 17 Mln. Rs.
	<b>Repair and Maintenance</b>	<b>2.05</b>	<b>42.61</b>	<b>26.30</b>
1	Repair & Maint, B&C Works on Land	0.03	0.09	0.09
2	Vehicle Expenses Repair	0.83	29.92	12.34
3	Vehicle Expenses-Fuel & Oil	1.19	12.46	13.71
4	Vehicle Expenses-License	-	0.14	0.16

### Break-up of Capital Expenditure

#	Description	2014-15 Mln. Rs.	2015-16 Mln. Rs.	2016-17 Mln. Rs.
<b>Capital Expenses</b>				
<b>A</b>	<b>ERP</b>	-	-	190.29
1	Software Licenses & maintenance	-	-	30.51
2	Implementation & post go-live support	-	-	30.07
3	Data Center & Maintenance	-	-	20.00
4	Servers & support	-	-	30.00
5	Users hardware i.e. PCs, Printers and Accessories	-	-	24.71
6	Equipment for IT setup	-	-	15.00
	LAN/WAN & maintenance	-	-	40.00
<b>B</b>	<b>Office Space</b>	-	53.95	35.08
1	Existing space incremental cost	-	30.61	30.61
2	Additional space requirements	-	4.47	4.47
3	Renovations of new offices	-	18.87	-
<b>C</b>	<b>Replacement Vehicles / New Vehicles as per new policy</b>	-	15.45	47.86
<b>D</b>	<b>Other Budgeted Capex</b>	-	14.09	-
	Computer & Office Equipment	-	6.49	0.82
	Furniture & Fixture	-	5.50	0.18
	Vehicles	-	2.10	-



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of performing the functions of his office by reason of mental or physical incapacity or has been found guilty of misconduct.

5. **Meetings of the Authority, etc.** — (1) The meetings of the Authority shall be presided over by the Chairman or, in his absence, the Vice-Chairman.

(2) Three members shall constitute a quorum for meetings of the Authority requiring a decision by the Authority.

(3) Members shall have reasonable notice of the time and place of the meeting and the matters on which a decision by the Authority shall be taken in such meeting.

(4) Decisions of the Authority shall be taken by the majority of its members present, and in case of a tie, the person presiding the meeting shall have a casting vote.

6. **Decisions of the Authority.** — All orders, determinations and decisions of the Authority shall be taken in writing and shall identify the determination of the Chairman and each member.

7. **Powers and functions of the Authority.** (1) The Authority shall be exclusively responsible for regulating the provision of electric power services.

✓ (2) In particular and without prejudice to the generality of the foregoing power, only the Authority, subject to the provisions in sub-section (4), shall —

- (a) grant licences for generation, transmission and distribution of electric power;
- (b) prescribe procedures and standards for investment programmes by generation, transmission and distribution companies;
- (c) prescribe and enforce performance standards for generation, transmission and distribution companies;
- (d) establish a uniform system of accounts by generation, transmission and distribution companies;
- ✓ (e) prescribe fees including fees for grant of licences and renewal thereof;
- (f) prescribe fines for contravention of the provisions of this Act; [<sup>6</sup>
- (g) [review its orders, decision or determinations]<sup>7</sup>;
- (h) [settle disputes between the licensees;
- (i) issue guidelines and standards operating procedures; and
- (j) perform any other function which is incidental or consequential to any of the aforesaid functions.]<sup>8</sup>

(3) Notwithstanding the provisions of sub-section (2) and without prejudice to the generality of the power conferred by sub-section (1) the Authority shall—

<sup>6</sup> Word “and” deleted vide Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2011.

<sup>7</sup> Clause (g) “perform any other function which is incidental or consequential to any of the aforesaid functions” is substituted vide Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2011.

<sup>8</sup> Inserted vide Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2011.

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## 11. CPPA-G MARKET OPERATION FEE MECHANISM AND AUDITS

### 11.1. CPPA-G MARKET OPERATION FEE MECHANISM

11.1.1. The CPPA-G shall be financed through a charge imposed to Distribution Companies. Formerly, the costs associated with the operation of CPPA were incorporated into the UoSC of the NTDC. However, next NTDC determination after commencement of Market Rules and Commercial Code, the costs associated with CPPA shall be separated from the calculation of UoSC to form the 'CPPA-G Market Operation Fee' that shall be charged to the DISCOs in tandem to the UoSC. The mechanism for calculation of the CPPA-G Market Operation Fee shall remain the same as that being used for UoSC, and once calculated, shall be sent to Authority for approval in accordance with Section 7 Sub-section 2(j) of the Act.

11.1.2. The following costs associated with the operations of CPPA-G are to be recovered through the CPPA-G Market Operation Fee:

- (i) General Establishment and Administration Expenses;
- (ii) Repair and Maintenance;
- (iii) Insurance;
- (iv) Depreciation, if any
- (v) Financial Charges and other relevant costs

11.1.3. CPPA-G shall include in the costs detailed in 11.1.2, any estimated future capital expenditures required for compliance with current and future provisions contained in this Commercial Code such as costs associated with the development of competitive market.

11.1.4. The formula for calculating the CPPA-G Market Operation Fee shall be similar to UoSC, dividing total costs as established in 11.1.2 and 11.1.3 by peak demand of DISCOs.

11.1.5. Authority may request additional information or clarifications prior to approval of CPPA-G for incorporation into this Commercial Code.

11.1.6. Once the CPPA-G Market Operation Fee is approved, CPPA-G shall communicate this value to all Market Participants on the CPPA-G official website.

