

Changes Proposed by CPPA(G) to the Commercial Code, 2018

In light of certain inconsistencies in the provisions of the Commercial Code, 2018, whereby certain contradictions between said clauses and the role performed by CPPA(G) as the Power Purchaser on behalf of the Ex-WAPDA DISCOs had arisen, the following table provides the details of the amendments proposed by CPPA(G), along with CPPA(G)'s remarks regarding the justification of the proposed changes.

Sr. No.	Original Clauses of the Commercial Code, 2018 (CC 2018)	Proposed Amendments to the CC 2018	Rationale
1	<p>Section 2.1 (Scope and Applicability)</p> <p>NTDC shall provide "Transmission Services (with its transmission assets) and system operation and dispatch services (through the System Operator) to all Market Participants, at use of system charges (UoSC) paid by the demand determined by Authority in NTDC Tariff Determinations. The CPPA-G will collect the UoSC from the Distribution Companies through the transfer price mechanism established by Authority and implemented by CPPA-G in accordance with this Commercial Code, and transfer the payment to NTDC as established in the settlement and payment code and procedures under Chapters 8 and 9 of this Commercial Code.</p>	<p>Section 2.1 (Scope and Applicability)</p> <p>NTDC shall provide Transmission Services (with its transmission assets), <u><i>metering services</i></u> and system operation and dispatch services (<u><i>System Operator services</i></u>) to all Market Participants, at use of system charges (UoSC) paid by the demand determined by Authority in NTDC Tariff Determinations. <u><i>The terms and standards of said services shall be governed by the Grid Code and the Inter-Connection Agreements (ICAs) executed by NTDC with the Market Participants. The invoices issued by NTDC for the services rendered thereby shall be addressed to the service user with a copy to CPPA-G for calculation of the Transfer Charge. The recipient of the service shall verify the invoice in accordance with the ICA and intimate to CPPA-G the undisputed amount payable. CPPA-G shall settle these payables out of the remittances made by the Market Participants to CPPA-G in accordance with this Code.</i></u></p>	<p>Pursuant to the overarching contractual and regulatory framework, the NTDC – being the service provider – is required to separately invoice its UoSC for the services rendered to each Market Participant representing Demand, and said Market Participants representing Demand are required to verify said invoices against the services so rendered. However, due to the transition between the CPPA of NTDC to the CPPA(G) and the non-execution of Connection Agreements by NTDC with the DISCOs, NTDC has persisted in issuing its UoSC invoices to CPPA(G), giving rise to the implication that CPPA(G) was somehow the principal obligor for said UoSC.</p> <p>The proposed amendment is intended to provide necessary clarity to the situation, clearly delineating that NTDC is to invoice the Market Participants representing Demand for the transmission or related services rendered thereto, and that the beneficiaries of said services – namely the Market Participants representing Demand – are to verify such invoices received against the services rendered by NTDC.</p>

Changes Proposed by CPPA(G) to the Commercial Code, 2018

<p align="center">2</p>	<p>Section 5.2.1 (Legal Capacity):</p> <p>CPPA-G has entered into back-to-back arrangements 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 contracts signed by NTDC or WAPDA, will continue to be assumed and exercised by NTDC as per its transmission licence and the Grid Code, while CPPA-G will assume and exercise the functions assigned to it under the Market Rules, this Code and the agency agreements signed between CPPA-G and DISCOs. CPPA-G has, through back-to-back arrangements with NTDC/WAPDA, the power to succeed to all the other rights and obligations of NTDC/WAPDA under all existing power purchase contracts upon execution of appropriate contractual instruments between the relevant contracting parties to those instruments.</p>	<p>Section 5.2.1 (Legal Capacity):</p> <p>CPPA-G has entered into back-to-back arrangements 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 contracts signed by NTDC or WAPDA, will continue to be assumed and exercised by NTDC as per its transmission license and the Grid Code, while CPPA-G will assume and exercise the functions assigned to it under the Market Rules, this Code and the agency agreements signed between CPPA-G and DISCOs. CPPA-G has, through back-to-back arrangements with NTDC/WAPDA, the power to succeed to all the other rights and obligations of NTDC/WAPDA under all existing power purchase contracts upon execution of appropriate contractual instruments between the relevant contracting parties to those instruments. <u>NTDC has entered into Inter-Connection Agreements with the Market Participants detailing the Transmission Services, metering services and system operation and dispatch services NTDC provides to the Market Participants and the Use of System Charges (UoSC) NTDC charges in lieu of the provision of such services.</u></p>	<p>This amendment has been proposed to clearly reflect the requirements of the PPAA's and the Grid Code, 2015 which require that NTDC is required to execute Connection Agreements with the Market Participants representing Demand, which agreements shall provide the contractual relationship between them. Accordingly, said Connection Agreements will provide the details of the transmission and related services NTDC provides to such Market Participants representing Demand, as well as the particulars of the UoSC NTDC levies in lieu of its services.</p>
<p align="center">3</p>	<p>Section 6.1.3 (Commercial Transactions and Transfer Price):</p> <p>The Transfer Pricing Mechanism is used to derive the formula for Transfer Price, which is then incorporated into the invoices raised against each Market Participants</p>	<p>Section 6.1.3 (Commercial Transactions and Transfer Price):</p> <p>The Transfer Pricing Mechanism is used to derive the formula for Transfer Price, which is then incorporated into the invoices raised against each Market Participants Representing Demand. This formula is as below:</p>	<p>As above, this amendment is intended to remove all uncertainty regarding the nature of the transaction relating to the settlement of the UoSC. NTDC is required to invoice the Market Participants for the UoSC, and said Market Participants are required to verify the same against the services rendered thereto by NTDC.</p>

Changes Proposed by CPPA(G) to the Commercial Code, 2018

	<p>Representing Demand. This formula is as below:</p> $TP = TC + UoSC + GST$ <p>Where, TP = Transfer Price in PKR TC = Transfer Charges for generation costs of the pool UoSC = Use of System Charges in PKR GST = Application of GST on ETC 1 in PKR</p>	$TP = TC + UoSC + GST$ <p>Where, TP = Transfer Price in PKR TC = Transfer Charges for generation costs of the pool UoSC = Use of System Charges in PKR <i>invoiced by NTDC to the Market Participants</i> GST = Application of GST on ETC 1 in PKR</p>	
<p align="center">4</p>	<p>Section 6.1.4 (Commercial Transactions and Transfer Price):</p> <p>Initially, the Use of System Charge (UoSC) in the Transfer Price consists of both, the transmission charges of NTDC as well as the costs incurred by CPPA-G for its functions, as included in Authority determination for NTDC. Once a new NTDC tariff determination after the start of this Commercial Code and CPPA-G becomes operational, the UoSC will only constitute of the transmission charges of NTDC whereas the costs incurred by CPPA-G — to be referred to as the 'Market Operation fee'— shall be charged separately to Market Participants Representing Demand. The incorporation of this distinction between transmission charges and the Market Operation fee will modify the formula for calculating "Transfer Price as found below:</p> $TP = TC + UoSC + MOF + GST$ <p>Where, TP = Transfer Price in PKR</p>	<p>Section 6.1.4 (Commercial Transactions and Transfer Price):</p> <p>Initially, the Use of System Charge (UoSC) in the Transfer Price consists of both, the transmission charges of NTDC as well as the costs incurred by CPPA-G for its functions, as included in Authority determination for NTDC. Once a new NTDC tariff determination after the start of this Commercial Code and CPPA-G becomes operational, the UoSC will only constitute of the transmission charges of NTDC whereas the costs incurred by CPPA-G — to be referred to as the 'Market Operation fee'— shall be charged separately to Market Participants Representing Demand. The incorporation of this distinction between transmission charges and the Market Operation fee will modify the formula for calculating "Transfer Price as found below:</p> $TP = TC + UoSC + MOF + GST$ <p>Where, TP = Transfer Price in PKR TC = Transfer Charges for generation costs of the pool</p>	<p>As above, the underlying intent of the proposed amendment is to make explicit and unequivocal the nature of the transaction – i.e. that the UoSC is to be invoiced by NTDC and verified by the Market Participants representing Demand.</p>

Changes Proposed by CPPA(G) to the Commercial Code, 2018

	TC = Transfer Charges for generation costs of the pool	UoSC = Use of System Charges in PKR <i>invoiced by NTDC to the Market Participants</i>	
5	<p>Section 9.4.1 (Payments to Generators and NTDC):</p> <p>(iii) Pay the NTDC for Discus transmission charges.</p>	<p>Section 9.4.1 (Payments to Generators and NTDC):</p> <p>(iii) Pay the NTDC for <i>the Market Participants Representing Demand's</i> transmission charges.</p>	<p>A minor typographical error has been resolved.</p> <p>Further, the proviso added to this clause will apply in the event that the DISCOs and NTDC – pursuant to their own respective Connection Agreements – opt to settle the UoSC bilaterally and without employing CPPA(G) as the agent of the DISCOs.</p> <p>Otherwise, NTDC will still be required to invoice the DISCOs directly for the UoSC and the DISCOs will be required to verify said invoices against the services rendered thereto by NTDC.</p>
6	<p>8. Settlement and Billing</p> <p>8.1. Initial Settlement and Billing Procedures</p> <p>8.2. New Settlement and Billing Procedures</p> <p>8.3. Determination of the Magnitude and Characteristics of the 'Escrow Account'</p> <p>8.4. Market Settlement System</p> <p>8.5. Preliminary Settlement Statement</p> <p>8.6. Final Settlement Statement</p> <p>8.7. Complaints on the Final Settlement Statement</p>	<p><u>Section 8 Settlement and Billing of CC 2018 to be completely replaced with the new Section-8 annexed herewith (Annexure-A)</u></p>	<p>The proposed section covers the settlement and billing cycle in detail and as per the existing practice. The cycle consists of receipt of invoices from Generation Companies, the verification thereof, disputed and undisputed amounts, provision for information from NTDC / NPCC for invoice verification and the passing on of the Generation Costs to the Market Participants representing Demand.</p>
7	<p>9. Payment System</p> <p>9.1. Payment System for the initial Settlement Procedures</p>	<p>9. Payment System clauses 9.1 to 9.4 of CC 2018 to be completely replaced with the BoD approved payment mechanism (Annexure-B)</p>	<p>The proposed payment mechanism is as per the approval of the BoD CPPA-G. The proposed changes would reflect the</p>

Changes Proposed by CPPA(G) to the Commercial Code, 2018

	<p>9.2. Payment System for the new settlement procedures</p> <p>9.3. Payment of Bills (Distribution Company)</p> <p>9.4. Payments to Generators and NTDC</p>		<p>existing practice of CPPA-G in the constrained circumstances of short-remittances by DISCOs against their obligations towards power producers.</p>
<p align="center">8</p>	<p>11.2 Market Transaction Audit</p> <p>11.2.1 Each Year or every two years, the CPPA-G shall contract a qualified independent auditor to conduct and operational audit of the market administrative services including the settlement and billing system, and implementation of the Market Rules and Commercial Code.</p> <p>11.2.2 After the first audit, each new audit shall include reviewing changes and actions undertaken by the CPPA-G after the recommendations and observations of the previous audit. The Auditors' report will be sent to Authority, and published on the official website of CPPA-G</p>	<p align="center">NIL</p> <p align="center">This section 11.2 will be abolished</p>	<p>Every year, the Financial Statement of CPPA-G are audited by top rated audit firms. The scope of Financial Audit includes the Market Transactions as this constitutes the core of Financial Statements and therefore, through scrutiny by independent auditor is being ensured of every Market Transaction.</p> <p>The proposed change would align the audit requirement in the Commercial Code with the audit requirement under the Companies Act, 2017</p>