ON THE PATH
OF
CONTINUAL GROWTH & SUSTAINABILITY

CPPA
ANNUAL REPORT
2018

CENTRAL POWER PURCHASING AGENCY

ELECTRICITY
MARKET
OPERATOR

Central Power Purchasing Agency

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ON THE PATH OF CONTINUAL GROWTH & SUSTAINABILITY

PAKISTAN'S
ELECTRICITY MARKET
OPERATOR

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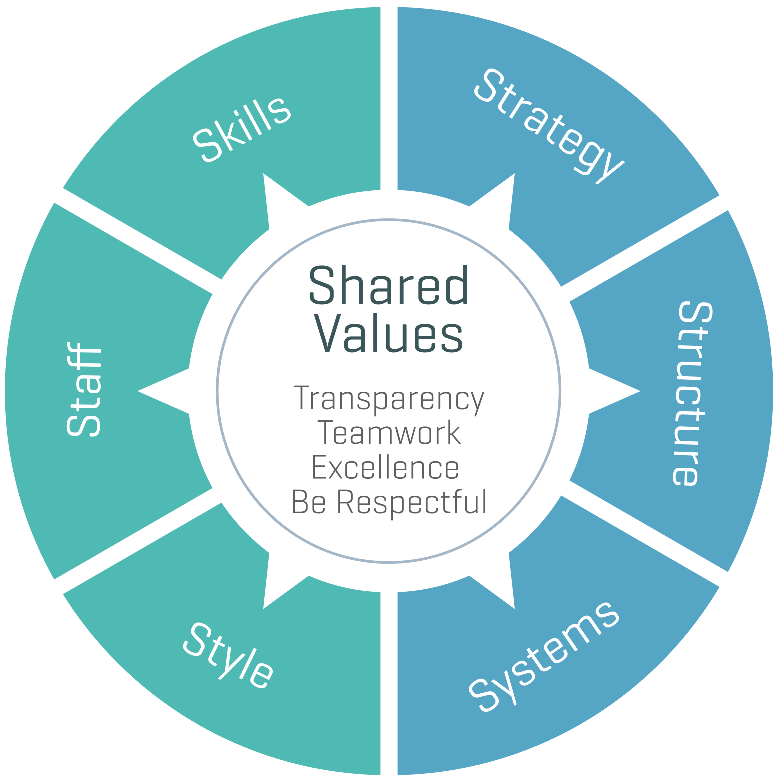
ON THE PATH OF CONTINUAL GROWTH & SUSTAINABILITY

From coming together to working together,
CPPA is now targeting to consolidate and sustain it's continual growth trajectory.



Aligning the Seven Elements in
CPPA's Way of Working

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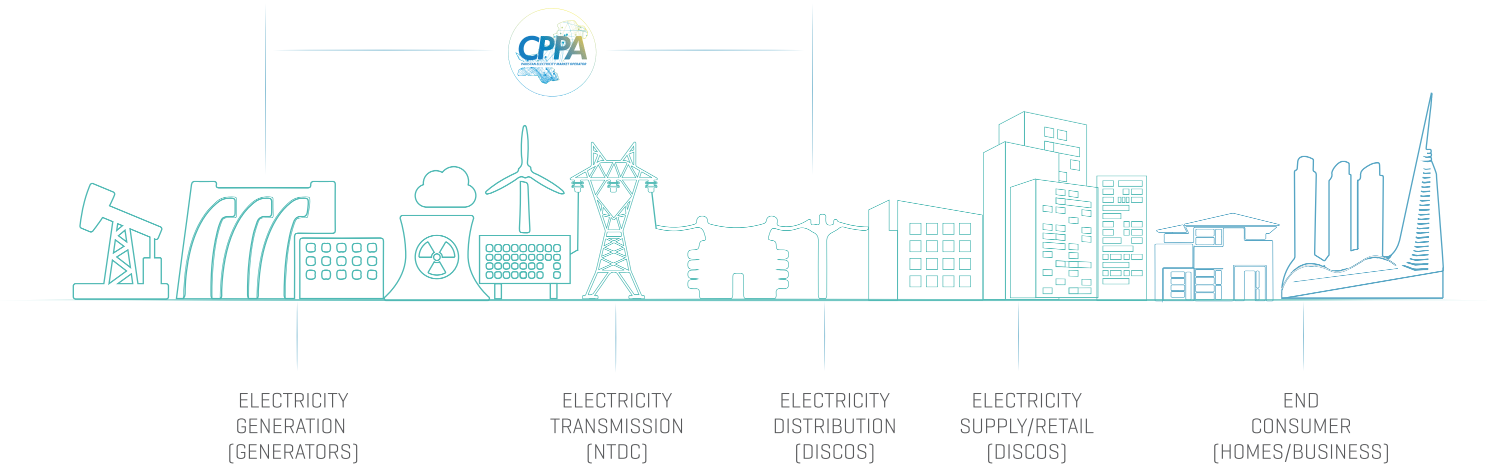


TABLE OF ACRONYMS

ADB	Asian Development Bank
AGM	Annual General Meeting
APEx	Association of Power Exchanges
BoD	Board of Directors
BTA	Business Transfer Agreement
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CLO	Chief Legal Officer
CPPA - G	Central Power Purchasing Agency (Guarantee) Ltd.
CTBCM	Competitive Trading Bilateral Contract Market
DISCO	Distribution Company
ECC	Economic Coordination Committee
ECM	Enterprise Content Management
EMP	Electricity Market Professional
EMRA	Energy Market Regulatory Authority of Turkey
EMT	Electricity Market Team
EPA	Energy Purchase Agreement
EPEX SPOT	European Power Exchange
EPIAS/EXIST	Energy Exchange of Turkey
ERP	Enterprise Resource Planning
FESCO	Faisalabad Electric Supply Company
FY	Financial Year
FY2018	Financial Year (July 2017 – June 2018)
GEPCO	Gujranwala Electric Power Company
GOP	Government of Pakistan
GWh	Giga Watt Hour
HESCO	Hyderabad Electric Supply Company
HR	Human Resources
HSD	High Speed Diesel
IAA	Independent Auction Administrator
IESCO	Islamabad Electric Supply Company
IGCEP	Indicative Generation Capacity Expansion Plan
IPP	Independent Power Producer
IT	Information Technology
KE	Karachi Electric Ltd.
KPIs	Key Performance Indicators
LESCO	Lahore Electric Supply Company
LCIA	London Court of International Arbitration
LUMS	Lahore University of Management Sciences
MIMG	Market Implementation Monitoring Group

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


CPPA
Pakistan Electricity Market Operator

01

ANOTHER PRODUCTIVE YEAR

1. ANOTHER PRODUCTIVE YEAR

The FY2018 was another remarkable year for CPPA during which several milestones were achieved and substantial progress was made. Some of the key achievements of CPPA as the Operator of Pakistan's Electricity Market, are illustrated below:

COMPETITIVE TRADING BILATERAL CONTRACT MARKET (CTBCM) MODEL AND PLAN

The task of developing a wholesale competitive market model for Pakistan, in pursuance of ECC decision, was started by CPPA last year with the formation of a dedicated team and assistance of international market development consultants. Consequently, CPPA developed the CTBCM Model and Plan, following a thorough consultative process.

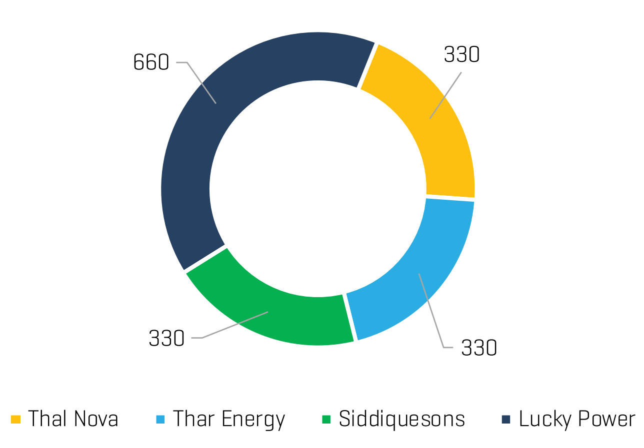
A Special Committee, led by Mr. Zargham Ishaq Khan, Joint Secretary, Ministry of Energy-Power Division (MoE-PD) was formed which reviewed and evaluated the CTBCM Model and Plan.

On recommendation of the Special Committee, CPPA this year, submitted the CTBCM Model and Plan to NEPRA for review and regulatory approval. NEPRA published the CTBCM model and plan on its website for stakeholders' review and requested the stakeholders to furnish their comments. It is expected that the process of regulatory review will be concluded by NEPRA early next year.
CPPA has further advanced its work on detailed design of the proposed market. The detailed designing includes the layout of new market contracts, transfer and allocation of pre-existing contracts, transmission losses treatment in wholesale market, balancing quantities and settlement mechanisms. A comprehensive report titled as "The Detailed Design Report" encapsulating the details of new market design has also been prepared.

POWER PROCUREMENT ON BEHALF OF DISCOS

In 2018, CPPA signed four PPAs/EPAs on behalf of DISCOs, all with the coal power plants, with a total 1,650 MW of contracted capacity. The number and magnitude of these PPAs/EPAs when compared with the agreements signed last year i.e. 21 agreements with a contracted capacity of 7,196 MW, seems insignificant. This is because the country is gradually moving towards energy adequacy and that the gap between supply and demand is steadily narrowing.

New Capacity Contracted in FY2018 (MW)



#	Technology	Capacity Contracted MW	
		2016-17	2017-18
1	Wind	448	-
2	Baggase	132	-
3	Solar	12	-
4	Nuclear	340	-
5	Hydel	720	-
6	Coal	1,980	1,650
7	RLNG	3,563	-
	Total	7,196	1,650

SUCCESSFUL COMPLETION OF ERP PHASE-I IMPLEMENTATION

FY2018 witnessed the completion and successful implementation of ERP System Phase-I that has resulted in automating most of the business processes of CPPA including the financial verification of invoices of power producers, billing to DISCOs, treasury management, assets management, agency operations, and other financial processes as well as the automation of the core HR functions. Automation of these back-office functions has significantly enhanced the quality of decision making while enormously increasing the productivity of various functions of CPPA.

CPPA celebrated this landmark achievement by organizing an Excellence Award Ceremony on successful implementation of ERP Phase-I on May 6, 2018. During the ceremony, the CEO CPPA appreciated the tremendous efforts of CPPA's management, business users, ERP team and implementer team to make this implementation of ERP at CPPA a successful story in power sector.

A group photo of participants with the CEO of CPPA-G at the Excellence Award Ceremony on Successful Implementation of ERP Phase-I Project

LAUNCH OF ERP PHASE-II IMPLEMENTATION

The project of ERP Implementation Phase-II has been launched at CPPA which is planned to be completed by March-2019. In the Phase-II, the business processes of Technical and IT departments of CPPA will be automated and integrated with existing ERP Phase-I implementation (the power purchase invoice processing system and other Financials modules). Further the processes of CPPA are also planned to be integrated through secure Web Portal with the other power market stakeholders like Power Generation Companies, NTDC, NPCC, DISCOs, Ministry of Energy (Power Division), NEPRA etc. This process integration will benefit the stakeholders with improved and real time monitoring and control, greater visibility and transparency, improved forecasting and estimations, paperless transactions and quick decision making across the power market.

ENTERPRISE CONTENT MANAGEMENT (ECM) SYSTEM IMPLEMENTATION

The Enterprise Content Management (ECM) is a core component of today's enterprise infrastructure a centralized repository, but open platform with pervasive services that 'content-enable' business operations throughout the enterprise. Keeping in mind the user's requirement CPPA has decided to implement ECM in the company. The ECM solution will automate the un-structured data of the organization and make it available to the all the concerned on the click and also integrate with ERP Systems. This solution will lead towards the record management, case management and business process management solutions. The contract awarding ceremony was held at CPPA Head office and the project implementation has been kick off. The project is envisaged to be completed by March 2019.

Enterprise Contract Management (ECM) Contract Awarding Ceremony

STRATEGIC PARTNERSHIP WITH EPEXSPOT & LUMS

CPPA achieved two more milestones by singing Memorandum of Understanding (MoU) with EPEX SPOT, the European Power Exchange and Lahore University of Management Sciences (LUMS). These MoUs set the ground for building strong strategic partnerships with an international market operators as well as leading university of Pakistan.

The MoU with EPEX SPOT was signed on December 12, 2017 for collaboration in the power market development. This MoU provided a channel to CPPA to engage EPEX SPOT for consultation and advice to CPPA on market development front as well as offer learning opportunities for CPPA to build its capacity through trainings, exchange programs, and likewise.

Another MoU which was signed on June 25, 2018 was with LUMS. Through this MoU, CPPA has built a s strategic partnership with LUMS on the academic grounds. Under this alliance with LUMS, CPPA has been hosting the Electricity Market Professional (EMP) Program and would further explore other avenues of mutual cooperation from the platform of LUMS Energy Institute.

Signing Ceremony of MoU Between CPPA and LUMS

MARKET OPERATOR'S NEW OFFICE

CPPA has been residing at the National Energy Efficiency and Conservation Authority (NEECA) (formerly ENERCON) Building in Islamabad. The building was cohoused by CPPA and NEECA thus offering a very limited office space which was not sufficing the needs of CPPA as the company is not only presently growing and gaining strength in numbers but a potential bifurcation of the company is also envisaged in the near future. The building space was also a limitation towards expanding the IT Infrastructure keeping in view the future Market Operator role of the company. The space constraints forced CPPA to lease a dedicated building with improved office infrastructure which could accommodate the existing as well as future strength of CPPA without any hassle. This shift would also bring significant improvements in the company's operations.

A new office location of CPPA. CPPA has moved its office from NEECA building to Shaheen Plaza in Islamabad.

RESTRUCTURING THE ORGANIZATION AND BUILDING HR CAPACITY

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

The ***Phase-I*** of the restructuring was completed last year when some key departments were added such as Strategy & Market Development (SMD), ERP/IT, Taxation etc.

The ***Phase-II*** remained in progress during the FY2018. In the Phase-II of restructuring, the skills, resources and strength of the Technical, IT, HR & Admin and Legal departments were optimized. This phase will remain in continuation for a while until the complete restructuring of Finance, Policy Governance & Corporate Planning (PG&CP) and SMD Departments is carried out from the HR perspective. The plan for Phase-III is being implemented and will be completed by in 2019.

Under ***Phase-III***, in the design of future wholesale competitive market, it has been proposed to restructure CPPA to avoid conflicts (if any) that the company may have in administrating the role of a Market Operator during proposed competitive market regime that commences in 2020. The CPPA Board, in July 2017, principally approved the restructuring of CPPA, for initially an operational segregation of CPPA into Special Purpose Supplier (SPS) and the Market Operator (MO) followed by their legal incorporation.

The CPPA with the assistance of consultants has prepared a detailed plan, as per which the organizational restructuring under Phase-III is divided into the following five sub-phases. The restructuring preparation sub-phase has been completed, and next sub-phase i.e. Design of Business Units Phase is now being worked upon.

Restructuring Preparation Phase

Completed

Design of BUs Phase

Implementation of Business Units BUs Phase

Parallel Run / Trial Market Phase

Legal Incoporation Phase

To be Completed by 2019

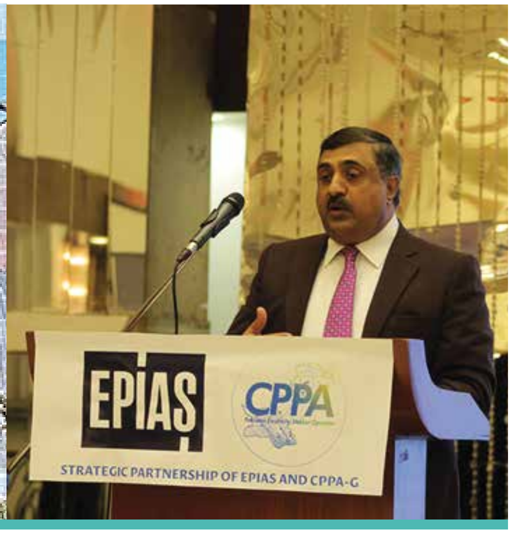
MARKET SESSIONS AND WORKSHOPS

CPPA gives utmost importance to the training & development of not only its employees, but for all the power sector entities working closely with CPPA for transformation of the electricity market. In this connection, a number of training sessions and workshops were held during FY2018 which were attended by representatives from MoE(PD), NEPRA, DISCOs, KE, NTDC, NPCC side-by-side with CPPA. Few important market sessions and workshops of FY2018 are (i) Workshop by EPIAS (the Turkish Market Operator) on Transition of Turkish Power Market (ii) CPPA/USAID Workshop on Power Trading Entity in Pakistan (iii) Reverse Auction Workshop by USAID (iv) SAARC Conference in India (v) APEx Annual Conference 2017 (vi) Simulation and Modeling Workshops, and (vii) On-the-Job Training Session for DISCOs on Demand Forecasting.

An important workshop for all power sector entities was arranged in Islamabad by CPPA in collaboration with EPIAS, in which the transition of Turkish Market Operator and the Turkish Power Market was discussed. The Turkish delegation also delivered a presentation about how the electricity prices are determined and discovered in Turkish electricity market.

Another worth mentioning workshop which was organized on the request of CPPA by USAID in Bangkok, Thailand was on "Design, Management and Operation of a Power Trading Entity in Pakistan" for power sector entities of Pakistan. CPPA presented the proposed market model for Pakistan and the resultant legal, policy and regulatory framework and delivered the training sessions, side-by-side with other international trainers. Discussion on basic concepts of different market models, benefits of competition, liberalization of the market economy, types of electricity markets, trading electricity in wholesale market, security of supply, power exchange etc. was also held.

Additionally, more than 15 training sessions, workshops and on-the-job trainings etc. on forecasting, generation and operation planning, and simulation and modeling have been organized for NTDC and NPCC. Whereas around 30 on-the-job training sessions were also held for DISCOs on Power Market Survey (PMS) based medium term forecast. CPPA has also recently launched a comprehensive training program titled Electricity Market Professional (EMP) Program to build the capacity of the relevant power sector entities on the energy markets.



ELECTRICITY MARKET PROFESSIONAL (EMP) PROGRAM

CPPA believes that the transition towards a competitive electricity market would not be possible without the dedicated involvement of the relevant power sector entities. And the more informed the stakeholders are about the overall concepts of electricity markets, the more they would be able to contribute towards its development and implementation. Keeping this in view, CPPA has launched a customized training course for power sector entities of Pakistan titled "Electricity Market Professional (EMP) Program" in collaboration with EPIAS and Lahore University of Management Sciences (LUMS). The target audiences for this program are officials from MoE (PD), NEPRA, NPCC, NTDC, DISCOs, K-Electric along with staff of CPPA.

The primary objective of EMP Program is to build the capacities of the power sector professionals of the key power sector entities in energy market concepts so that they cannot only own the design and implementation process but add value too. And the other objective is to sustain this activity by training the faculty members of the universities.

This is a four-module residential program which is being housed at LUMS under the umbrella of MoU of Strategic Partnership signed between CPPA and LUMS. It is initially being run by expat and local power sector professionals with participation of academicians from 'train-the-trainer' perspective, so that capacity of indigenous universities' faculty could also built over time. It is expected that in medium term, from 1-2 years, the universities themselves will take over this program, offering trainings to the power sector professionals as well as interested students on the subject of electricity markets.

A group photo of participants of EMP program training workshop.

Avni ÇEBİ, Strategy Development Director-EPİAŞ, conducting a training session during Module-I of EMP Program at LUMS.

CORPORATE AND LEGAL AFFAIRS

During the FY2018, the CPPA handled a myriad of legal issues. The company managed all the regulatory affairs with NEPRA including the active representation of CPPA in all the matters filed before NEPRA including complaints, notices, tariff determinations, review motions etc. CPPA also maintained a close engagement with the Ministry of Energy (Power Division) in the preparation of the standardized tripartite EPAs/PPAs and upcoming legislation such as the proposed draft Uniform Tariff Rules to be issued pursuant to the NEPRA Act, 1997.

Negotiation, review and finalization of various agreements including EPAs/PPAs, novation, direct, novation to direct and revolving account agreements among others were dealt with and the litigation throughout Pakistan requiring legal representation of CPPA before the subordinate and superior Courts of Pakistan. The company actively ensued expert mediation and arbitral proceedings being conducted domestically as well as internationally including arbitral proceedings being conducted before the London Court of International Arbitration and the International Court of Arbitration of the International Chamber of Commerce, among others.

Regular liaison with external legal counsels and advisers was kept in order to ensure that CPPA receives the best possible representation before the various forums. Additionally, all the decisions of the CPPA Board were implemented. The compliance with Public Sector Companies Corporate Governance Rules, 2013 was also improved.

CPPA'S CONTRIBUTION TO THE POWER SECTOR

CPPA throughout the year actively contributed towards the development of the power sector of Pakistan and improvement of the regulatory and policy framework. This included: a. Commencement of development of a central data exchange portal using the state-of-the-art web, portal, and other middleware technologies for the benefit of the whole power sectorFacilitating NTDC planning, DISCOs & NPCC through organizing more than 15 training sessions, on the job trainings, manual preparation etc. on forecasting, generation and operation planning b. Launched a training initiative with the collaboration of EPIAS and universities, titled Electricity Market Professional (EMP) Program, in order to build the capacity of MoE (PD), DISCOs, NPCC, NTDC, KE and NEPRA in electricity markets. The participants will be certified as Electricity Market Professionals after completing all four modules of the program. c. Contribution in preparing National Electricity Policy (NEP) draft for the power sector of Pakistan Facilitated the preparation of the Integrated Generation and Capacity Expansion Plan (IGCEP), Long-Term Forecasts for NTDC and Power Market Survey (PMS) for DISCOs d. Presented proposal of amending existing bagasse pricing mechanism to NEPRA to ensure prevention of bagasse price hike against the dollar and imported coal price e. Submitted concept paper to NEPRA for devising mechanism for the determination of uniform end consumer tariff, in wake of amended NEPRA Act f. Securing the assistance from USAID to implement the SMS Metering Project in Pakistan.

Moreover, under its facilitation role for market development, CPPA also assisted the DISCOs, NTDC and NPCC on various fronts:

Assistance to DISCOs:

It is imperative for the new market to build a market interface in the DISCOs with adequate capacity to participate in the competitive market. The identified areas where capacity is required to be build are legal, commercial, competitive markets, forecasting, contracts management, finance etc.

Presently CPPA has been facilitating DISCOs in the preparation of the Power Market Survey (PMS) based medium term forecast. During the year, CPPA conducted more than 30 on job training sessions for the DISCOs and more than 80 personnel from all DISCOs and KE were trained. During the program, comprehensive training was provided to the participants covering all steps from data collection till report finalization. With this facilitation from CPPA, the DISCOs were able to prepare the medium term forecast report 2016-17 (10 reports) and CPPA consolidated it at country level in collaboration with NTDC. CPPA has also been facilitating DISCOs to submit their forecasts to NEPRA for regulatory approval. CPPA also proposed measures for the sustainability of the forecast function which includes recommendations for the establishment of forecast section in each DISCO, refinement of data formats, incorporation of new modules into the PMS model, and updating the training manuals as per the requirements.

Assistance to NTDC:

CPPA has been supporting NTDC in the preparation of Indicative Generation Capacity Expansion Plan (IGCEP) and Long-Term Energy and Demand Forecasts. NTDC has prepared IGCEP using WASP software with the assistance of consultant hired by CPPA. NTDC has also managed to get the draft IGCEP reviewed by the stakeholders for further improvements. The final plan will be submitted to the Regulator for approval by NTDC early next year. Additionally, the assistance to NTDC in the area of long term Energy and Demand Forecast is also being provided by CPPA. The first long-term energy and demand forecast report was prepared up to the year 2040 by NTDC with the assistance of CPPA while NTDC has prepared second long-term forecast independently on its own.

Moving forward, to ensure the sustainability of the IGCEP initiative and bring further improvements in the generation planning and forecasting, CPPA has arranged a trial version of OPTGEN for NTDC, which is a state-of-the-art generation planning tool. This will help NTDC in preparing a more comprehensive study incorporating all existing constraints. CPPA has also requested USAID to provide a licensed version of EViews which is used in preparation of the long term forecast and to establish an organized data base in the Power System Planning (PSP). All these measure will help NTDC to streamline and improve the planning process.

Assistance to NPCC:

NPCC being the System Operator (SO) is a very critical element for the smooth operation of an electricity market and CPPA has been working towards its strengthening. For this purpose CPPA organized workshops and training sessions for the staff of NPCC, engaging international expert on market simulation. During these sessions, training on modeling techniques, optimization of model for dispatch, input data and modeling tools was provided. A trial dongle of NCP was also arranged by NPCC to continue with the modeling activity.

Moving forward, CPPA is facilitating the SO in the selection and procurement of SCED tool and allied equipment for an improved performance in the system operations through USAID. The tools and equipment which are being procured specifically are NCP (Unit Commitment Tool), Load Forecast Tool, PSS/E software dongle (Load Flow Analysis), Computer Aided Protection Engineering Tool for cross trip scheme and analysis, Centralized Server / Data Warehouse, Electronic Mimic Board for RCC (North and South) along with a centralized database of transmission network and allied IT infrastructure. Along with the facilitating the acquisition of tools and equipment, comprehensive trainings on HVDC T/Line (operations, protection design, interface with existing system, stability controller etc.) and Merit Order preparation training are also in the pipeline.

CPPA'S REGISTRATION AS MARKET OPERATOR

NEPRA called a public hearing on March 26, 2018 following the submission of the registration application by CPPA last year for getting registered as the power market operator of Pakistan. The hearing was successfully carried out and the determination from NEPRA is expected soon. However, the status of deemed authorization of CPPA as a market operator has been extended by NEPRA for one additional year. It is expected that authorization of CPPA as Market Operator will be issued early next year by NEPRA.

The hearing on CPPA's registration as market operator in progress at NEPRA


PAKISTAN-TURKEY
EPIAS












2. CHAIRMAN'S MESSAGE

The electricity sector is one of the most dynamic sectors of our Country. It plays a key role in the development and growth of the economy by ensuring an adequate, secure and affordable supply of electricity for end consumers. As a result of impressive generation additions, Pakistan has now achieved supply adequacy. However, now we need to strive hard to cope with the other challenges ranging from eliminating transmission and system constraints to improving sector's governance for making the sector financially self-sustainable.

Market Operator in any electricity market plays an important role in improving the transparency in market operations, gradually introducing competition in trade and improving the capacity of stakeholders for active participation in the market. FY2018 was another successful year for CPPA in terms of operational performance and its journey towards a competitive power market. CPPA is relatively a young organization which saw its inception in mid of 2015.

Although a juvenile entity, it is gradually stepping its way forward through institutionalizing the best practices of corporate governance and penetrating its core values from top to the grassroots level of the organization. CPPA has improved transparency of the commercial processes and brought efficiency in the business operations through IT interventions, automation of core business processes, organizational restructuring, consultative sessions on proposed market design and improved corporate governance with full support from an engaged Board which is dedicated to facilitate the Company in achieving its vision of becoming world class Market Operator.

I am also pleased to state that based on the given mandate, CPPA is doing a great job in centrally facilitating the designing and development of the Competitive Market for Pakistan, hand in hand with other power sector entities. Introducing competition in Pakistan's Power Market would attract investments in generation, gradually free from sovereign guarantees, and would improve energy security, reliability and affordability for the consumers of Pakistan.

I am proud of what CPPA has achieved in the year FY2018 and confident that the Company will continue to deliver transparent market operations and facilitate market transition. As Chairman of the Board, I would continue to support CPPA towards its transformation that would bring a brighter tomorrow for our nation by reforming the wholesale electricity market operations. I welcome all stakeholders to be a part of this future.

Irfan Ali
Chairman Board - CPPA

3. CEO'S MESSAGE

Premises of the Sustainable Business Model lies at the union of the existing business structure and its flexibility towards adoption of technological advancements and innovations that per se ensures overall economical, commercial and technical viability. This in turn calls for an integrated approach to develop shared understanding of the multi-pronged challenges that have profound impact on the overall economic indicators of the country and sector in particular. I believe that the recently witnessed transition of power sector to buyer's regime has extended the much needed opportunity as well as obligation to gauge the overall planning paradigm and re-align and integrate the top-down planning flows with the bottom-up planning horizons.

FY2018 no doubt transpired as a challenging set of 365 days for the entire value chain of electricity sector in general and CPPA in particular. This intrinsically led to manifestation of resolute efforts for enhanced operational efficiency and stringent controls within CPPA G as well as measures for alignment of activities that flow across the boundaries of CPPA, thus pursuing shared strive towards attainment of security, sustainability and economy.

The year FY2018 at CPPA has proved to be really fructuous with many initiatives commenced in the previous year eventually yielding desired benefits while minimizing overall risk profile of organization. Phase-1 of Process Automation through ERP is already in place and the Phase-II has been launched which will be completed during next year, thus yielding fully automated invoicing verification and settlement function

and integration with the other stakeholders of power sector. Internal Audit has been in place to gauge the overall controls of the organization. Procurement of power has eventually led to the availability of sufficient generation to meet the idiosyncratic demand patterns across the periphery of the country. Information System has been in place to assist arriving at the informed decision, both for internal and external to the organization. Most importantly, the quality resources inducted in fleet of CPPA are not only contributing towards the betterment of process in vogue but extending contribution at the policy and regulatory forums for overall convergence of operations and initiatives.

Recognizing that the sustainable operations and informed decisions making is contingent upon availability of regulatory tools and documents, CPPA has assisted the peer entities of transmission and distribution companies for the formulation of said pre-requisites, inter-alia, demand forecasting and generation expansion plans. At the same time, the market model for the wholesale market has been formulated and submitted to the regulator for thorough consultation with all the stakeholders. I have no reason to doubt that these rudimentary landmarks will be impetus for the informed strides of the sector over the long term horizon.

Reflecting on the past year, we have continued to evolve our role and our processes, so we can continue to deliver our vision. CPPA with all its scrupulous efforts has ushered in an era where we can envisage an efficient and reliable power sector. We will continue to work closely with all our stakeholder groups, to develop and deliver solutions that will be instrumental in realizing our future goals.

Abid Latif Lodhi
CEO CPPA


SHAHEEN PLAZA

04

COMPANY'S PROFILE

4. COMPANY'S PROFILE

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

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

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

In global perspective, electricity Market Operators are regarded as a highly technical organization with complex business operations requiring intense technological acquisitions. In-turn the Market Operators lead their respective markets w.r.t wholesale market operations and design. CPPA-G as a service provider in the role of the Market Operator for the power market currently performs the (a) the role of a facilitator for developing and implementing wholesale competitive power market, (b) billing and settlement, (c) procurement of electric power on behalf of the DISCOs, (d) generation invoice verification, (e) billing to the DISCOs and collection, (f) settlement to the Market Participants , (g) management of cash flow, treasury and other relevant banking functions for the purposes of collection and disbursement, (h) administration, maintenance and implementation of the Commercial Code, the Market Rules and supervision of compliance by Market Participants including billing, collection, settlement and payment procedures, updating, implementing, administering and enforcing the Commercial Code in relation to the Market Rules, (i) collecting and publishing market information and statistics (j) liaising with other bodies having market functions similar to the Market Operator or administering competitive power markets.

The momentum gained by CPPA-G after its operationalization in mid-2015 has been tremendous. Just within two years of its inception, CPPA has attained several major milestones to become a proficient Market Operator of the future, that include (a) developing partnerships with international markets operators and LUMS for market development, (b) kicking-off the Phase-I of ERP Implementation in record time, (c) launch of the ERP Phase-II and Enterprise Content Management (ECM) System (d) implementing System for Settlement (SFS), (e) organizational re-structuring and increasing the strength of the organization to 198 employees, (f) developing competitive trading bilateral contract market (CTBCM) model, (g) power procurement on behalf of DISCOs with capacity addition of 7,196 MW in FY2016-17 and 1,650 MW in 2017-18, (h) knowledge sharing and providing a number of learning opportunities through training session, workshops and exchanges to other power sector entities (i) obtaining membership of Association of Power Exchanges (APEX) to name a few. Also, worth mentioning is the progress made on market development front, where CPPA has also achieved important milestone by submitting the CTBCM model and plan to NEPRA for regulatory review, the approval of which would enable smooth implementation of the competitive power market model for wholesale market by 2020.

COMPANY'S INFORMATION

4.1 BOARD OF DIRECTORS
- Mr. Irfan Ali (Chairman)
- Mr. Abid Latif Lodhi (Chief Executive Officer)
- Mr. Muhammad Zargham Eshaq Khan
- Dr. Khaqan Hassan Najeeb
- Mr. Muhammad Imran
- Mr. Zafar Abbas
- Mr. Basit Zaman

4.2 AUDIT COMMITTEE
- Mr. Muhammad Zargham Eshaq Khan (Chairman)
- Mr. Muhammad Imran
- Mr. Noman Rafiq

4.3 FUNCTIONAL HEADS
- Mr. Arshad Javed Minhas (Chief Information Officer)
- Mr. Rihan Akhtar (Chief Financial Officer)
- Mr. Syed Iqbal Mehdi (Chief Technical Officer)
- Mr. Abdul Majid Khan (Chief Legal Officer)
- Mr. Rehan Hameed (Director General HR&A)
- Mr. Noman Rafiq (Company Secretary)
- Mr. Omer Haroon Malik (DGM Strategy & Market Development)

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

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

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

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

4.8 LEGAL ADVISOR
- Mr. Munawar Islam

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

We Believe in

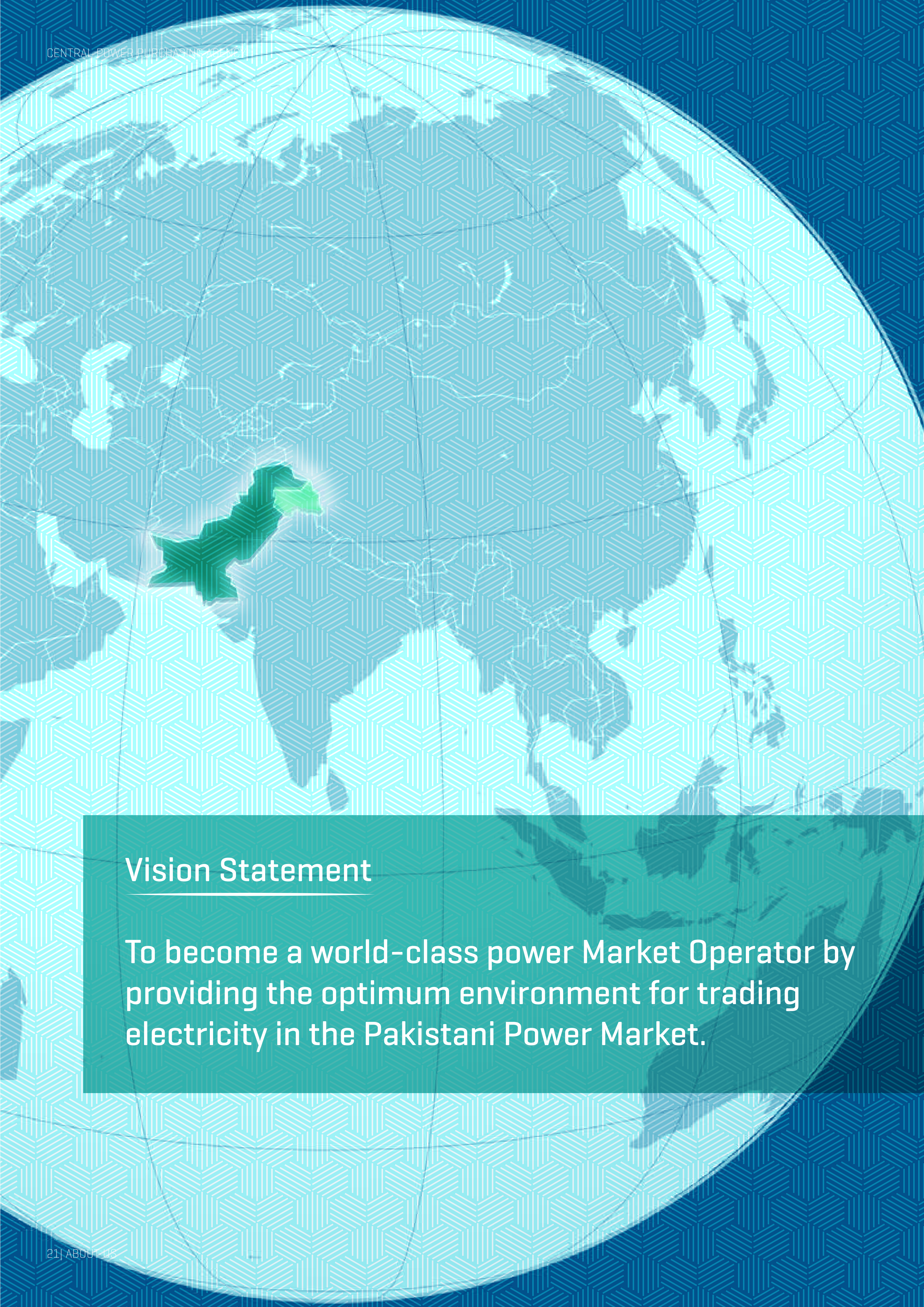
Building People

Developing Processes

Supported by Technology

05

ABOUT US



Vision Statement

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

Mission Statement

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

Our Values

Transparency:

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

Excellence:

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

Teamwork:

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

Being Respectful:

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

06

STRATEGIC TARGETS

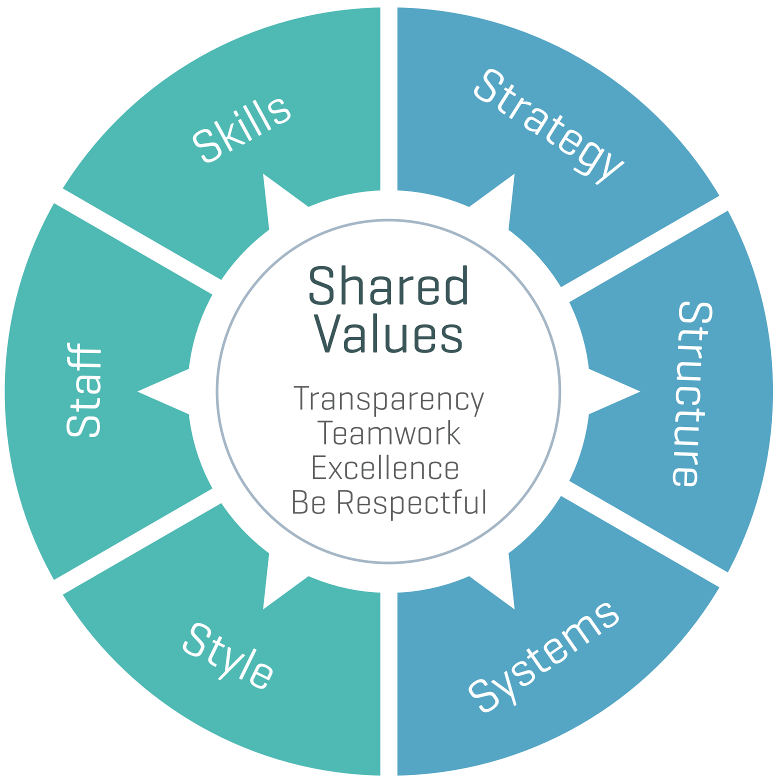
6. STRATEGIC TARGETS

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

The strategic plan is based on the seven fundamental elements a corporate is standing on which are: Structure, Strategy, Skills, Staff, Style, Systems, and Shared Values. These seven elements areas are interconnected in such a way that change in one area requires change in the rest of a firm for it to function effectively. The seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage

This has been the second year of the Strategic Plan for CPPA. In the first year the major focus was on augmentation of the hard areas of Strategy, Systems and Structure. In the following year CPPA has been focusing on working on the remaining four elements of Staff, Skills, Style and Shared Values. Since these four elements are more people-oriented therefore these are soft in nature however brining a change in them consumes time and efforts. Therefore these elements are hard in terms of change implementation.

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



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

Compliance 1

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

- CPPA maintained complete compliance with corporate law, secretarial practices and corporate governance rules
- Preparation and submission of statutory reports on periodic basis
- Compliance with power sector legal and regulatory framework

Corporate Culture 2

Develop healthy Corporate Culture

- The core values of CPPA continuously promulgated
- Interactive training sessions on corporate culture were organized to promote healthy relationship among the employees

HR Development 3

Invest in good people

- CPPA grows in strength from 157 to 198 employees
- New office space for employees secured
- Several training sessions completed in which 125 employees received trainings

Organizational Restructuring 4

Restructuring of CPPA

- The Phase-I of restructuring completed
- IT, Legal, Technical and HR Departments revamped
- Working continued on Phase-II and III of restructuring

Transparency 5

Restructuring of CPPA
Data institutionalization and publishing

- The Phase-I of restructuring completed
- IT, Legal, Technical and HR Departments revamped
- Working continued on Phase-II and III of restructuring
- Reducing human intervention with the implementation of ERP and ECM systems for automation of business processes
- Market data and relevant reports regularly published on CPPA website
- Market model submitted to NEPRA is published on its website
- Extensive stakeholders consultations on market development

Strenghten Relationships 6

Strengthen relationships with Market Participants and Service Providers

- Electricity Market Team formed that represents all the relevant Power Sector Entities of Pakistan
- Assistance to NTDC, NPCC and DISCOs is continued on various fronts related to market development
- Strategic Partnership with International Entities such as EPIAS, EPEX SPOT, USAID etc.
- Collaboration with universities such as LUMS and NUST on academic grounds

Competitive Market Development 7

Design and facilitate implementation the wholesale Competitive Market Model

- CTBCM Model and Plan submitted to NEPRA for regulatory review
- Detailed designing of CTBCM Model in full swing
- Working started on basic must-do items for implementation

IT Transformation 8

IT transformation of CPPA

- ERP Phase-I Implemented
- Implementation of SFS
- ERP Phase-II and ECM Launched
- Automation of HR and Payroll

Rebranding 9

Rebrand CPPA

- The new company logo, corporate values, vision and mission statements were approved by the Board
- The website of CPPA-G revamped to make it interactive and user friendly

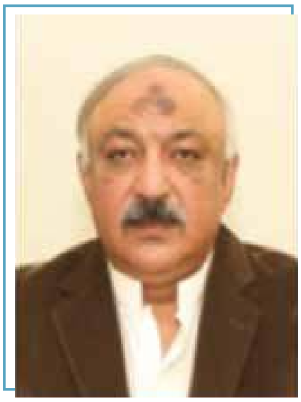
07

BOARD OF DIRECTORS

7 BOARD OF DIRECTORS

The Company's Board comprises of seasoned professionals with broad spectrum of experiences ranging from policy and finance to engineering and operations. In-terms of institutions, it has members from wide range of relevant organizations including MoE (PD), Ministry of Finance (MoF), NTDC, GENCO Holding Company, IESCO, thus striking a healthy balance. The CPPA's Board ensures that the company adheres to corporate governance best practices while being complaint with policy, legal and regulatory requirements. The board through its collective wisdom provides strategic direction to the company to ensure that it achieves its goals and objectives.

Currently, CPPA has seven members in its board. Each member of the board is well qualified and possesses over 20 years of professional experience in their respective fields. Details of the board of directors are as follows:



IRFAN ALI
CHAIRMAN BOD, CPPA

M. ZARGHAM ESHAQ KHAN
MEMBER BOD, CPPA

KHAQAN HASSAN NAJEEB
MEMBER BOD, CPPA

BASIT ZAMAN AHMED
MEMBER BOD, CPPA

ZAFAR ABBAS
MEMBER BOD, CPPA

MUHAMMAD IMRAN
MEMBER BOD, CPPA

ABID LATIF LODHI
MEMBER BOD, CPPA

8 COMMITTEES OF BOARD

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

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

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

Sr. No.	Meeting	No. of Meetings Attended
1	Board of Directors	12
2	Procurement Committee of Board	14
3	HR Committee of Board	10
4	Risk Management Committee of Board	09
5	Audit Committee of Board	04
6	Finance Committee of Board	02
7	ERP Implementation Committee of Board	03
8	Nomination Committee	01

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

FINANCE COMMITTEE

Mr. Muhammad Zargham Eshaq Khan (Chairman)
Mr. Mian Muhammad Imran
Mr. Basit Zaman

AUDIT COMMITTEE

Mr. Muhammad Zargham Eshaq Khan (Chairman)
Mr. Mian Muhammad Imran
Mr. Abid Latif Lodhi

HUMAN RESOURCE COMMITTEE

Dr. Khaqan Hassan Najeeb (Chairman)
Mr. Muhammad Zargham Eshaq Khan
Mr. Mian Muhammad Imran
Mr. Abid Latif Lodhi

RISK MANAGEMENT COMMITTEE

Mr. Muhammad Zargham Eshaq Khan (Chairman)
Mr. Mian Muhammad Imran
Mr. Abid Latif Lodhi

PROCUREMENT COMMITTEE

Mr. Zafar Abbas (Chairman)
Dr. Khaqan Hassan Najeeb
Mr. Muhammad Zargham Eshaq Khan

NOMINATION COMMITTEE

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

ERP IMPLEMENTATION COMMITTEE

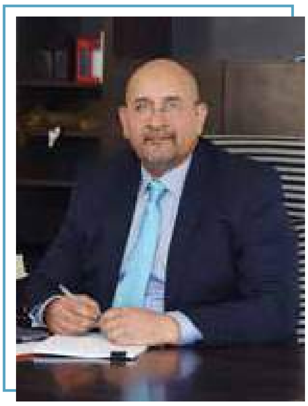
Dr. Khaqan Hassan Najeeb (Chairman)
Mr. Muhammad Zargham Eshaq Khan
Mr. Basit Zaman

9 FUNCTIONAL HEADS

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

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

ABID LATIF LODHI
CHIEF EXECUTIVE OFFICER



ABDUL MAJID KHAN
CHIEF LEGAL OFFICER

ARSHAD JAVED MINHAS
CHIEF INFORMATION OFFICER

SYED IQBAL MEHDI
CHIEF TECHNICAL OFFICER

RIHAN AKHTAR
CHIEF FINANCIAL OFFICER

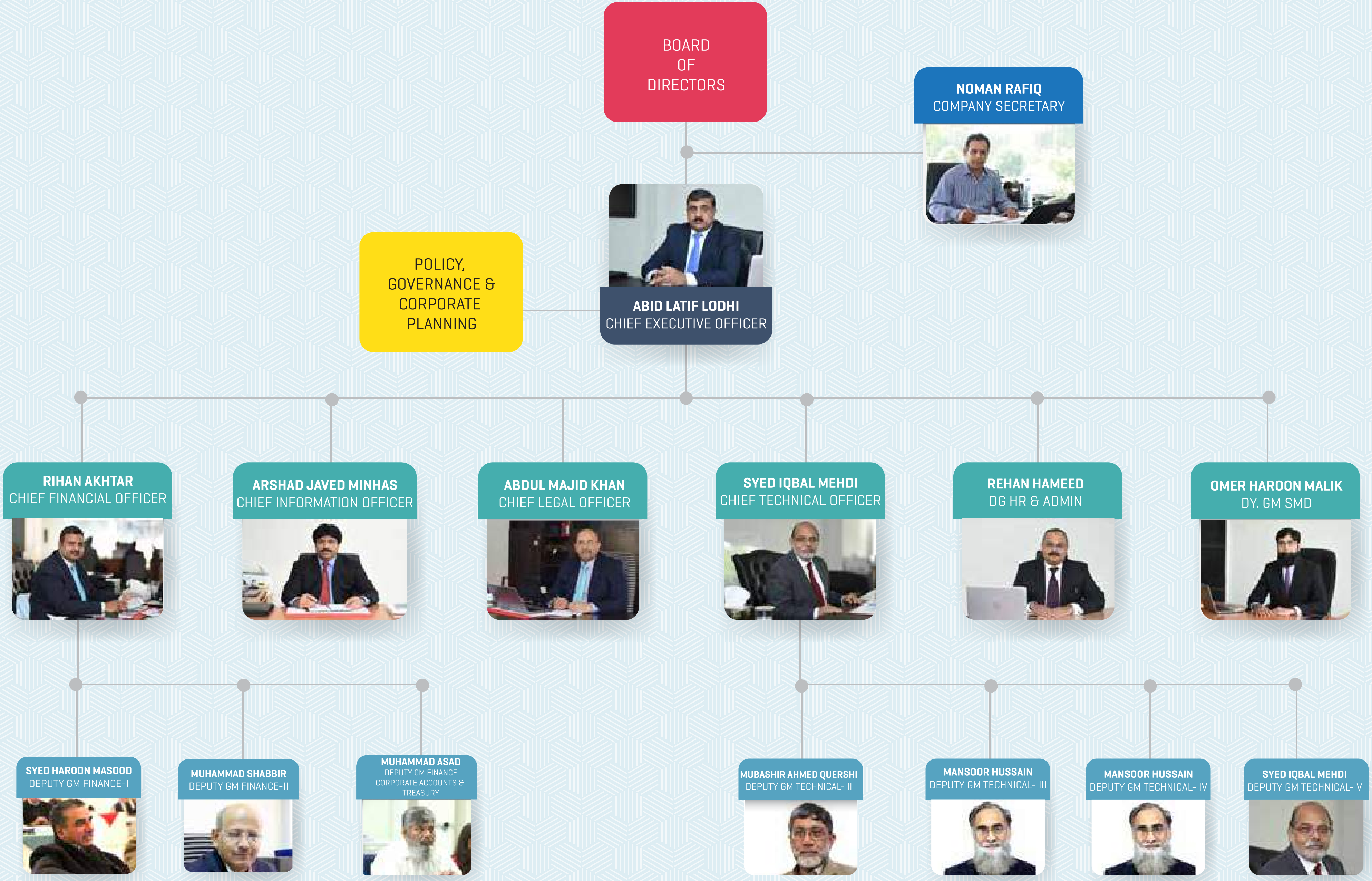
REHAN HAMEED
DG HR & ADMIN

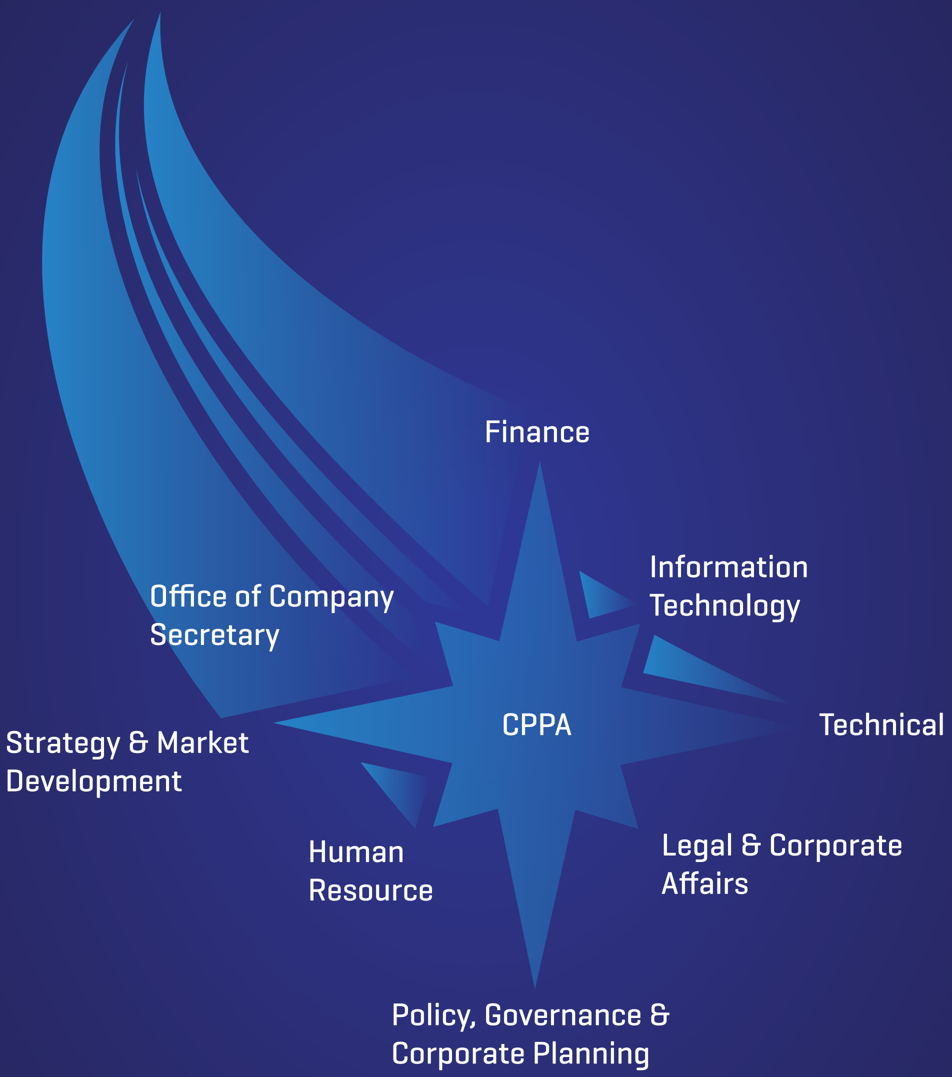
OMER HAROON MALIK
DY. GM SMD

NOMAN RAFIQ
COMPANY SECRETARY

ORGANIZATIONAL CHART

FUNCTIONAL HEADS/SENIOR MANAGEMENT




Finance
Information Technology
Office of Company Secretary
CPPA
Technical
Strategy & Market Development
Human Resource
Legal & Corporate Affairs
Policy, Governance & Corporate Planning

10

DEPARTMENTS OF CPPA

10. DEPARTMENTS OF CPPA

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

10.1 FINANCE DEPARTMENT

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

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

10.1.1 YEARLY ACHIEVEMENTS

Following are some key achievements accomplished by this department during FY2018:

- Successful commencement of the invoice processing and payment to the IPPs through centralized database of ERP ledger payment system, resulting in reduction in processing time as well as level of efforts of the staff
- Complete reconciliation of settlements and balances with the IPPs before switching from manual processing to ERP automation. CPPA is now fully reconciled in terms of balances with the IPPs due to this intervention
- Achieved successful completion of the audit by AGPR, Government of Pakistan for the periods FY2017 and July 2017 – March 2018
- Prepared SOPs for the process of 'Payment to Contractors/Suppliers' in alignment with the ERP resulting in a reduced payment processing time for all internal and external suppliers
- Performed day-to-day financial and administrative operations of the CPPA under the Power Sector Framework, CPPA Policies and Book of Financial and Administrative Powers
- Achieved successful completion of the statutory audit of the Financial Statements pertaining to FY 2017

"The way CPPA has emerged as a successful independent entity over the last couple of years is marvelous; the progress is continued at much faster pace. Under the present management, the finance section is fully aligned to take up its new role in the upcoming competitive electricity market regime. Invoice processing has been fully automated, online invoice submission through ERP portal is ready for launching, tripartite power purchase agreements are under negotiations. The capacity building of DISCOs and other market participants is being carried out for managing the future bilateral Power Purchase Agreements. I, as a proud members of CPPA finance team, extend full commitment to fly together into the new horizons of Wholesale Electricity Market Operations in the country"

Assad Ullah Ch.,
Manager Finance, CPPA

10.2 TECHNICAL DEPARTMENT

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

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

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

Sr. No.	Technology / Type	Number of Agreements (as of June 2018)		
		Commissioned	To-be Commissioned	Total
PPA's / EPA's				
1	Wind	23	1	24
2	Solar	6	0	6
3	Bagasse	6	3	9
4	RFO/Gas/HSD/RLNG	36	0	36
5	Coal	2	6	8
6	Nuclear	4	0	4
7	Hydel	22	3	25
Total		99	13	112

10.2.1 YEARLY ACHIEVEMENTS

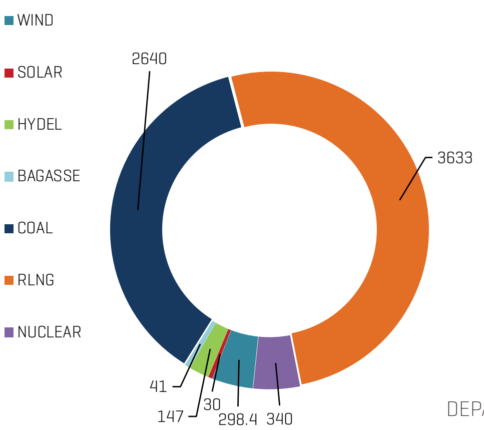
Following are some key achievements accomplished by this department during FY2018:

- Contracting a total capacity of 1,650MW through signing four (04) Energy/Power Purchase Agreements with the coal power plants.
- Successful integration of the following quantum into National Grid after incurring substantial man hours of CPPA-G under the ambit of rights and obligations of the power purchaser in the framework of purchase agreements.

"Being an Engineer, I believe that an engineer's job must offer technical learning and a productive environment where all the engineering capabilities could be fully utilized. Fortunately, I am part of a very capable Technical team and is deeply involved in power procurement, invoice processing, technical audits, commissioning and contracting management activities. I have learnt a lot in a very short time and now geared-up to deliver in next phase of market transition".
Sahibzada Abdul Haseeb,
Management Trainee Officer (Technical), CPPA

Sr. No.	Project Type	Commissioned (MW)
1	WIND	298.4
2	SOLAR	30
3	HYDEL	147
4	BAGASSE	41
5	COAL	2,640
6	RLNG	3,633
7	NUCLEAR	340
	Total	**7,129.4**

Power Plants Commissioned in FY2018 (MW)



10.3 STRATEGY AND MARKET DEVELOPMENT DEPARTMENT

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

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

10.3.1 YEARLY ACHIEVEMENTS

Following is a list of key achievements earned by this department during FY2018:

- Submission of the hi-level Competitive Trading Bilateral Contract Market (CTBCM) Model and Plan to NEPRA for regulatory review
- Prepared a comprehensive report on the detailed designing of the CTBCM Model
- Established strategic partnership with EPEXSPOT, the European Power Exchange and formed academic alliance with Lahore University of Management Sciences (LUMS) by signing MoUs
- Managing successful delivery of the Electricity Market Professional (EMP) Program at LUMS in collaboration with EPIAS for power sector entities of Pakistan
- Arranged USAID grant for the procurement of state-of-the-art Market Simulation Software Securing funding for other capacity building initiatives and IT upgrade of CPPA and for technical support to NTDC and NPCC is in pipeline
- Support to NTDC, NPCC and Planning NTDC in preparation of forecasts, generation plan and dispatch simulations
- Development of advance Market Simulation Model with generation, transmission and load data by nodes populated in the model. First run of the model completed
- Organized five workshops, three international exchanges and numerous training sessions for NEPRA, SECP, NPCC and CPPA
- Established Electricity Market Team (EMT) with members from NEPRA, MoE, NPCC, NTDC, DISCOs, K-Electric, LUMS and NUST

"Having worked in the private sector throughout my professional career, the decision to switch to a public organization was a bit challenging, but my first interaction with CPPA during interview made me believe that this company will be different. The work culture that I found here was completely different from the perception of public sector organizations"

Nida Mukhtar,
Assistant Manager SMD, CPPA

10.4 LEGAL AND CORPORATE AFFAIRS DEPARTMENT

The legal department of CPPA plays a pivotal role in its facilitative capacity to ensure the realization of strategic objectives and is responsible for effectively managing and handling legal matters for safeguarding CPPA's interest. This department is committed to providing continuous support to the all CPPA departments by rendering ready opinions on the applicable laws, advice on the aspects of effective contract management as well as legal compliance, remedial and litigation management. The main functions of this department are:

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

10.4.1 YEARLY ACHIEVEMENTS

Following are some key activities performed by this department during FY2018:

- Active participation in the arbitration proceedings at London Court of International Arbitration (LCIA), International Court of Arbitration (ICA) and International Chamber of Commerce (ICC)
- Attended council meetings with the international law firms and provide necessary inputs to the Counsel on the cases
- Filed the registration application to NEPRA and defended the case for the registration of CPPA as a Market Operator
- Revision of Security package for new EPA/PPA into two parts:
- Tripartite Agreement (Finalized)
- Bifurcated PPA (Commercial Agreement & Connection Agreement) (In Process)
- Incorporated necessary amendments in the Memorandum of Articles and Association of the company
- Filed a case to court for the recovery of outstanding dues from K Electric, pursuant to the ECC and BoD decision

"The spirit of team work and its fostering is the unique hallmark of CPPA which stands to be distinguishable from other public-sector organizations. Synergy through reaching out without barriers is an exemplary feat in making. We at CPPA, stand together to face challenges for a vibrant tomorrow"

Hisham Humayun,
Manager Legal, CPPA

10.5 HUMAN RESOURCES AND ADMINISTRATION

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

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

10.5.1 YEARLY ACHIEVEMENTS

Following is a list of key achievements earned by this department during FY2018:

- Successfully inducted 41 personnel against different vacant positions resulting in an increase of CPPA-G from 157 last year to 198 this year
- Automation of Company Payroll through ERP system resulting in swift processing and disbursement of salaries and claims to the employees
- Operationalization of Human Resource Information System (HRIS) module of ERP system that leads to a decrease in man-hours required earlier for manual processing of the HR data and operations
- Organized several training and development initiatives for the employees of CPPA in which more than 125 participants participated ensuing teambuilding and employee citizenship behavior in CPPA
- Acquired new CPPA office building in Islamabad
- Hired the services of Pakistan Testing Services (PTS) for the whole recruitment cycle including shortlisting and testing of applications thus making the recruitment process more transparent
- Deploying biometric attendance system for marking daily attendance of employees
- Organized a Health Insurance Awareness workshop in collaboration of Jubilee Insurance Ltd. for the employees of CPPA

"HR Management is nothing more than motivating other people to give their best and make them feel good about how they contribute to the whole. At CPPA, my job is to connect the dots between individual roles and goals of the organization. When people see that connection, they get a lot of energy out of work. They feel the importance, dignity, and meaning in their job. Seeing employees of CPPA growing with the organization makes me feel proud about my work"

Dure Nayab,
Assistant Manager HR & Admin, CPPA

10.6 INFORMATION TECHNOLOGY

This department of CPPA is responsible for managing the IT infrastructure and deployment of necessary IT systems, tools and applications as per the IT strategy of the company. The main activities of this department are:

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

10.6.1 YEARLY ACHIEVEMENTS

Following is a list of key achievements earned by this department during FY2018:

- Successful completion and implementation of ERP System Phase-I covering the financial verification of invoices of Power Producers, Billing to DISCOs, Treasury Management, Assets Management, Agency Operations, and other financial processes as well as the automation of the core HR functions
- Commencement of ERP System Phase-II involving all the remaining business processes of the organization, particularly, the Technical verification of Invoices of IPPs, LD calculations, CDP data management, integration with Phase 1, merit order, fuel price reporting, management reporting dashboard etc.
- Initiation of developing a central Data Exchange Portal featuring reliable electronic communication between power sector participants
- Initiation of the Enterprise Content Management (ECM) System for the automation of unstructured data of CPPA
- Deployment of the new Data Center in new office building
- Established operational partnership of CPPA

"It is generally believed that implementing ERP in a public-sector organization is a very uphill task. But here at CPPA, the way the ERP/IT Team, I am part of which, managed the challenging project of ERP implementation and delivered it right on time is exemplary, This has given me a lot of satisfaction to contribute so much in so little time to help grow CPPA to where it is right now through implementation of ERP and other IT initiatives involving automation of core business processes. I hope that the company would have more exciting challenges for me in future ahead"

Muhammad Sajid Khan,
Assistant Manager ERP/IT, CPPA

10.7 POLICY GOVERNANCE AND CORPORATE PLANNING

This department of CPPA provides executive support in a one-on-one working relationship with CEO. The main functions of this department are:

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

10.7.1 YEARLY ACHIEVEMENTS

Following is a list of key achievements earned by this department during FY2018:

- Developed a mechanism for the monitoring of Circular Debt
- Suggested process improvement for effective implementation of Bagasse Tariff through recovery of fixed cost and future savings of approx. PKR 50 billion for 30-years thus covering the risk of CPPA of excess payment for the life of project
- Developing an interface of the medium term dispatch tool (SDDP) with the costing module for yielding Energy Pricing Projections
- Prepared proposal of amending existing bagasse pricing mechanism to NEPRA to ensure prevention of bagasse price hike against the dollar and imported coal price
- Prepared detail structure/proposal to Ministry of Energy for procurement of power under legal and regulatory framework, thus to ensure aligned and coordinated approach of all the entities of the power sector for striking the common goal
- Prepared a concept paper for devising mechanism for the determination of uniform end consumer tariff, in wake of amended NEPRA Act
- Suggested modification in the Merit Order in accordance with the Grid Code in order to align it with the changing regime of take-or-pay to take-and-pay

"I was working with a public sector company before joining CPPA. I found remarkable difference in the work environment of two public sector organizations. CPPA's culture is team oriented, caring and robust. Even the senior most management addressed my queries and concerns"

Mannan-ul-Haq,
Management Trainee Officer (PG&CP), CPPA

10.8 OFFICE OF COMPANY SECRETARY

The Office of the Company Secretary maintains compliance of SECP Act, 2017 and Public-Sector Companies (Corporate Governance) Rules 2013. The other functions of this office are:

- Engagement of External Audit and prepara tion of Directors Report
- Organizing important hi-level meetings for CPPA-G including Annual General Meetings / Extra Ordinary General Meetings (EoGMs) Board meetings and Board Committee meetings, and Commercial Code Review Panel (CCRP) meetings
- Maintaining documentation of above men tioned meetings
- Provide Secretarial support to the General body, Board of Directors, Board Committees and CCRP
- Follow-up implementation on the General body, Board of Directors, Board Committees and CCRP decisions

10.8.1 YEARLY ACHIEVEMENTS

Following is a list of key achievements earned by this office during FY2018:

- Maintained compliance of CPPA-G with the relevant principles of corporate Governance as per Public Sector Companies (Corporate Governance) Rules, 2013
- Organized 12 Board of Director's Meetings
- Organized 45 meetings of different Board Committees
- Maintained documents of all the Board and Board Committee meetings held during the year
- Coordinate with the External Auditors for the competition of Statutory Audit of the Com pany and Compliance Audit Public Sector Companies Corporate Governance Rules, 2013 for the F.Y 2017-18
- Improved Corporate Governance Rules Compliance for FY2018
- Secured exemption of CPPA Employees Gra tuity Fund and Employees Provident Fund

"Since joining CPPA I've learned so many new things. Colleagues taught me about the power sector and shared their knowledge and experience with me. I will always be thankful to the people who believed in me and gave me this opportunity to grow, not only within the company but also as a person. At CPPA I have learned so much and motivated to continuing my career at this exceptional company"

Babar Iqbal,
Assistant Manager,
Office of the Company Secretary, CPPA


BUSINESS
SYSTEMS
PROFILE
1 2 3 4 5 6 7 8

11

ACTIONS & PLANS

11 ACTIONS & PLANS

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

11.1 MARKET DEVELOPMENT

CPPA has been working towards transition of the existing market from the single buyer model to a competitive wholesale power market by 2020. The FY2018 saw a rapid increase in the pace of market development activities. Until now, the company has strived hard not only to build its internal capacity in-terms of people, processes and technologies but also to assist the other power sector entities to become partners in this journey. However, with the expected regulatory approval of the proposed market model, the quantum of market development activities would increase manifolds with the advancement in detailed designing and its implementation in the coming two years.

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

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

During Phase-III, the implementation phase, all entities will implement the initiatives as per the approved timelines in the CTBCM Plan. This phase has also kicked-off in parallel with implementation of certain essential building blocks for any phase of the market to operate effectively.

The overall approach towards developing and implementing a competitive market revolves around People, Processes and Technology. On the people front, the restructuring of the organization is going. In addition, the capacity of the relevant personnel is being enhanced through various innovative market workshops and training programs such as EMP. An Electricity Market Team (EMT) has been formulated which includes the members from the relevant power sector entities to facilitate the transition scheme.

As far as the processes are concerned, work is being carried out on aligning the legal and regulatory framework with the proposed market model, NEPRA act has been amended which includes the provision of a competitive market in Pakistan, commercial code and grid codes are being revised to adopt the suggested changes, IGCEP plan is being prepared for the very first time, DISCOs are being facilitated to generated PMS based demand forecasts etc.

Talking about the Technology, CPPA-G is not only automating its business processes and IT infrastructure but also facilitating NPCC and NTDC to enhance their performance by deploying state of the art generation planning, forecasting and simulation/modeling tools such as unit commitment and short-term forecasting tools for NPCC, medium-term forecasting and generation planning tool for NTDC, market price simulation tools and allied IT equipment and infrastructure.

Next year, as soon as the approval for the CTBCM model and plan is obtained, the detailed design will be finalized (entailing action on 17 group-actions identified under the CTBCM plan), the assistance to market participants will be accelerated through Market Implementation Monitoring Group (MIMG), internal restructuring design of CPPA will be completed, strategic partnerships with one another centrally dispatched competitive market will be established. To commence the wholesale competitive market by mid of 2020 will be an uphill task, but with all power sector entities performing their part as planned, this goal can be achieved within the specified time.

11.2 ORGANIZATIONAL RESTRUCTURING

CPPA-G being a relatively young company requires the configuration of the overall functional structure and organizational hierarchy of the company in the light of the existing operational objectives as well as the future business needs of the company. Therefore, organizational restructuring of the CPPA is being carried out is which is divided into three phases; (i) restructuring from business perspective to align the organization with current business need (ii) restructuring from HR perspective, for inter alignment and optimization of business processes and (iii) restructuring from a future business perspective i.e. to align the company with the proposed new electricity wholesale competitive market. These phases are discussed in the following paragraphs:

PHASE-I: Alignment with Current Business Needs
The Phase-I of the restructuring involved the reorganization of its business structure, in line with the functions of market operator with a focus on existing business needs of the company. This phase was completed last year when the organization underwent a number of changes. During this phase, some departments were revamped while some new units like ERP, Strategy and Market Development (SMD), Policy, Governance & Corporate Planning (PG&CP) were created and became operational by deploying staff.

PHASE-II: Restructuring from HR perspective
The Phase-II of organizational restructuring requires CPPA to align the HR requirements with the operational obligations of each department. This phase remained in progress during the year 2017-18. During the Phase-II of restructuring, the skills, resources and strength of the Technical, IT, HR & Admin and Legal departments were optimized. This phase will remain in continuation for a while until the complete restructuring of Finance, Policy Governance & Corporate Planning (PG&CP) and SMD Departments is carried out from the HR perspective. The plan For Phase-III is being implemented and will be completed by mid of 2019.

PHASE-III: Alignment with Future Business Needs
As soon as CPPA would moves closer towards the implementation of competitive electricity market, in order to avoid conflicts of interest and ensure transparency, CPPA will require a significant restructuring of the organization, the business processes and the supporting IT systems. To ensure a smooth transition into the CTBCM environment, the CPPA will restructure itself into two separate business units representing the Market Operator (MO) and the Special Purpose Supplier (SPS). Another independent service provider, the Independent Auctions Administrator (IAA) has also been proposed.

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

In anticipation of the approval of the market model and the plan, CPPA with its consultants have already initiated the detailed design under this action. The design of the market model calls for the transformation of the current CPPA into two separate entities.

11.3 IT STRATEGY SYSTEM AUTOMATION & INFRASTRUCTURE UPGRADATION

The pattern of emergence of technology and direction of organizational change both are sensitive towards one another. There is a one-to-one relationship between business strategy and IT strategy of an organization and therefore, it is of utmost importance to come up with a matching IT strategy that is fully aligned with the business strategy to successfully accomplish the desired transition.

The strategy formulating; strategy implementing and action taken based on it are always based on information. Information also has to be processed quickly, accurately and consistently through the application of management information system implemented. Information Technology application provides benefits of speed, accuracy and consistency.

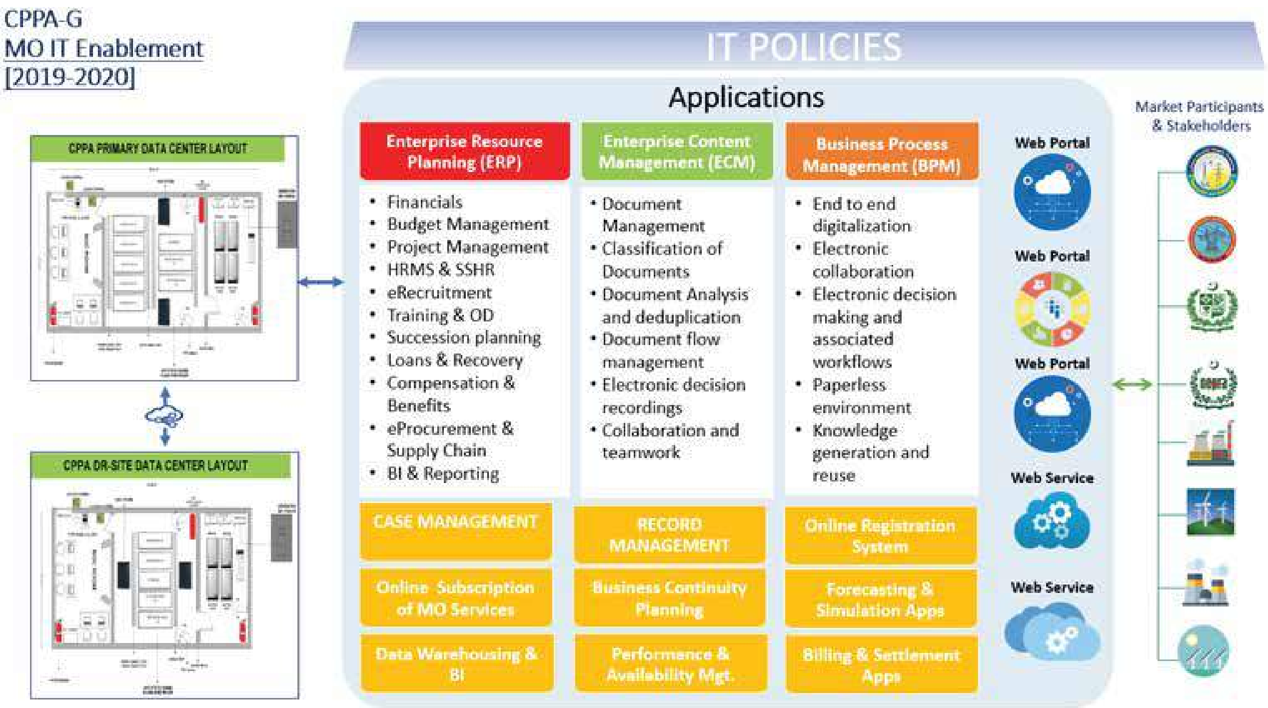
The CPPA's management has the vision to understand information technology and how to use it effectively by integrating management information system with their strategic process and which in turn makes great support to business objectives. At CPPA the information technology based systems are playing a critical role in developing and supporting the accomplishment of business goals and objectives which are formulated through the strategic management process.

Currently at CPPA there are several strategic nature projects in progress targeting to achieve the organization as well as the power sector goals. The Enterprise Resource Planning Phase 1 has been completed by automating the back office processes of CPPA and EPR Phase II is in progress which complete the process automation within CPPA as well as also integrate the business processes of other stakeholders of power sectors by providing them a centralized and secure platform to receive and disseminate the information required for decision making individually and as a whole sector. The Enterprise Content Management system has also been launched to automate the un-structured data of the organization and make it available to the all the concerned on the click and will also be integrated with the ERP systems of the organization to build a centralized repository of the data. This solution will lead towards the record management, case management and business process management solutions.

There are several projects in pipeline to be implemented as per IT Strategy of CPPA which mainly include the establishment of new data center, establishment of disaster recovery data center, information security management, applications for CTBCM, case management, record management, business process management, video conferencing, certification of ISO 27001, data exchange portals, trading system for bilateral contracts, surveillance system, data institutionalization, data warehousing, business intelligence/ data mining, IT services management, power exchange system, e-evasion system, spot market settlement system, portals in system for energy settlement and COBIT certification.

11.4 ESTABLISHMENT OF TIER III DATA CENTER FOR MARKET OPERATOR

As per the approved Restructuring Plan of CPPA, it will require a state-of-the-art information technology infrastructure with all the allied technologies and relevant software / hardware to cater for the data management, handling, storage and security requirements of both the Functional Units i.e. MO and SPS. The existing infrastructure is good enough to cater for the requirements of SPS for next few years but for MO Function, the new IT infrastructure is required.



For the MO Function, following activities are planned:

- Establishment of Primary Data Centre
- Establishment of new Data Center Facility
- New Data Center Equipment (Servers, Stor age, Network equipment etc.)
- Establishment of Disaster Recovery Site
- Establishment of DR Site Facility
- DR Site Equipment (Servers, Storage, Net work equipment etc.)
- Implementation of Software Applications / Licenses

In this regard, the planning work has been completed and the work on establishment of the new data center for Market Operator is going to be started soon.

11.5 BUILDING IN-HOUSE SOFTWARE DEVELOPMENT TEAM

Considering the importance of emerging challenges being faced by the power sector and the growing role of CPPA as Market Operator, the CPPA has decided to build its own in-house software development team. It will be a team of professionals to maximize the customization of in-house software development process as per company needs. Internal specialists master their skills in building the project CPPA started and soon become narrowly focused professionals of the highest level. This reduces bugs and in addition, it means that the support will be straightforward and efficient, and the company will be able to maintain the product independently. For this purpose, the work on building the team has been started and step by step the support of the on-going projects will be taken over by the CPPA's own IT specialists.

EPEX SPOT
EUROPEAN POWER EXCHANGE

EPIAŞ

APEx
Association of Power Exchanges

CPPA
PAKISTAN ELECTRICITY MARKET OPERATOR

GLOBAL STRATEGIC PARTNERSHIPS

LUMS

USAID
FROM THE AMERICAN PEOPLE

ADB

12

STRATEGIC PARTNERSHIPS & COLLABORATIONS

12 STRATEGIC PARTNERSHIPS AND COLLABORATIONS

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

12.1 EPEX SPOT - THE EUROPEAN POWER EXCHNAGE

The European Power Exchange, EPEX SPOT, is the market place for short-term power trading in Germany, France, United Kingdom, the Netherlands, Switzerland, Austria and Belgium via its subsidiary EPEX SPOT Belgium S.A.2. A Memorandum of Understanding (MoU) has been signed between CPPA-G and EPEX SPOT for collaboration in the power market development. This MoU has paved the way for CPPA for building a Strategic Partnership with EPEX SPOT which ultimately would provide a platform for mutual collaboration and learning from the market development experience of the European Power Market. Under this MoU, EPEX SPOT will provide consultation and advice to CPPA on market development front as well as offer learning opportunities for CPPA to build its capacity through trainings, exchange programs, and likewise.

12.2 REPRESENTATION OF PAKISTAN AT SAARC CONFERENCE IN INDIA

SAARC Energy Center Islamabad in collaboration with Indian Energy Exchange (IEX) organized a Market System/Power Exchange in New Delhi, India. The participants from Maldives, Nepal, Pakistan, Sri Lanka, Afghanistan, Bangladesh, Bhutan and India attended the conference. CPPA represented Pakistan on the invitation of SAARC. Representative from CPPA participated as a resource person and delivered a lecture to the conference participants, giving them an overview of the Pakistani Power Sector and Power Market Development.

Through this conference, participants also had a chance to learn about the Indian Power Sector. The electricity sector of India has an installed capacity of 330,800 MW with a gross electricity generation of 1,242 TWh. The sector has an ambitious plan to add 175,000 MW capacity from renewable sources by 2022. The perspective transmission plan for

enhanced Renewable Energy includes transmission strengthening, dynamic reactive compensation, energy storage, smart grid applications, establishment of Renewable Energy Management Centre enabling forecasting of renewable generation and real time monitoring etc. The country exports its generated electricity to Nepal, Bangladesh and Myanmar while imports from Bhutan.

The online portal used by India for electronic bidding is known as DEEP (Discovery of Efficient Electricity Price). DEEP provides a platform for simultaneous bidding processes for various Distribution Licensees and Bidders for Short Term, Medium Term, Long Term, Coal Flexibility and Banking Mechanism. The electricity market of India is undergoing through an evolution process since its inception in 2004, by adopting latest market trends and practices.

12.3 COLLABORATION WITH EPIAS ON IT & MARKET DEVELOPMENT

A delegation from CPPA comprising members from IT and SMD teams visited EPIAS, the Turkish Power Market Operator in Istanbul, Turkey on April 11-13, 2018. The delegation met with the IT Department of EPIAS to analyze the various software applications developed and being used by EPIAS to run the Turkish power market. The delegation also explored the policies, strategies and working mechanism of IT infrastructure, Software Development, Research & Development and Project Management sections of EPIAS.

The team also has detailed discussions on the proposed CTBCM model and plan with EPIAS. The visit was very helpful to understand the evolution and IT enablement of Turkish Power Market which will help CPPA as guidelines for transformation from single buyer of electricity to the Pakistan Power Market Operator.

12.4 APEX ANNUAL CONFERENCE 2017

The APEx Annual Conference 2017 was held in Brussels (Belgium) in October 2018. CPPA represented Pakistan along with representatives from market operators and power exchanges from around the globe like India, Saudi Arabia, UAE, USA, UK, Australia, Brazil, Argentina and Turkey etc.

he conference provided an opportunity to the CPPA to collaborate and engage with similar like entities. Because of this conference, CPPA was able to network with EPEXSPOT (European Power Exchange) which enabled it to enter into an MoU for further collaboration.

Association of Power Exchanges (APEx) was formed to facilitate development and communication of ideas and practices in the operation of global competitive electricity markets. One of its primary intentions is to provide a platform for the sharing of information between its members. CPPA got the membership of APEx in 2017.

12.5 EPIAS - THE MARKET OPERATOR OF TURKEY

CPPA is enjoying an active partnership with EPIAS, the market operator of Turkey. This partnership started last year then when the experts from CPPA, NEPRA, MoE (PD) and NPCC visited EPIAS to meet their counterparts. The relationship between CPPA and EPIAS strengthened further this year when a delegation from Turkey visited Pakistan. The delegation composed of Executive Board of Energy Exchange Istanbul (EPIAS) and the Head of Organized Power Markets Group of Energy Market Regulatory Authority (EMRA). Detailed discussions were held on the proposed market model of Pakistan. CPPA will continue to maintain regular contact with EPIAS for collaboration in areas of mutual interest.

12.6 CPPA - USAID POWER TRADING WORKSHOP IN THAILAND

USAID, on the request of CPPA-G, organized a training workshop in Bangkok, Thailand during April 16-20, 2018 on "Design, Management and Operation of a Power Trading Entity in Pakistan" for power sector entities of Pakistan. The purpose of this workshop was to address the critical issues in Pakistan's emerging energy market with participation from CPPA, MoE (PD) and NEPRA. The course was designed by CPPA and international resources. CPPA not only participated in the workshop as audience but also actively delivered the training sessions, side-by-side with other international trainers.

CPPA presented the proposed market model for Pakistan and discussed the resultant legal, policy and regulatory framework and international experience for the understanding of workshop participants. Some other topics covered by international trainers during the workshop were: basic concepts of different market models, benefits of competition, liberalization of the market economy, types of electricity markets, trading electricity in wholesale market, security of supply, power exchange etc.

CPPA has further requested USAID to continue arranging such forums in future as well in order to keep active interaction with the power sector entities on market development, to network with donor agencies and international trainers and experts, building a strong correlation among participants, discuss the bottlenecks and develop common understanding to resolve the issues to manage the change.

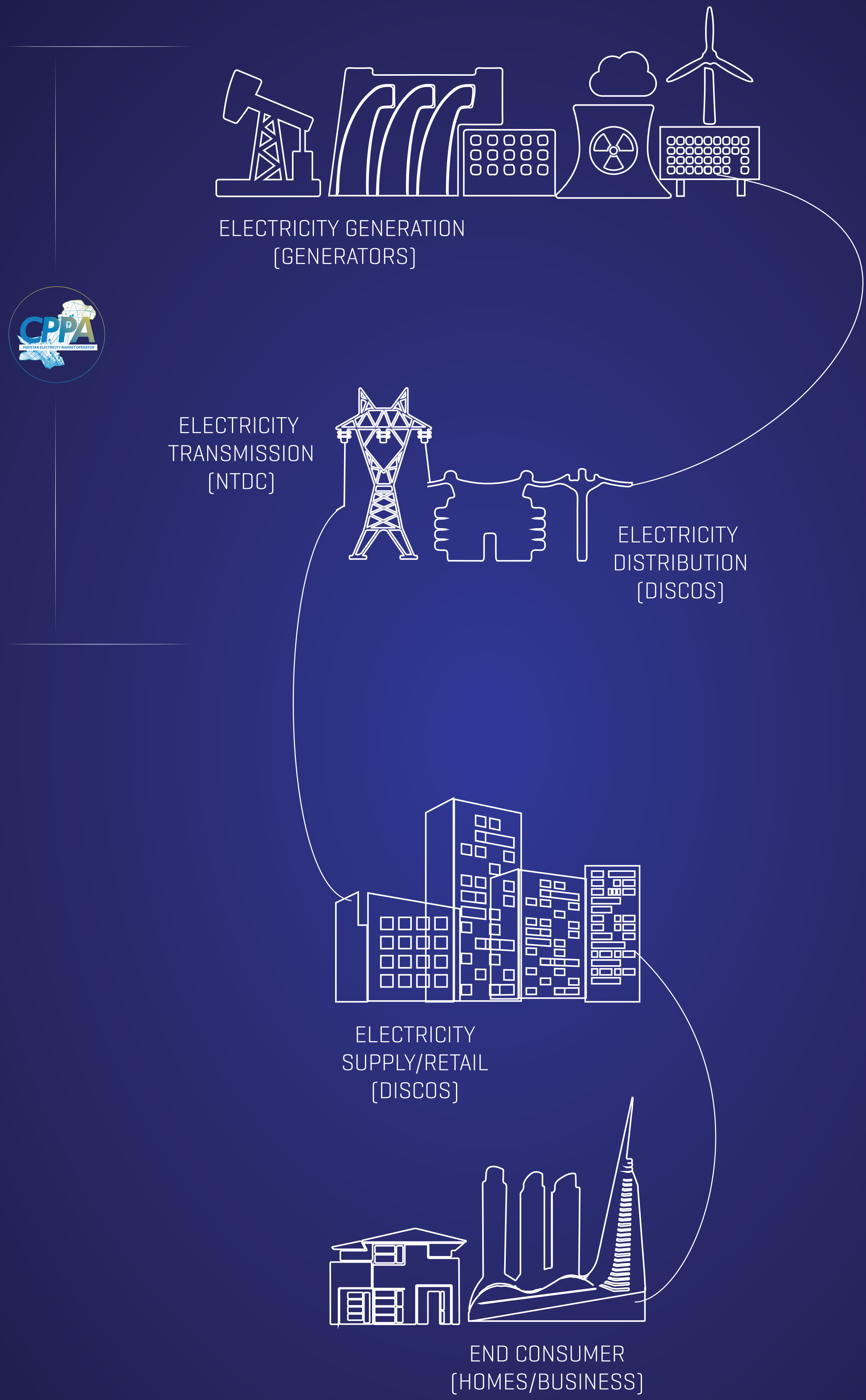
12.7 CPPA AT USAID-REVERSE AUCTION WORKSHOP

USAID in association with United States Energy Association (USEA) organized a workshop on Reverse Power Auction in Bangkok, Thailand during November 13-17, 2017 for power sector entities of Pakistan. CPPA participated in this workshop along with representatives from MoE, NEPRA, Alternate Energy Development Board (AEDB), Private Power Infrastructure Board (PPIB) and Provincial Energy Departments.

The goal of this workshop was to introduce participants to reverse power auctions and to identify best practices and provide some insights regarding the type and design of auctions. Discussions were held on different topics such as reverse auction type and design, regulatory and institutional frameworks, permitting procedures, organizing and awarding auctions, bid and completion guarantees, connection issues and running a reverse auction. Case studies on Brazil and South Africa were also brought into discussion during the workshop.

12.8 LAHORE UNIVERSITY OF MANAGEMENT SCIENCES - LUMS

CPPA has formed strategic alliance with LUMS by signing a non-binding MoU on June 25, 2018. The partnership with LUMS is established for collaboration particularly in the areas of research and development related to wholesale market development and other areas of mutual interest. MoU with LUMS aims to set the ground for a strategic partnership with an academic institution of international repute. This would be fruitful in developing a centralized structure of knowledge in terms of market development for all the market entities. It will also create an opportunity for the Professors and other faculty members of local universities to enhance their knowledge enabling them to run the market development programs independently in future. EMP Program is one of the initiatives which is planned to be launched under this partnership.


ELECTRICITY GENERATION
(GENERATORS)
ELECTRICITY
TRANSMISSION
(NTDC)
ELECTRICITY
DISTRIBUTION
(DISCOS)
ELECTRICITY
SUPPLY/RETAIL
(DISCOS)
END CONSUMER
(HOMES/BUSINESS)

13

THE POWER MARKET

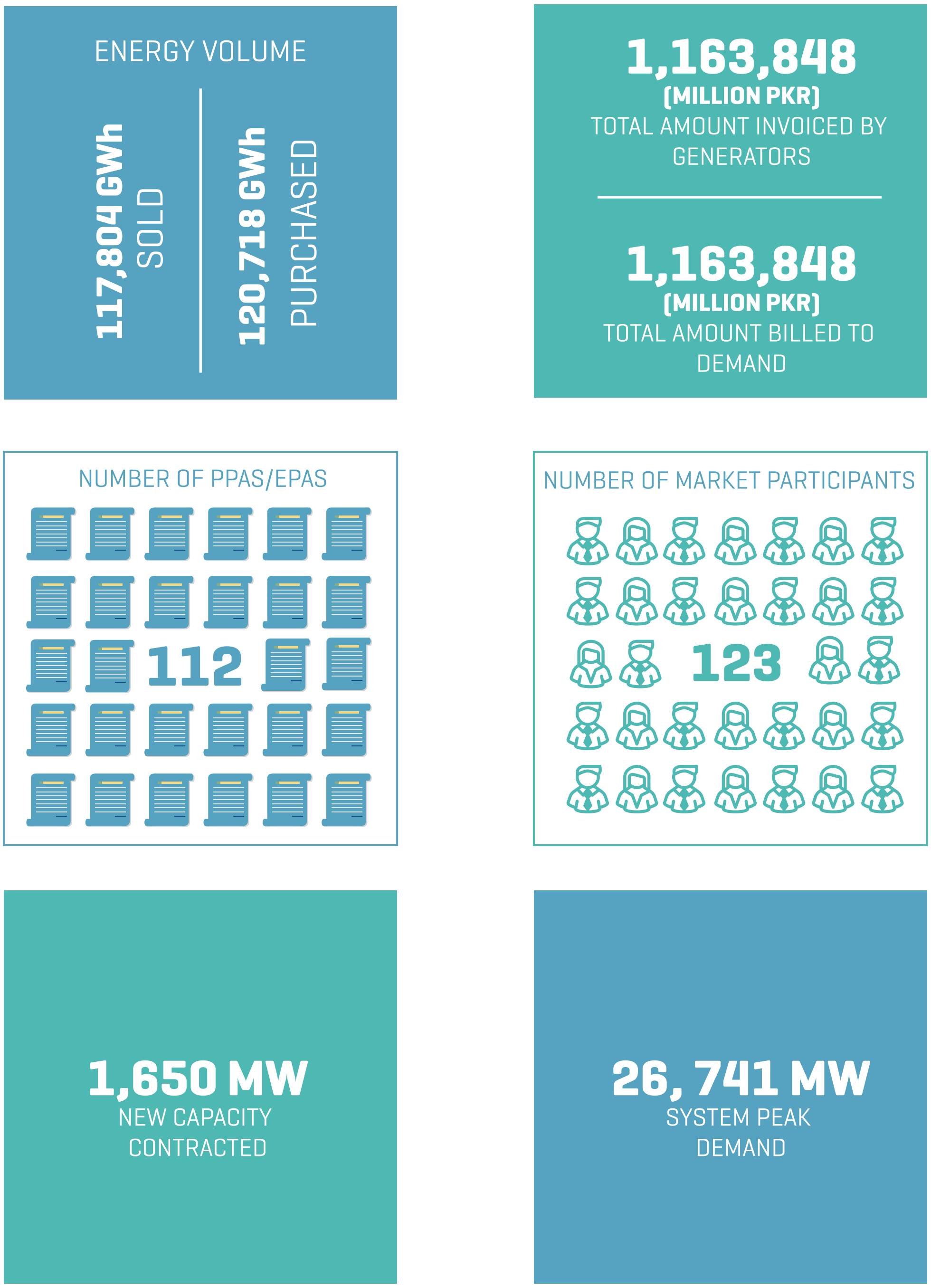
13 THE POWER MARKET

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

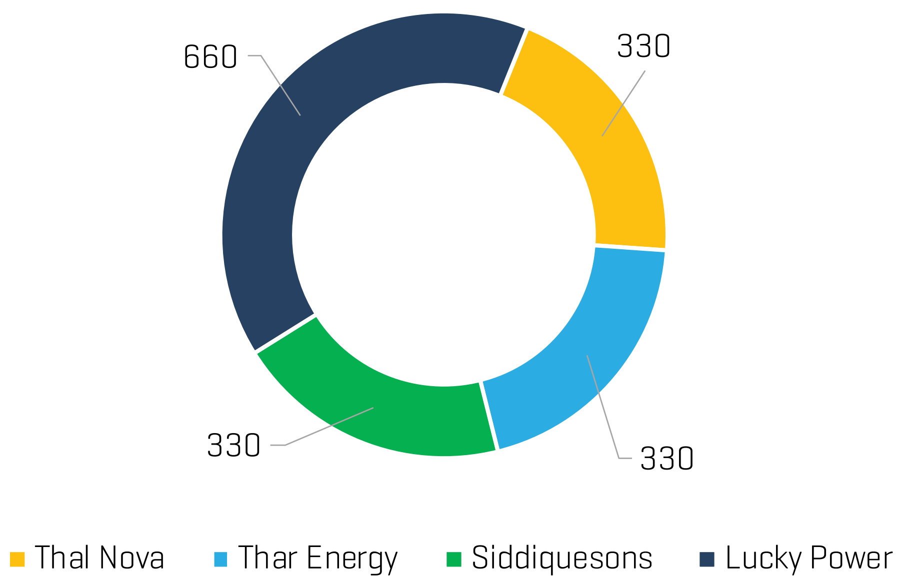
13.1 WHOLESALE MARKET STATISTICS

This sub-section provides the summary and key facts and figures regarding the power market of Pakistan for FY2018 and FY2017.

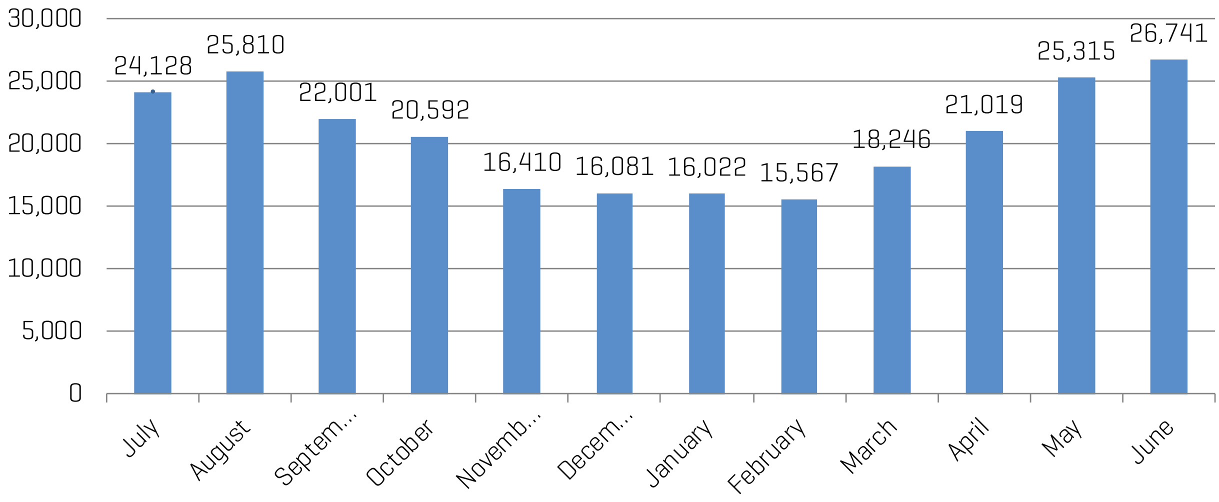
13.1.1 FY2018 IN NUMBERS – WHOLESALE MARKET



NEW CAPACITY CONTRACTED IN FY2018 (MW)

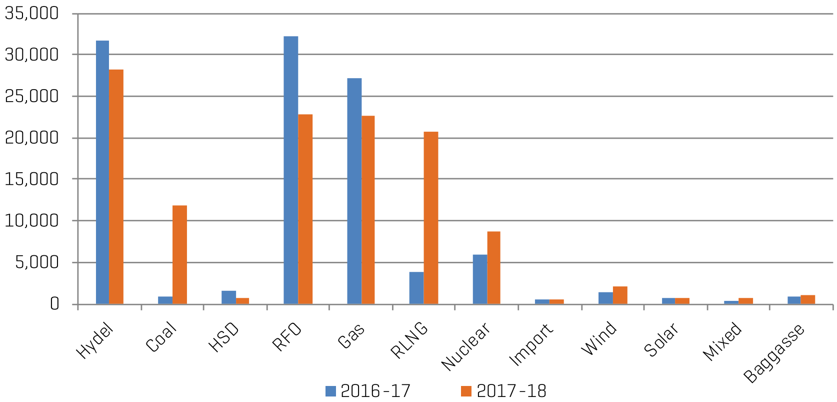


MONTHLY SYSTEM PEAK LOAD PROFILE (MW)
FY 2017-18



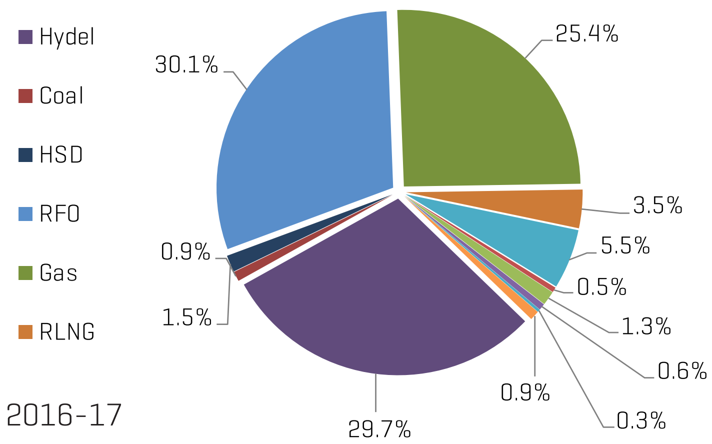
13.1.2 FY2017 & FY2018 – WHOLESALE MARKET STATISTICS

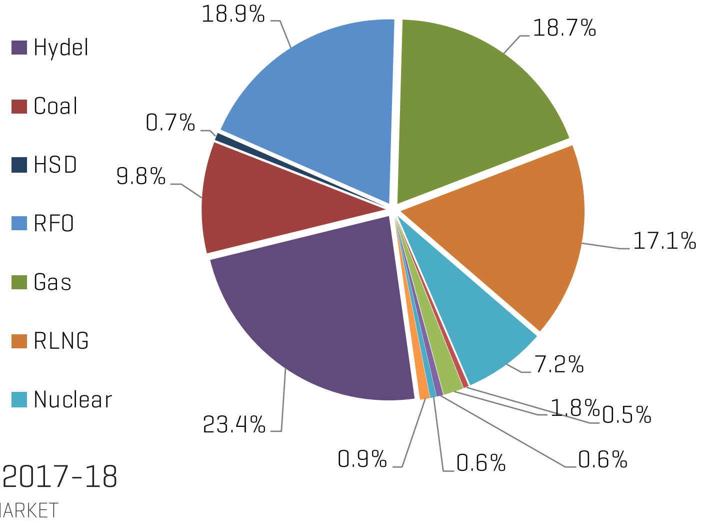
ENERGY VOLUME MIX PROCURED - IN NUMBERS (GWH)



Fuel Type	2016-17	2017-18
Hydel	31,786	28,238
Coal	961	11,786
HSD	1,648	788
RFO	32,180	22,770
Gas	27,143	22,611
RLNG	3,768	20,678
Nuclear	5,868	8,719
Import	496	554
Wind	1,386	2,145
Solar	635	702
Mixed	271	665
Baggasse	928	1,057
Total	107,070	120,718

ENERGY VOLUME MIX PROCURED - IN % AGE

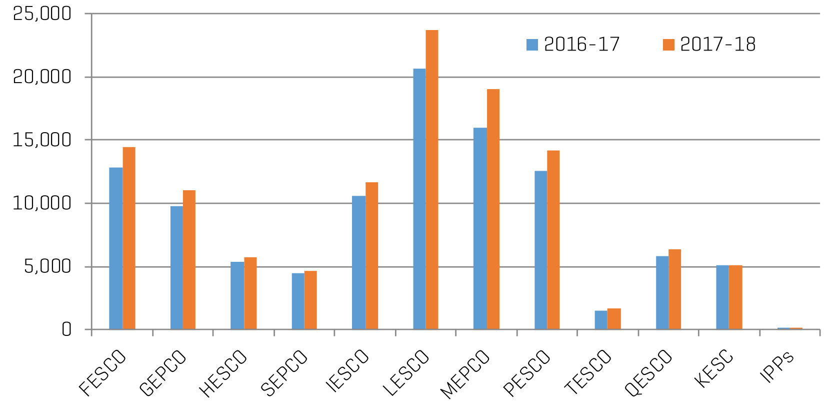




Fuel Type	2016-17	2017-18
Hydel	29.7%	23.4%
Coal	0.9%	9.8%
HSD	1.5%	0.7%
RFO	30.1%	18.9%
Gas	25.4%	18.7%
RLNG	3.5%	17.1%
Nuclear	5.5%	7.2%
Import	0.5%	0.5%
Wind	1.3%	1.8%
Solar	0.6%	0.6%
Mixed	0.3%	0.6%
Baggasse	0.9%	0.9%

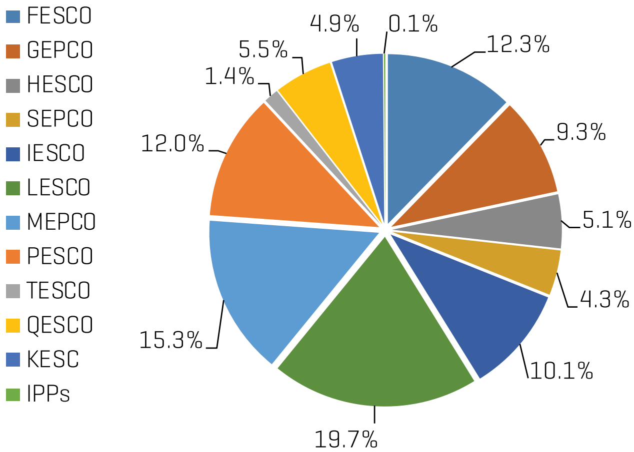
ENERGY VOLUME CONSUMED BY DEMAND - IN NUMBERS (GWH)

Demand	2016-17	2017-18
FESCO	12,858	14,446
GEPCO	9,779	10,987
HESCO	5,359	5,743
SEPCO	4,489	4,679
IESCO	10,583	11,672
LESCO	20,622	23,731
MEPCO	15,952	19,006
PESCO	12,511	14,209
TESCO	1,451	1,696
QESCO	5,789	6,339
KESC	5,077	5,128
IPPs	135	167
Total	104,603	117,804

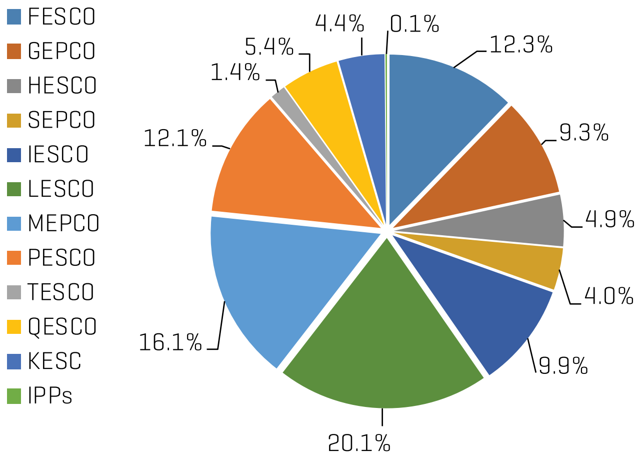


ENERGY VOLUME CONSUMED BY DEMAND - IN % AGE

Demand	2016-17	2017-18
FESCO	12.3%	12.3%
GEPCO	9.3%	9.3%
HESCO	5.1%	4.9%
SEPCO	4.3%	4.0%
IESCO	10.1%	9.9%
LESCO	19.7%	20.1%
MEPCO	15.2%	16.1%
PESCO	12.0%	12.1%
TESCO	1.4%	1.4%
QESCO	5.5%	5.4%
KESC	4.9%	4.4%
IPPs	0.1%	0.1%



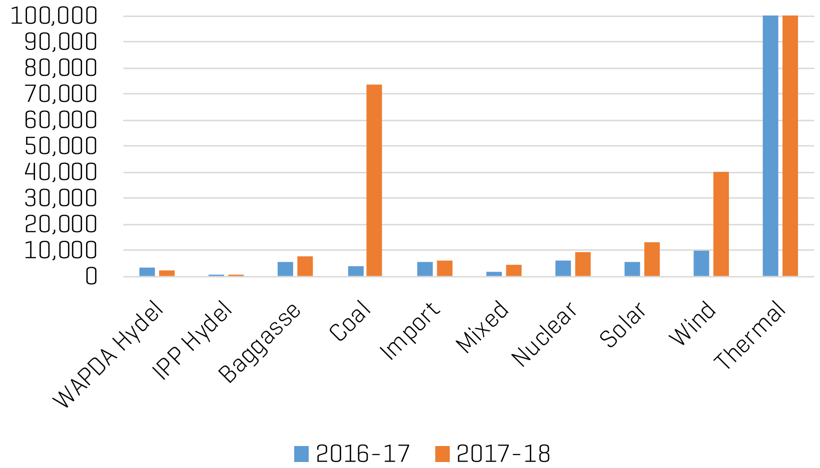
2016-17



2017-18

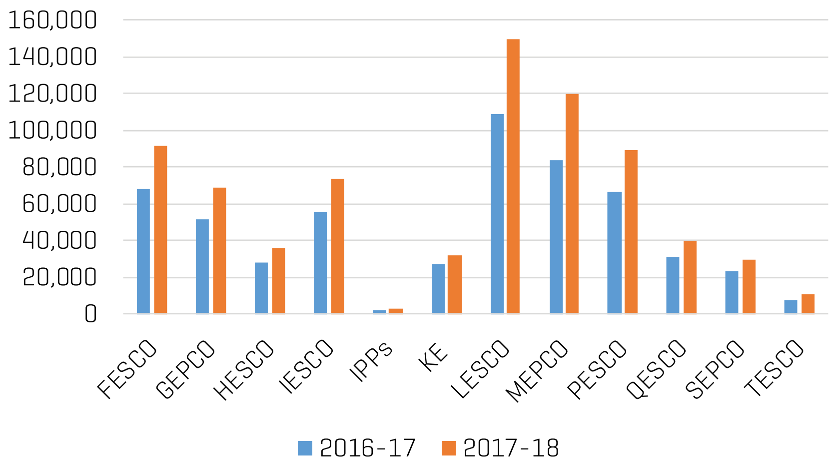
ENERGY INVOICED BY GENERATORS (MILLION PKR)

Fuel Type	2016-17	2017-18
WAPDA Hydel	3,175	2,349
IPP Hydel	514	533
Baggasse	5,571	7,908
Coal	4,186	73,916
Import	5,393	6,358
Mixed	1851	4527.68
Nuclear	6,400	9,135
Thermal	510,204	588,261
Solar	5,341	12,900
Wind	9,700	40,313
Total	552,335	746,200

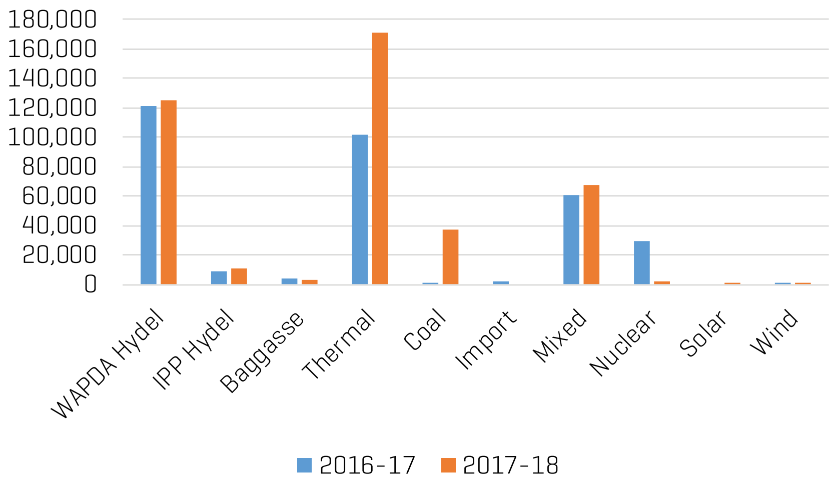


ENERGY BILLED TO DEMAND (MILLION PKR)

Demand	2016-17	2017-18
FESCO	67,760	91,378
GEPCO	51,310	69,311
HESCO	28,033	36,292
IESCO	55,846	73,485
IPPs	2,057	3,146
KE	27,342	32,429
LESCO	108,642	150,027
MEPCO	83,498	120,233
PESCO	66,280	89,609
QESCO	30,924	40,083
SEPCO	23,244	29,479
TESCO	7,861	10,728
Total	552,797	746,200

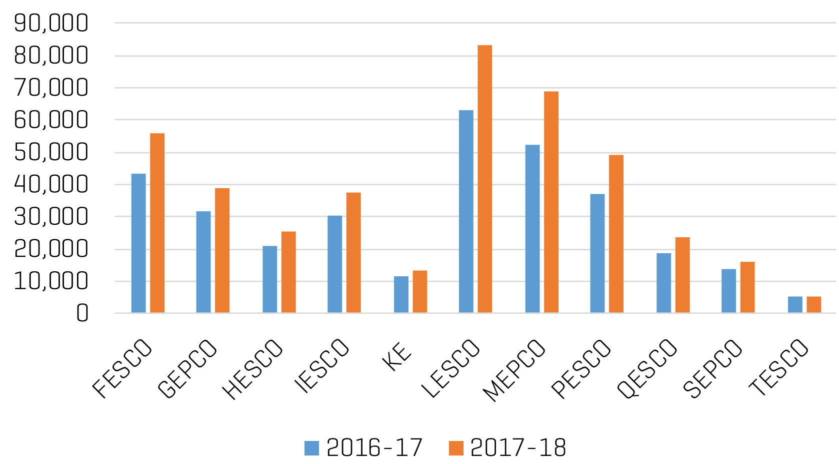


CAPACITY INVOICED BY GENERATORS (MILLION PKR)



Fuel Type	2016-17	2017-18
WAPDA Hydel	121,325	125,596
IPP Hydel	8,539	10,642
Baggasse	3,995	3,100
Thermal	101,772	170,953
Coal	983	37368.8
Import	1,943	0
Mixed	60,555	67,351
Nuclear	29,642	1,815
Solar	0	29
Wind	139	793
Total	328,893	417,648

CAPACITY BILLED TO DEMAND (MILLION PKR)

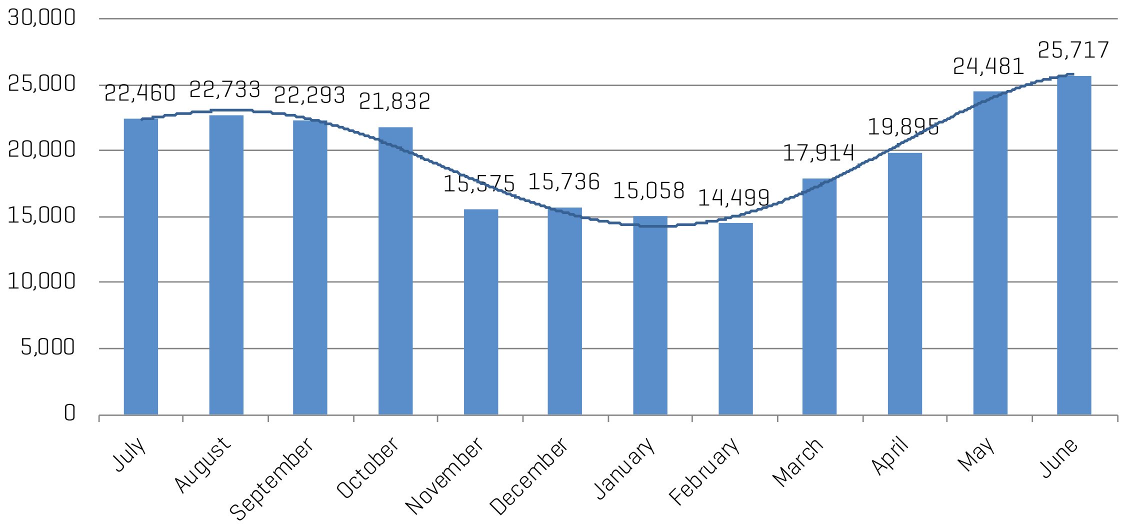


Demand	2016-17	2017-18
FESCO	43,248	55,918
GEPCO	31,868	38,976
HESCO	21,023	25,307
IESCO	30,410	37,670
KE	11,713	13,476
LESCO	62,975	83,087
MEPCO	52,483	69,109
PESCO	37,109	48,987
QESCO	18,903	23,669
SEPCO	13,712	16,110
TESCO	5,334	5,339
Total	328,778	417,648

MONTHLY SYSTEM PEAK LOAD PROFILE (MW)

2016-17	
Month	Demand(MW)
July	22,460
August	22,733
September	22,293
October	21,832
November	15,575
December	15,736
January	15,058
February	14,499
March	17,914
April	19,895
May	24,481
June	25,717

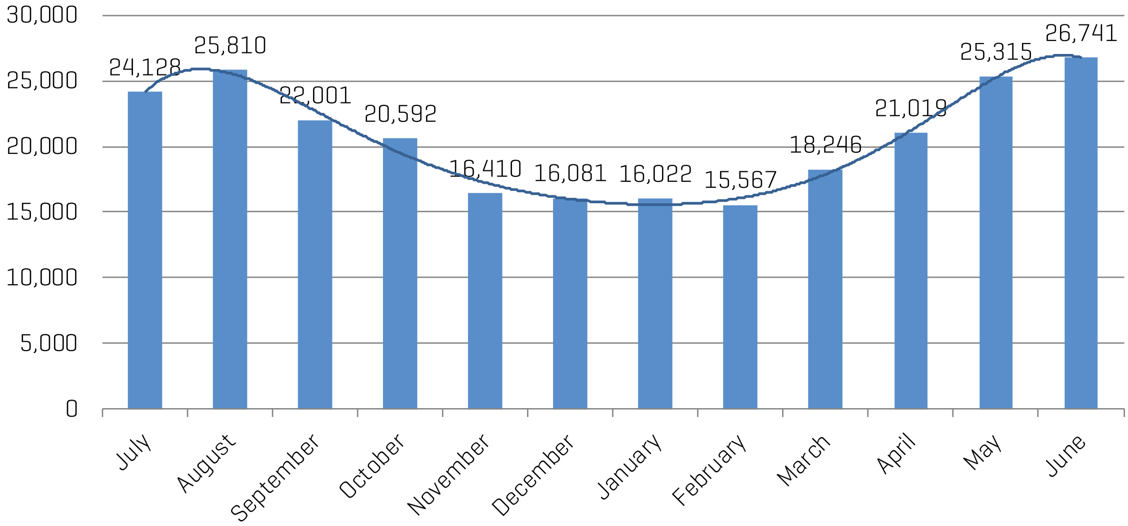
MONTHLY SYSTEM PEAK LOAD PROFILE (MW)
FY 2016-17



MONTHLY SYSTEM PEAK LOAD PROFILE (MW)

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

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



13.2 MARKET PARTICIPANTS

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

List of Generation Participants		
Sr. No.	**Name**	**Installed Capacity (MW)**
Baggase		
1	Chiniot Power	57
2	Etihad Power Gen	67
3	Fatima Energy Limited	118
4	JDW-II	26
5	JDW-III	26
6	Layyah Sugar Mills	41
7	RYKML	30
8	Almoiz Industries Limited	36
9	Etihad Power Generation Limited.	74
10	Chanar Energy Limited	22
11	Hamza Sugar Mills	30
Coal		
1	China Power Hub Generation Company Ltd	1,320
2	Engro Powergen Thar (Pvt) Ltd	660
3	Lucky Electric Power Company	660
4	Port Qasim Electric Power Company	1,320
5	Sahiwal Coal Project	1,320
6	GENCO-IV Lakhra (COAL)	30
6	Siddiqsons Energy Ltd	330
7	Tha INova Power Thar	330
8	Thar Coal Block-1 Power Generation Power Project	1,320
9	Thar Energy Limited at Thar	330
Hydel		
1	Allai Khwar	121
2	Chashma	184
3	Dubair Khwar	130
4	Ghazi Barotha	1,450
5	Golen Gol	106
6	Jagran (AJK)	30
7	Jinnah	96
8	Karot Power Company Pvt Ltd	720

9	**Khan Khwar**	**72**
10	Kohala (China International Water & Electric Company)	1,100
11	Laraib New Bong Esc.	84
12	Malakand-III	81
13	Mangla	1,000
14	Mira Power Ltd	102
15	Neelum Jehlum	969
16	S.K Hydro Pvt Ltd	870
17	Small Hyrdo <25MW	128
18	Tarbela	3,478
19	Tarbela 4th Extension	1,410
20	Tarbela 5th Extension	1,410
21	Warsak	243
22	Patrind	147
Nuclear		
1	CHASHMA NUCLEAR 1	301
2	CHASHMA NUCLEAR 2	315
3	Chashma Nuclear III	340
4	Chashma Nuclear IV	340
RFO/Gas/HSD/RLNG		
1	AES LALPIR	350
2	AES PAK GEN.	350
3	ALTERN POWER	28
4	ATLAS POWER LIMITED	214
5	ATTOCK GENEERATION LIMITED	156
6	NPPMCL-Balloki RLNG	1,223
7	QATPL-Bhikki RLNG	1,180
8	DAVIS ENERGY LIMITED	10
9	Engro Power (GAS)	213
10	FAUJI KABIRWALA	151
11	FOUNDATION POWER CO DHARKI LIMITED	168
12	GENCO-I	830
13	GENCO-II	1,337
14	GENCO-III	1,410
15	GENCO-V	425
16	HABIBULLAH COASTAL	129
17	HALMORE POWER GENERATION CO LIMITED (GAS)	207
18	NPPMCL-Havelli Bahadur Shah RLNG	1,223
19	HUBCO	1,202
20	HUBCO-Narowal	214
21	KAPCO	1,345
22	KOHINOOR ENERGY LTD	124
23	LIBERTY POWER PROJECT	213

24	**LIBERTY POWER TECH LIMITED**	**196**
25	NISHAT CHUNIAN POWER LIMITED	196
26	Nishat Power	195
27	Orient Power (GAS)	213
28	POWER GENERATION LTD	116
29	ROUSCH	395
30	SABA POWER COMPANY LTD	126
31	SAIF POWER LIMITED (GAS)	204
32	SAPPHIRE ELECTRIC COMPANY LIMITED (GAS)	205
33	UCH	549
34	UCH-II	375
Solar		
1	AJ Power (Private) Limited	12
2	Harappa Solar (Pvt) Limited- revised	18
3	Appolo solar Development Pakistan – revised	100
4	Best Green Energy Pakistan Limited – revised	100
5	Crest Energy Pakistan Limited - revised	100
6	Quaid-e-Azam Solar Power (Pvt) Ltd. - revised	100
Wind		
1	FFC ENERGY LIMITED	50
2	Foundation Wind Energy-I Private Limited	50
3	Foundation Wind Energy-II Private Limited	50
4	Gul Ahmed Wind Power Ltd.	50
5	Hartford Alternative Energy	50
6	Hawa Energy (Pvt.) Ltd.	50
7	Hydro China Dawood Power (Pvt.) Ltd.	50
8	Jhimpir Power (Pvt.) Ltd.	50
9	Master Wind Energy Ltd.	50
10	Metro Power Company Limited	50
11	Sachal Energy	50
12	Sapphire Wind Power Company Ltd.	53
13	Tapal Wind Energy (Pvt.) Ltd.	30
14	Tenaga Generasi Ltd.	50
15	Three Gorges 1st Wind Farm Pakistan Limited	49.5
16	UEP Wind Power (Pvt.) Ltd.	99
17	Yunus Energy Ltd.	50
18	ZORLU ENERJI PAKISTAN LIMITED	56
19	Zephyr Power Private Limited	50
20	Tricon Boston A	50
21	Tricon Boston B	50
22	Tricon Boston C	50
23	Artistic Energy	49.3
24	Three Gorges 2nd Wind Farm Pakistan Limited	49.5
25	Three Gorges 3rd Wind Farm Pakistan Limited	49.5

List of Demand Participants		
Sr. No.	**Name**	**Maximum Billed Demand (MW)**
1	Faisalabad Electric Supply Company (FESCO)	3,590
2	Gujranwala Electric Power Company (GEPCO)	2,804
3	Hyderabad Electric Supply Company (HESCO)	1,788
4	Islamabad Electric Supply Company (IESCO)	2,495
5	Lahore Electric Supply Company (LESCO)	5,117
6	Multan Electric Power Company (MEPCO)	4,510
7	Peshawar Electric Supply Company (PESCO)	3,046
8	Quetta Electric Supply Company (QESCO)	1,404
9	Sukkur Electric Power Company (SEPCO)	1,107
10	Tribal Areas Electric Supply Company (TESCO)	368
11	K-Electric (KE)	820
Total		27,050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AUDITOR'S REPORT & FINANCIAL STATEMENTS

Riaz Ahmad & Company
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the annexed financial statements of Central Power Purchasing Agency (Guarantee) Limited ('the Company'), which comprise the statement of financial position as at 30 June 2018, the income and expenditure statement, the statement of comprehensive income, the statement of changes in general fund, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of matters described in the Basis for Qualified Opinion section of our report, the statement of financial position, the income and expenditure statement, the statement of comprehensive income, the statement of changes in general fund and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of the deficit, other comprehensive loss, the changes in general fund and its cash flows for the year then ended.

Basis for Qualified Opinion

(i) As explained in Note 7.2 of the accompanying financial statements, government-owned distribution companies (DISCOs) and K-Electric do not acknowledge / recognize delayed payment surcharge paid by the Company and NTDCL, in periods prior to the transfer of Market Operations Undertaking under the Business Transfer Agreement (BTA) to the Company, to power producers passed through to DISCOs and K-Electric, on the grounds that the same is disallowed to them by NEPRA in their tariff determination. As at 30 June 2018, DISCOs and K-Electric have not recognized delayed payment surcharge amounting to Rupees 110.630 billion in their books of account and accordingly DISCOs have not confirmed the same in their balance confirmations. The Company has requested NEPRA for reconsideration of tariff determination of DISCOs. Hence, pending the reconsideration of tariff determination, no adjustments in these financial statements have been made.

Riaz Ahmad & Company
Chartered Accountants

(ii) As explained in Note 7.1 of the accompanying financial statements, Power Purchase Agency Agreement with K-Electric have not been signed till the date of authorization for issue of these financial statements. However, the Company has accounted for the transactions relating to K-Electric in the accompanying financial statements as an agent of K-Electric based on assessment by the management that it shall be successful in signing the Power Purchase Agency Agreement with K-Electric with effect from back date. If the Power Purchase Agency Agreement with K-Electric is not signed with back date effect, accounting for the transactions relating to K-Electric will not be done by the Company as its agent and will be routed through income and expenditure statement.

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

Emphasis of Matter

We draw attention to the matters discussed in note 6, note 10.1, note 14.1.1.1 and note 16 to the accompanying financial statements, the ultimate outcome of which cannot presently be determined, and hence, pending the resolution thereof, no adjustments in these financial statements have been made. Our opinion is not qualified in respect of the matters discussed above.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Riaz Ahmad & Company
Chartered Accountants

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Riaz Ahmad & Company
Chartered Accountants

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

Report on Other Legal and Regulatory Requirements

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

a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the income and expenditure statement, the statement of comprehensive income, the statement of changes in general fund and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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

Riaz Ahmad & Co.

RIAZ AHMAD & COMPANY
Chartered Accountants

Islamabad

Date: 12 OCT 2018

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	NOTE	2018 Rupees	2017 Rupees
ASSETS			
Non-current assets			
Operating fixed assets	3	60,126,458	25,251,746
Intangible asset	4	32,837,541	13,534,921
Receivable from NTDCL through loan notes	5	42,412,168,630	42,412,168,630
Long term advance - HUBCO	6	802,000,000	802,000,000
		43,307,132,629	43,252,955,297
Current assets			
Due from principals	7	1,289,402,924,442	813,836,481,404
Market operation fee receivable		-	94,778,780
Advances and prepayments	8	5,554,921,989	53,201,491,976
Accrued mark-up	9	-	-
Other receivables	10	58,049,360,182	74,058,353,159
Taxation recoverable	15	-	44,195,058
Cash and bank balances	11	16,317,685,827	15,174,113,841
		1,369,324,892,440	956,409,414,218
Total assets		1,412,632,025,069	999,662,369,515
FUND AND LIABILITIES			
FUND			
General fund		24,100,803	34,563,144
LIABILITIES			
Non-current liabilities			
Net worth	12	7,163,232,938	7,163,232,938
Energy payable swap	13	577,639,647,206	431,474,092,020
Payable to WAPDA for HUBCO	6	802,000,000	802,000,000
		585,604,880,144	439,439,324,958
Current liabilities			
Energy and other payables	14	826,988,251,066	560,188,481,413
Provision for taxation	15	14,793,056	-
		827,003,044,122	560,188,481,413
Total liabilities		1,412,607,924,266	999,627,806,371
Contingencies and commitments	16		
Total fund and liabilities		1,412,632,025,069	999,662,369,515

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

CHIEF EXECUTIVE OFFICER **DIRECTOR** **CHIEF FINANCIAL OFFICER**

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED
INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 Rupees	2017 Rupees
INCOME			
Market operation fee	17	399,123,005	619,483,491
Profit on revenue collection accounts		241,381,361	202,751,813
		640,504,366	822,235,304
EXPENDITURE			
Operating expenses	18	(657,246,534)	(546,041,443)
Finance cost - bank charges		(1,250,326)	(2,828,849)
		(658,496,860)	(548,870,292)
(DEFICIT) / SURPLUS BEFORE TAXATION		(17,992,494)	273,365,012
TAXATION	19		
Current		(31,929,840)	(137,191,081)
Prior		31,976,103	-
		46,263	(137,191,081)
(DEFICIT) / SURPLUS AFTER TAXATION		(17,946,231)	136,173,931

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

CHIEF EXECUTIVE OFFICER **DIRECTOR** **CHIEF FINANCIAL OFFICER**

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	2018 Rupees	2017 Rupees
(DEFICIT) / SURPLUS AFTER TAXATION	(17,946,231)	136,173,931
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to income or expenditure	7,483,890	-
Items that may be reclassified subsequently to income or expenditure	-	-
	7,483,890	-
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	(10,462,341)	136,173,931

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

CHIEF EXECUTIVE OFFICER **DIRECTOR** **CHIEF FINANCIAL OFFICER**

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	2018 Rupees	2017 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit) / surplus before taxation	(17,992,494)	273,365,012
Adjustments for non-cash charges and other items:		
Depreciation	12,482,440	8,519,906
Amortization	3,305,173	-
Provision for gratuity	4,858,909	8,775,086
Profit on bank deposits	(241,381,361)	(202,751,813)
Finance cost - bank charges	1,250,326	2,828,849
Cash flows from operating activities before working capital changes	(237,477,007)	90,737,040
Working capital changes		
(Increase) / decrease in current assets		
Due from principals	(475,382,310,819)	(386,966,034,954)
Market operation fee receivable	94,778,780	(94,778,780)
Advance to NTDCL	-	10,332,586,892
Advances	47,650,460,766	(43,145,156,968)
Other receivables	16,008,992,977	5,216,619,655
Increase / (decrease) in liabilities		
Energy and other payables	266,808,544,739	(16,218,639,378)
Energy payable swap	146,165,555,186	431,474,092,020
	1,346,021,629	598,688,487
Cash generated from operations	1,108,544,622	689,425,527
Income tax paid	(125,097,842)	(212,600,841)
Gratuity paid	(10,040,884)	-
Finance cost paid	(1,250,326)	(2,828,849)
Profit on bank deposit received	241,381,361	202,751,813
Net cash generated from operating activities	1,213,536,931	676,747,650
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on operating fixed assets	(47,357,152)	(23,590,102)
Intangible asset purchased	(22,607,793)	(13,534,921)
Net cash used in investing activities	(69,964,945)	(37,125,023)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net increase in cash and cash equivalents	1,143,571,986	639,622,627
Cash and cash equivalents at the beginning of the year	15,174,113,841	14,534,491,214
Cash and cash equivalents at the end of the year	16,317,685,827	15,174,113,841

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

CHIEF EXECUTIVE OFFICER **DIRECTOR** **CHIEF FINANCIAL OFFICER**

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN GENERAL FUND
FOR THE YEAR ENDED 30 JUNE 2018

	GENERAL FUND
	Rupees
Balance as at 30 June 2016	(101,610,787)
Surplus for the year ended 30 June 2017	136,173,931
Other comprehensive income for the year ended 30 June 2017	-
Total comprehensive income for the year ended 30 June 2017	136,173,931
Balance as at 30 June 2017	34,563,144
Deficit for the year ended 30 June 2018	(17,946,231)
Other comprehensive income for the year ended 30 June 2018	7,483,890
Total comprehensive loss for the year ended 30 June 2018	(10,462,341)
Balance as at 30 June 2018	24,100,803

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

CHIEF EXECUTIVE OFFICER **DIRECTOR** **CHIEF FINANCIAL OFFICER**

CENTRAL POWER PURCHASING AGENCY (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1. THE COMPANY AND ITS OPERATIONS

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

To enable its function as market operator, the Company has signed a Business Transfer Agreement (BTA) dated 03 June 2015 with National Transmission and Despatch Company Limited (NTDCL), a separate government owned company. NTDCL has transferred its functions, operations, assets and liabilities related to CPPA and Contract Registrar and Power Exchange Administrator (CRPEA) to the Company (collectively referred to as Market Operations Undertaking). Pursuant to the commencement of National Electric Power Regulatory Authority (Market Operator Registration, Standards and Procedure) Rules, 2015 notified vide SRO 541(I)/2015 dated 28 May 2015, the Company is deemed to be authorized and registered as the market operator under the aforesaid rules to commence and conduct the market operations for a period of two years. The Company has submitted application for registration in accordance with the provisions of these rules, whereas the period of two years is further extended till June 2019.

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

(a) To acquire, take over or assume the functions and business of settlement and development of competitive power market from NTDCL and to carry on these functions and business;

(b) Procurement of electric power on behalf of the DISCOs, including import of power from other countries;

(c) Generation invoice verification on the basis of meter reading or dispatch scheduling report and term of the respective Power Purchase Agreements;

(d) Billing to the DISCOs based on the meter readings at Common Delivery Points as per the procedure defined in the commercial code;

(e) Collection from the DISCOs and settlement to the market participants as per the commercial code; and

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

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

a) Under Clause 8.8.2 of the Commercial Code;

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

b) Under Article 3.1.7 of the PPAAs;

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

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

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

Assets transferred to the Company	**Rupees**
Property and equipment, net of accumulated depreciation	4,136,958
Trade receivables	316,074,534,716
Advances, deposits and prepayments	2,926,481,710
Advances to suppliers and contractors	2,445,463
Accrued interest	7,570,720,320
Other receivable from associated companies	802,000,726
Current Account IOT (Net receivable)	128,046,147,321
Government loan mark-ups receivable adjustments in DISCOs	68,551,592,698
K-Electric differential of marginal cost (payable by GOP)	6,400,000,000
Events after the statement of financial position date	11,291,401,024
Other receivable	65,493,053,684
Cash and bank balances	6,339,069,552
	613,501,584,172

Liabilities transferred to the Company

Net worth	7,163,233,336
Trade payables	480,873,217,890
Miscellaneous accounts payable	874,326,840
Provision for KESC Accrued Interest	7,559,331,920
Current Account IOT (Net payable)	159,443,642,816
	655,913,752,802
Loan note receivable from NTDCL	**42,412,168,630**

In meeting held between the Company and NTDCL on 26 January 2017, both parties agreed that a net liability of Rupees 42.412 billion is payable by NTDCL to the Company.

The settlement of this transaction through loan notes would be treated as full and final payment of the entire consideration in lieu of transfer of Market Operations Undertaking. However, as per BTA, any assets, receivable or liability relating to Market Operations not known to NTDCL and discovered by either party after the date of closing but within a period of two years (extended by further two years subsequently by both NTDCL and the Company), shall be immediately transferred to the Company. In case any assets, receivable or liability relating to Market Operations are discovered and transferred, it is expressly agreed between the parties that the purchase price of Rupees 42,412,168,630 shall accordingly be adjusted. The parties agree and acknowledge that the purchase price of Rupees 42,412,168,630 has been calculated on the basis of the actual book value of the Market Operations Undertaking (excluding the transferred employees). If, at any time, it is determined by both parties that the purchase price of Rupees 42,412,168,630 is required to be revised on account of change in book value, or due to prior miscalculation of the book value, of the Market Operations Undertaking (excluding the transferred employees), then the parties shall in good faith re-calculate the purchase price.

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

1.2 Summary of significant transactions and events affecting the Company's financial position and performance

For a detailed discussion about the Company's financial position and performance, please refer to Director's report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

a) Statement of compliance

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

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;

- Accounting Standard for Not for Profit Organizations (Accounting Standard for NPOs) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and

- Provisions of and directives issued under the Companies Act, 2017.

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

b) Preparation of financial statements under the Companies Act, 2017

The Fifth Schedule to the Companies Act, 2017 became applicable to the Company for the first time for the preparation of these financial statements. The Companies Act, 2017 (including its Fifth Schedule) forms an integral part of the statutory financial reporting framework applicable to the Company and amongst others, prescribes the nature and content of disclosures in relation to various elements of the financial statements. Additional disclosures include but are not limited to, change in threshold for identification of executives (refer note 22), etc.

c) Accounting convention

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

d) Critical accounting estimates and judgments

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

Useful lives, patterns of economic benefits and impairments

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

Taxation

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

Defined benefit plan

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

e) Amendments to published approved accounting standards that are effective in current year and are relevant to the Company

The following amendments to published approved accounting standards are mandatory for the Company's accounting periods beginning on or after 01 July 2017:

IAS 7 (Amendments), 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January 2017). Amendments have been made to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The aforesaid amendments will result in certain additional disclosures in the Company's financial statements.

IAS 12 (Amendments), 'Income Taxes' (effective for annual periods beginning on or after 01 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments have no significant impact on Company's financial statements.

The application of the above amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

There are amendments to published standards that are mandatory for accounting periods beginning on or after 01 July 2017 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

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

Following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2018 or later periods:

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

IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contracts; and recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 replaces IAS 11 'Construction Contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for Construction of Real Estate', IFRIC 18 'Transfer of Assets from Customers' and SIC 31' Revenue-Barter Transactions Involving Advertising Services. The aforesaid standard is not expected to have a material impact on the Company's financial statements.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018). IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The interpretation is not expected to have a material impact on the Company's financial statements.

IFRS 15 (Amendments), 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). Amendments clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The aforesaid amendments are not expected to have a material impact on the Company's financial statements.

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

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

IAS 19 (Amendments) 'Employee Benefits' (effective for annual periods beginning on or after 01 January 2019) contains amendments regarding plan amendments, curtailments or settlements.

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

On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework. The new Framework: reintroduces the terms stewardship and prudence; introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument; removes from the asset and liability definitions references to the expected flow of economic benefits–this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement; discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability; states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use statement of comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability; and discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements. The Framework is not an IFRS standard and does not override any standard, so nothing will change in the short term. The revised Framework will be used in future standard-setting decisions, but no changes will be made to current IFRS. Preparers might also use the Framework to assist them in developing accounting policies where an issue is not addressed by an IFRS. It is effective for annual periods beginning on or after 1 January 2020 for preparers that develop an accounting policy based on the Framework.

h) Standard and amendments to published standards that are not yet effective and not considered relevant to the Company

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

2.2 Provisions and contingencies

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

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

2.3 Taxation

Current

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

Deferred

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

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

Provision for deferred income tax and numeric tax reconcilliation is not required as the Company is chargeable to minimum tax.

2.4 Foreign currencies

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

2.5 Operating fixed assets

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

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

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

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

2.6 Impairment

a) Financial assets

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

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

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

b) Non-financial assets

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

2.7 Loans and advances

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

2.8 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, cash at bank and short term highly liquid investments, that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value.

2.9 Revenue recognition

In determining that the Company is acting as an agent of DISCOs and K-Electric, the Company has considered the guidance contained in IAS 18 'Revenue'. Paragraph 8 of IAS 18 states that 'in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increase in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.'

The Company is acting as an agent as it does not have exposure to the significant risks and rewards associated with the sale of electricity. One feature that indicates that the Company is acting as an agent is that the amount the Company earns is predetermined i.e. market operator fee as determined by National Electric Power Regulatory Authority (NEPRA).

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

Market operator fee is recognized as per determination of National Electric Power Regulatory Authority (NEPRA). Profit on deposits with banks is recognized on time proportion basis taking into account the amounts outstanding and rates applicable thereon.

2.10 Due from principals and other receivables

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

2.11 Energy and other payables

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

2.12 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for 'financial instrument at fair value through profit or loss' which is measured initially at fair value.

Financial assets are de-recognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

2.13 Off setting

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

2.14 Geographical segment

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

2.15 Employee benefits

Provident fund

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

Gratuity fund

The Company operates approved funded gratuity scheme covering all of its employees who have completed the minimum qualifying period of service as defined under the scheme. The gratuity scheme is managed by trustees. Previously, the Company was providing for its liability for staff gratuity on the basis of one month salary for each completed year of service at the statement of financial position date. From the current year, the liability of staff gratuity is based on actuarial valuation carried out as at 30 June 2018 using Project Unit Credit Method, related details of which are given in Note 8.2 to the financial statements. Actuarial valuation determined an asset of Rupees 1,237,580 against a provision of Rupees 8,775,086 as at 30 June 2017. Excess of asset against provision as determined by actuary of Rupees 10,012,666 has been recognized during the year in the statement of comprehensive income and comparative figures have not been restated due to immaterial impact.

2.16 Intangible assets

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

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

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

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

3 OPERATING FIXED ASSETS

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

	Operating fixed assets				
	IT and networking equipment	Furniture and fixture	Vehicles	Office equipment	Total
	RUPEES				
At 30 June 2016					
Cost	17,100,318	935,080	27,636,551	-	45,671,949
Accumulated depreciation	(11,423,986)	(883,226)	(23,183,187)	-	(35,490,399)
Net book value	5,676,332	51,854	4,453,364	-	10,181,550
Year ended 30 June 2017					
Opening net book value	5,676,332	51,854	4,453,364	-	10,181,550
Additions	6,314,941	10,464,766	-	6,810,395	23,590,102
Depreciation (Note 18)	(3,624,684)	(1,377,095)	(2,803,160)	(714,967)	(8,519,906)
Closing net book value	8,366,589	9,139,525	1,650,204	6,095,428	25,251,746
At 30 June 2017					
Cost	23,415,259	11,399,846	27,636,551	6,810,395	69,262,051
Accumulated depreciation	(15,048,670)	(2,260,321)	(25,986,347)	(714,967)	(44,010,305)
Net book value	8,366,589	9,139,525	1,650,204	6,095,428	25,251,746
Year ended 30 June 2018					
Opening net book value	8,366,589	9,139,525	1,650,204	6,095,428	25,251,746
Additions	42,933,377	2,743,312	-	1,680,463	47,357,152
Depreciation (Note 18)	(8,446,685)	(2,385,270)	(183,356)	(1,467,129)	(12,482,440)
Closing net book value	42,853,281	9,497,567	1,466,848	6,308,762	60,126,458
At 30 June 2018					
Cost	66,348,636	14,143,158	27,636,551	8,490,858	116,619,203
Accumulated depreciation	(23,495,355)	(4,645,591)	(26,169,703)	(2,182,096)	(56,492,745)
Net book value	42,853,281	9,497,567	1,466,848	6,308,762	60,126,458
Annual rate of depreciation (%)	33.33%	20%	10%	20%	

	NOTE	2018 Rupees	2017 Rupees
4 INTANGIBLE ASSET			
Enterprise Resource Planning system	4.1	32,837,541	-
Intangible asset under development		-	13,534,921
		32,837,541	13,534,921

4.1 Enterprise Resource Planning system

	NOTE	2018 Rupees	2017 Rupees
Year ended 30 June			
Opening net book value		-	-
Additions		36,142,714	-
Amortization charge	18	(3,305,173)	-
Closing net book value		32,837,541	-
At 30 June			
Cost		36,142,714	-
Accumulated amortization		(3,305,173)	-
Net book value		32,837,541	-
Annual rate of amortization (%)		20%	20%

	NOTE	2018 Rupees	2017 Rupees
5 RECEIVABLE FROM NTDCL THROUGH LOAN NOTES			
Total liabilities transferred by NTDCL	1.1	655,913,752,802	655,913,752,802
Total assets transferred by NTDCL	1.1	(613,501,584,172)	(613,501,584,172)
Loan note receivable from NTDCL		42,412,168,630	42,412,168,630

6 LONG TERM ADVANCE - HUBCO

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

	NOTE	2018 Rupees	2017 Rupees
7 DUE FROM PRINCIPALS	7.1 & 7.2		
Lahore Electric Supply Company Limited (LESCO)		146,160,021,099	66,703,955,453
Faisalabad Electric Supply Company Limited (FESCO)		73,979,686,472	18,959,242,804
Multan Electric Power Company Limited (MEPCO)		122,099,808,171	55,402,003,443
Quetta Electric Supply Company Limited (QESCO)		277,537,895,837	217,927,709,976
Gujranwala Electric Power Company Limited (GEPCO)		2,667,136,621	-
Islamabad Electric Supply Company Limited (IESCO)		99,647,552,746	54,194,941,490
Peshawar Electric Supply Company Limited (PESCO)		344,856,904,651	270,835,388,894
Tribal Areas Electric Supply Company Limited (TESCO)		19,565,996,846	15,356,647,000
Hyderabad Electric Supply Company Limited (HESCO)		243,008,666,248	199,711,406,515
Sukkur Electric Power Company Limited (SEPCO)		199,587,955,831	164,014,866,366
		1,529,111,624,522	1,063,106,161,941
Less: Government equity adjustments	7.3	(308,096,000,000)	(317,996,000,000)
Less: Tariff Rationalization Surcharge	7.4	(109,866,369)	-
		1,220,905,758,153	745,110,161,941
K-Electric Limited	7.5	87,502,309,987	68,726,319,463
		1,308,408,068,140	813,836,481,404
Less: Unallocated subsidy		(20,000,000,000)	-
Add: Unbilled costs	7.6	994,856,302	-
		1,289,402,924,442	813,836,481,404

7.1 These represent amounts against settlement of energy to DISCOs and K-Electric. The Company has signed Power Procurement Agency Agreements with all DISCOs to perform the designated purposes on the terms and conditions set forth in the agreements subject to the stipulations prescribed by NEPRA and / or commercial code. Power Procurement Agency Agreement with K-Electric has not been signed till the date of authorization of these financial statements. However, the management is confident that the Power Procurement Agency Agreement with K-Electric will shortly be signed with effect from back date.

7.2 The balances of amounts due as transferred from NTDCL under BTA, includes mark-up on delayed payment amounting to Rupees 110,630 million charged to DISCOs and K-Electric which has not been acknowledged on the grounds that NEPRA disallowed the respective DISCOs and K-Electric for claiming these charges in their tariff determination. The Company pursued the matter with NEPRA and as per NEPRA's instruction, the Company has filed petition for regularization of supplemental charges vide letter No. CPPA-G/2018/CEO/5924-25 dated 29 June 2018.

	2018 Rupees	2017 Rupees
7.3 Government equity adjustments in related parties		
Lahore Electric Supply Company Limited (LESCO)	37,155,295,853	37,859,693,391
Faisalabad Electric Supply Company Limited (FESCO)	19,415,216,162	19,424,949,251
Multan Electric Power Company Limited (MEPCO)	30,599,566,144	30,842,173,186
Quetta Electric Supply Company Limited (QESCO)	44,468,132,074	47,268,132,074
Gujranwala Electric Power Company Limited (GEPCO)	15,923,907,348	15,950,154,600
Islamabad Electric Supply Company Limited (IESCO)	19,651,787,827	19,668,802,906
Peshawar Electric Supply Company Limited (PESCO)	64,094,475,876	64,694,475,876
Hyderabad Electric Supply Company Limited (HESCO)	46,187,767,847	48,937,767,847
Sukkur Electric Power Company Limited (SEPCO)	30,599,850,869	33,349,850,869
	308,096,000,000	317,996,000,000

During the year 2012-13, President of Islamic Republic of Pakistan sanctioned payment of Rupees 341.958 billion to PEPCO on account of settlement of Circular Debts. Under this transaction the State Bank of Pakistan had been advised to credit the said amount to PEPCO for onward transmission to concerned IPPs/Entities as per mapping of the transaction through the Company. On 28 April 2016, Ministry of Finance vide its letter No. F1(4)-CF.I/2015-16/443 reduced the amount by Rupees 23.962 billion with corresponding decrease in DISCOs. During the year, Ministry of Finance vide its letter dated 22 January 2018 further reduced the amount to Rupees 308.096 billion.

7.4 This represents surcharge levied by GOP with an aim to maintain uniform tariff across the country and minimize / eliminate subsidy within the industrial, commercial and bulk customers. The collection of such surcharge is deposited in Tariff Rationalization Fund for discharging of liability of power producers. The Company has utilized the fund for payment of IPPs and credited the receivables accordingly.

7.5 NTDCL has entered into Energy Supply Agreement (ESA) with K-Electric on 26 January 2010 which expired in January 2015. According to expired ESA, the invoice for every month is to be cleared by K-electric within 15 days while the remaining amount payable along with next month invoice. Mark-up @ KIBOR plus 3% is chargeable on any delayed payment of invoices. The Company has filed a suit for recovery of Rupees 83.99 billion along with interest from the date of default against K-Electric.

7.6 This includes exchange loss on energy payables and custom duty paid to collector of customs.

	NOTE	2018 Rupees	2017 Rupees
8 ADVANCES AND PREPAYMENTS			
Advances - unsecured, considered good:			
Advances to GENCOs	8.1	5,540,844,012	19,342,186,579
Advance to NTDCL		-	33,847,809,508
Advance to employees gratuity fund	8.2	3,890,779	-
Staff advances		6,906,523	10,627,894
Others		867,995	867,995
		5,552,509,309	53,201,491,976
Prepaid insurance		2,412,680	-
		5,554,921,989	53,201,491,976
8.1 This includes advances given to:			
Central Power Generation Company Limited - related party		-	1,349,365,013
Northern Power Generation Company Limited - related party	8.1.1	-	12,876,919,376
Lakhra Power Generation Company Limited - related party		5,540,844,012	5,115,902,190
		5,540,844,012	19,342,186,579

8.1.1 This included fuel payments to Pakistan State Oil (PSO) on behalf of Northern Power Generation Company Limited.

8.2 Advance to employees gratuity fund

	2018 Rupees
8.2.1 Statement of financial position	
Present value of defined benefit obligations	16,458,712
Less: fair value of plan assets	(20,349,491)
Balance sheet asset	(3,890,779)
8.2.2 Changes in present value of defined benefit obligations	
Present value of defined benefit obligation at beginning	8,775,086
Current service cost	9,884,620
Interest cost	435,531
Benefits due but not paid	-
Benefits paid	(2,224,251)
Remeasurement of defined benefit obligation:	
Actuarial loss from changes in financial assumptions	46,441
Experience adjustments	1,584,485
Transitional asset	(2,043,200)
Present value of defined benefit obligation at end	16,458,712
8.2.3 Changes in present value of plan assets	
Fair value of plan assets at beginning	-
Contributions	14,412,209
Interest income on plan assets	1,089,917
Benefits paid during the year	(2,224,251)
Benefits due but not paid	-
Return on plan assets, excluding interest income	(897,850)
Transitional asset	7,969,466
Fair value of plan assets at end	20,349,491
8.2.4 Expenses to be charged to income and expenditure statement	
Current service cost	9,884,620
Interest cost on defined benefit obligation	435,531
Interest income on plan assets	(1,089,917)
	9,230,234
8.2.5 Remeasurements chargeable to statement of comprehensive income	
Remeasurement of plan obligation:	
Actuarial losses from changes in financial assumptions	46,441
Experience adjustments	1,584,485
Transitional asset	(10,012,666)
	(8,381,740)
Return on plan assets, excluding interest income	897,850
	(7,483,890)
8.2.6 Changes in net asset	
Statement of financial position liability at beginning	8,775,086
Expenses to be charged to income and expenditure statement	9,230,234
Remeasurements chargeable to statement of comprehensive income	(7,483,890)
Contributions	(14,412,209)
Present value of net assets at end	(3,890,779)
8.2.7 Significant actuarial assumptions	
Discount rate used for interest cost	7.75%
Discount rate used for year end obligation	9.00%
Salary increase rate used for year end obligation:	
- Financial year 2018	N/A
- Financial year 2019 onward	8.00%
Next salary is increased at	
Mortality rates	SLIC 2001-2005 Setback 1 Year
Withdrawal rates	Age based (per appendix)
Retirement assumption	Age 60

8.2.8 **Estimated expenses to be charged in income and expenditure statement in financial year 2019**

	30 June 2019
Current service cost	12,284,227
Interest cost on defined benefit obligation	1,481,284
Interest income on plan assets	(2,480,004)
	11,285,507

8.2.9 **Plan assets at 30 June 2018 comprise:**

	30 June 2018
Bond	36.05%
Cash	63.95%
	100.00%

8.2.10 **Year end sensitivity analysis on defined benefit obligation**

Discount rate +100 bps	15,316,241
Discount rate -100 bps	17,752,445
Salary increase +100 bps	17,779,633
Salary increase -100 bps	15,271,779

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

Financial year 2019	-
Financial year 2020	1,474,657
Financial year 2021	6,995,762
Financial year 2022	6,415,788
Financial year 2023	7,682,817
Financial year 2024	7,424,042
Financial year 2025	13,790,500
Financial year 2026	6,548,771
Financial year 2027	6,679,095
Financial year 2028	26,427,179
Financial year 2029 onwards	384,929,394

8.2.12 **Average duration of the defined benefit obligation** 7 years

8.2.13 **Risks associated with the scheme**

Final Salary Risk (linked to inflation risk) – the risk that the final salary at the time of cessation of service is greater than what we assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macroeconomic factors), the benefit amount increases as salary increases.

Demographic Risks:

Mortality Risk - The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.
Withdrawal Risk - The risk of actual withdrawals experience is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

Investment Risk – the risk of the investment underperforming and being not sufficient to meet the liabilities.

		Note	2018 Rupees	2017 Rupees
9	**ACCRUED MARK-UP**			
	Interest on K-Electric receivables		7,559,331,920	7,559,331,920
	Provision for doubtful interest receivables		(7,559,331,920)	(7,559,331,920)
			-	-
10	**OTHER RECEIVABLES**			
	Mark-up receivable - related parties	10.1	58,049,360,182	74,026,029,457
	Others		-	32,323,702
			58,049,360,182	74,058,353,159

10.1 This represents aggregate receivable from DISCOs on account of mark-up on syndicated term finance facility as explained in Note 13. These balances are being repaid to PHPL on recovery from DISCOs. However, certain DISCOs have not acknowledged the transfer of this mark-up amounting to Rupees 53.937 billion (2017: Rupees 53.937 billion). The management of the Company is of the view that there shall be no impact of the aforesaid matter on net assets or surplus / deficit of the Company on ultimate settlement of the matter in view of levy of Financing Cost Surcharge.

	2018 Rupees	2017 Rupees
11 CASH AND BANK BALANCES		
Cash in hand	-	217
Balances with banks - deposit accounts	16,317,685,827	15,174,113,624
	16,317,685,827	15,174,113,841

11.1 The balances in saving accounts carry return ranging from 3.5% to 9% (2017: 3.5% to 9%) per annum.

11.2 This includes an amount of Rupees 1.502 billion (2017: 2.607 billion) held in escrow account for payment to WAPDA Hydel.

12 NET WORTH

NTDCL was required to issue shares to WAPDA against outstanding balance under BTA-WAPDA and SBTA-WAPDA. This share deposit money has been transferred to the Company as per Business Transfer Agreement (BTA) entered into with NTDCL. The Company being limited by guarantee and not having share capital cannot issue shares to WAPDA / President of Pakistan. Hence, the purchase price of Market Operations Undertaking of Rupees 42,412,168,630 receivable from NTDCL (as more fully explained in Note 1) will be adjusted against this balance.

13 ENERGY PAYABLE SWAP

The tariff and regulatory structure of the power sector ensures such working capital mechanism for the power producers that enables them to keep a secured supply of electricity, which depends on the procurement of fuel. Since the payments to the power producers have been secured by sovereign guarantee issued by the Government of Pakistan, if the power producers are not paid on due dates, they shall start calling upon the sovereign guarantees. Further, a late payment surcharge is also imposed due to which the power sector remains under circular debt. This leads Government of Pakistan to swap the energy payables with commercial loans from banks. These syndicated term finance facilities are being parked in Power Holding (Private) Limited (PHPL). Servicing of these loans is being managed by way of Financing Cost Surcharge levied under sub-section 5 of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 vide S.R.O. 908(I)/2014 dated 3 October 2014.

Out of these loans, the loans amounting to Rupees 335.564 billion (2017: Rupees 304.614 billion) are covered under the Financing Cost Surcharge levied by the Government.

	NOTE	2018 RUPEES	2017 RUPEES
14 ENERGY AND OTHER PAYABLES			
Energy creditors	14.1	731,553,472,644	461,025,189,778
Advance from GEPCO		-	16,309,136,835
Payable to WAPDA - non energy		82,209,683,477	82,209,683,477
Payable to NTDCL		12,725,727,709	-
Advance against market operation fee		102,284,456	-
Accrued liabilities		53,723,429	-
Withholding tax payable		8,968,486	224,904
Payable to employees contributory provident fund		1,063,419	3,168,316
Payable to employees gratuity fund		-	8,775,086
Payable to PEPCO		80,693,227	-
Sales tax payable - net		5,934,710	74,418,634
Payable to suppliers		18,862,849	-
Financing cost surcharge		-	62,510,813
Neelum Jhelum surcharge		15,534,875	14,725,555
Electricity duty		24,143,635	24,143,635
Unidentified receipts		181,481,622	443,669,899
Other liabilities		6,676,528	12,834,481
		826,988,251,066	560,188,481,413

		NOTE	2018 Rupees	2017 Rupees
14.1	**Energy creditors**			
	Generation companies (GENCOs) - related parties		37,766,075,118	20,727,990,611
	WAPDA Hydel - related party	14.1.1	98,517,754,277	51,877,464,414
	Chashma Nuclear Power Plant (Chasnupp) - related party		33,787,053,878	21,381,967,853
	Independent Power Producers (IPPs)		561,482,589,371	367,037,766,900
			731,553,472,644	461,025,189,778
14.1.1	**WAPDA Hydel - related party**			
	Payable against purchase of energy		152,018,672,607	105,378,382,744
	Less: balance receivable		(53,500,918,330)	(53,500,918,330)
			98,517,754,277	51,877,464,414

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

14.2 Payable to NTDCL

This represents DISCOs' payable to NTDCL in lieu of use of system charges and other expenses incurred by NTDCL on behalf of the Company.

Ministry of Finance vide its notifications dated 28 April 2016, with the objective to clean the books of accounts of Power Sector Corporate Entities, directed the Company to reduce its balance payable towards NTDCL by Rupees 18.010 billion and WAPDA by Rupees 28.195 billion against receivables from PESCO, TESCO and K-Electric on account of non-cash payment of subsidies to these companies. Accordingly, the balance payable to NTDCL had been adjusted.

15 PROVISION FOR TAXATION

	2018 Rupees	2017 Rupees
Balance at the beginning of the year	(44,195,058)	31,214,702
Provision made during the year - net	(46,263)	137,191,081
Income tax paid / deducted at source during the year	(125,097,842)	(212,600,841)
Adjustments	184,132,219	-
Balance at the end of year	14,793,056	(44,195,058)

16 CONTINGENCIES AND COMMITMENTS

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

16.1 The Company has disputed Capacity Purchase Price (CPP) of various IPPs amounting to Rupees 13.5 billion on account of non-availability of power complex for electricity generation due to working capital difficulties. The concerned IPPs have taken the plea that the power complex has been technically available for electricity generation, whereas, the default is on the Company's end as it does not make timely payments to the IPPs due to which they were unable to make timely payments to fuel suppliers. On 28 June 2013, IPPs have took this matter for Expert Determination (ED) and the experts gave their recommendations in favour of IPPs along with impleading Government of Pakistan through Private Power and Infrastructure Board (PPIB). While the experts proceedings were going on, IPPs filed a premature request for arbitration in the London Court of International Arbitration ('LCIA') on 08 July 2014 and requested the Company for arbitration, whereby an Arbitrator was appointed. Meanwhile, PPIB challenged the ED before Civil Court where injunctive orders were issued suspending the operation of ED and barring the parties to the arbitration. On continuation of proceedings by IPPs, PPIB has also filed contempt petitions against IPPs which are pending in Lahore High Court for further proceedings.

The Company requested a stay in the arbitration proceedings on 30 November 2015 citing the injunctive orders obtained by PPIB which was denied by the Arbitrator. The parties were required to file their submissions by 03 April 2017, and since injunctive orders were in field, the Company could not formally make its submissions. However, the Company filed notional submission to avoid ex-parte determination. On 08 July 2017, injunctive orders were suspended enabling the Company to participate in the arbitration, however on 04 August 2017, both injunctive orders were reinstated and ED was once again suspended. The Arbitrator, on 08 June 2017 and 29 October 2017 declared his Partial and Final Award respectively and decided the matter principally in IPPs favour in contravention of orders of Courts of Pakistan. IPPs filed an application before Lahore High Court ('LHC') for implementation of Final Award that is pending adjudication. The Company challenged the Awards before the Civil Court, Lahore under the Arbitration Act, 1940, however on 4 May 2018, Commercial Court of England issued a decision, thereby preventing the Company from pursuing case in Pakistan Civil Courts against Partial / Final Award issued by the arbitrator. The Company sought the permission to appeal in Court of Appeal through its foreign counsel on 07 June 2018 which was refused and now the case shall be proceeded under the New York Convention. Further, the Company also contested the enforcement proceedings initiated by the nine IPPs, which matter is presently pending before the Lahore High Court. As per advise of legal counsel of the Company, the Partial and the Final Awards cannot be enforced until they are rendered into a decree by the courts of Pakistan and no right / obligation can be established till the issuance of decree. Such a decree cannot be issued until the aforementioned proceedings are not resolved in favour of the 9 IPPs. Therefore, the Company has made no adjustment in this respect in these financial statements.

16.2 The Company has disputed claims of IPPs (Atlas Power Limited, Nishat Chunian Power Limited, Liberty Powertech Limited and Nishat Power Limited) amounting to Rupees 2.390 billion along with interest on account of compounding of late payment interest, interest on interest, interest period, implementation of FIFO method in payment of invoices, and certain technical grounds, being not covered under the PPAs. Recognition and enforcement petition filed by Atlas Power Limited and related objection filed by the Company is pending in Lahore High Court. Other IPPs have approached LCIA for arbitration where the case proceedings will be commenced by the end of 2018. The Company has filed application to set aside the above arbitrations in the Civil Court, Lahore where the matter is pending for arguments. Pending the outcome of the case, no adjustment has been made in these financial statements.

16.3 The Company has adjusted USD 0.447 million from FFC Energy Limited and USD 2.659 million (along with interest of Rupees 283.5 million) from Orient Power Company (Private) Limited in respect of liquidated damages on account of non-commissioning of operations on the Required Commercial Operation Date (RCOD). Both matters are pending for arguments in Islamabad High Court and Lahore High Court respectively. Pending the outcome of these cases, no adjustment has been made in these financial statements.

16.4 The Company has disputed mark up charged by WAPDA amounting to Rupees 4.9 billion on loan obtained by WAPDA to fulfil the working capital requirement of the Company. However, the Company has denied the payment of the said mark up with argument that in the absence of any formal PPA with WAPDA Hydro Electric, it is unable to entertain the same and accordingly no adjustment for this has been made in these financial statements.

16.5 The Company purchases electricity from Jagran-I and Pehure. However, no power purchase agreements (PPAs) have been signed and executed between the Company and such power producers. The impact of finalized PPA with these parties on these financial statements cannot be determined as at 30 June 2018.

16.6 The Southern Electric Power Company Limited (SEPCOL) has filed a suit in the International Court of Arbitration ("ICA") against the Company claiming damages amounting to Rupees 5 billion. However, the said suit has been kept in abeyance by the SEPCOL in an attempt to resolve the matters amicably out-of-court. Whereas, the Company has raised the liquidated damages (LDs) of Rupees 2.5 billion which has been disputed by the SEPCOL. The management is confident that the matter will be resolved in Company's favour.

The Company has booked an amount of Rupees 1.3 billion as payable to SEPCOL on account of capacity purchase price which relates to the period June 2008 to May 2009. The management is of the view that it has no intention of paying the due amount as the power producer is in arbitration with the Company. Further, the Company has paid an advance of Rupees 533 million for purchase of fuel.

16.7 The Company filed an appeal before Lahore High Court against order of Appellate Tribunal Inland Revenue (ATIR) followed by Commissioner Inland Revenue (Appeals) (CIR(A)) wherein the order of Assistant Commissioner Inland Revenue (ACIR) creating demand of Rupees 1,514 million, Rupees 816 million and Rupees 934 million for tax years 2016 and 2017 under section 153(1)(b) of the Income Tax Ordinance, 2001 was upheld. The taxation authorities have recovered tax amounting to Rupees 1,173 million against the collective demand of Rupees 2,330 million for tax year 2016 and 2017 through attachment of bank accounts of the Company. The Company has booked receivable from NTDCL against such amount and obtained stay from ATIR against remaining outstanding demand. No provision has been made in these financial statements as the Company is hopeful of a favorable outcome of the case.

16.8 Tax authorities have created a demand of Rupees 1.915 billion to pay minimum tax under section 113 of the Income Tax Ordinance, 2001 against which writ petition has been filed by the Company in Lahore High Court where the matter is pending adjudication.

16.9 The ACIR has imposed a penalty amounting to Rupees 221.066 million and default surcharge amounting to Rupees 646.446 million on 08 January 2018 on account of supression / late payment of sales tax during the period from December 2015 to June 2016 followed by show cause notice issued under section 11(2) and 11(4) of the Sales Tax Act, 1990. The Company has not booked any provision on grounds that the Company operates as agent of DISCOs and does not involve any value addition activity, the output tax charged by the Company to DISCOs should be equal to the input tax claimed by the Company. However, the Company records purchase of energy based on provisional invoices resulting in inflation of input tax and corresponding output tax charged to DISCOs. This is subsequently adjusted through issuance of credit notes to DISCOs. The Company obtained condonation from tax authorities of the time limit for issuance of credit notes to its customers which was granted by ATIR however extension was rejected against which a writ petition was filed in Lahore High Court whereby the stay was granted while the hearing of main appeal is pending fixation in ATIR. No provision has been made in these financial statements as the Company is hopeful of a favorable outcome of the case.

16.10 The Company has rejected the claim of GENCO-III related to sale of power to the Company amounting to Rupees 8 billion on technical grounds. The ultimate outcome of matter cannot presently be determined, and consequently, no adjustments for such disputes has been made in these financial statements.

16.11 The Company has disputed late payment interest with Chashma II amounting to Rupees 1.7 billion on the grounds that no PPA has been signed and executed between them. The impact of the dispute on these financial statements cannot be determined in the absence of PPA.

16.12 DISCOs have disputed certain invoices on account of sale of energy and 13th invoice. The ultimate outcome of the matters cannot presently be determined, and consequently, no adjustment for such disputes have been made in these financial statements.

16.13 The Company has a long pending dispute with JPGL on various issues excavating from the application of PPA with JPGL. In view of the disputes, JPGL filed a request for arbitration in the International Court of Arbitration (ICA) on 12 January 2009 claiming Rupees 5 billion from the Company against which the Company also submitted its counter claims for Rupees 2.4 billion.

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

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

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

Each party was further advised to equally share cost of arbitration amounting to Rupees 0.108 billion.

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

		2018 Rupees	2017 Rupees
16.14	Contractual commitment in respect of ERP Phase - II implementation	22,831,000	Nil

17 MARKET OPERATION FEE

This represents market operation fee determined by National Electric Power Regulatory Authority (NEPRA) for the administration, maintenance and implementation of the Commercial Code, NEPRA (Market Operator Registration, Standards and Procedure) Rules, supervision of compliance by market participants and billing, collection, settlement and payments procedures. Market operator fee is charged to DISCOs in tandem to use of system charges.

	NOTE	2018 Rupees	2017 Rupees
18 OPERATING EXPENSES			
Salaries and other benefits	18.1 & 18.2	510,751,852	409,110,146
Repair and maintenance		12,166,946	10,540,963
Legal and professional		30,901,269	24,392,180
Auditors' remuneration	18.3	726,100	500,000
Depreciation	3	12,482,440	8,519,906
Amortization	4	3,305,173	-
Rent		40,939,079	22,035,834
Utilities		1,548,861	4,409,703
Communication		6,309,268	2,008,336
Travelling		9,662,273	23,575,047
Vehicles' running		5,809,144	11,620,347
Training expenses		11,980,906	689,914
Miscellaneous		10,663,223	28,639,067
		657,246,534	546,041,443

18.1 This includes salaries paid to employees of NTDCL transferred to the Company on secondment under BTA.

18.2 Salaries and other benefits include provident fund and gratuity fund contributions of Rupees 5.676 million and Rupees 9.916 million (2017: Rupees 3.515 million and Rupees Nil) respectively by the Company.

	2018 Rupees	2017 Rupees
18.3 Auditors' remuneration		
Statutory audit	500,000	500,000
Employees retirement funds	100,000	-
Certification for regulatory purposes	50,000	-
Out of pocket expenses	76,100	-
	726,100	500,000

19 TAXATION

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

20 FINANCIAL RISK MANAGEMENT

20.1 Financial risk factors

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

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

(a) Market risk

(i) Currency risk

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

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

(ii) Other price risk

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

(iii) Interest rate risk

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

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

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

	2018 Rupees	2017 Rupees
Floating rate instruments		
Financial assets		
Bank balances - deposit accounts	16,317,685,827	15,174,113,624

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the year end date, fluctuate by 1% higher / lower with all other variables held constant, deficit / surplus for the year would have been Rupees 163.177 million lower / higher (2017: Rupees 151.741 million), mainly as a result of higher / lower interest income on bank balances. This analysis is prepared assuming the amounts of bank balances at reporting dates were outstanding for the whole year.

(b) Credit risk

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

	2018 Rupees	2017 Rupees
Bank balances	16,317,685,827	15,174,113,624

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

	Rating			2018	2017
	Short Term	Long term	Agency	Rupees	
Banks					
National Bank of Pakistan	A1+	AAA	PACRA	2,673,177,251	2,282,835,248
Allied Bank Limited	A1+	AAA	PACRA	1,758,821,253	2,055,778,412
Askari Bank Limited	A1+	AA+	PACRA	645,613,281	2,380,500,941
Faysal Bank Limited	A1+	AA	PACRA	459,065,695	216,194,434
Habib Bank Limited	A-1+	AAA	JCR-VIS	3,079,224,800	3,755,048,515
The Bank of Punjab	A1+	AA	PACRA	1,952,836,598	1,123,234,776
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	58,353,351	35,874,198
Bank of Khyber	A-1	A	PACRA	3	3
United Bank Limited	A1+	AAA	JCR-VIS	1,233,327,503	408,836,560
MCB Bank Limited	A1+	AAA	PACRA	2,030,948,635	1,225,076,920
Bank Alfalah Limited	A1+	AA+	PACRA	257,220,280	156,039,658
Bank Al-Habib Limited	A1+	AA+	PACRA	1,237,860,347	1,243,811,919
Citibank, N.A. Pakistan	P-1	A1	Moody's	22,069,662	18,069,662
First Women Bank Limited	A2	A-	PACRA	8,181,085	2,262,132
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	213,131,403	132,160,366
Meezan Bank Limited	A-1+	AA+	JCR-VIS	687,854,680	138,389,880
				16,317,685,827	15,174,113,624

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

(c) Liquidity risk

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

20.2 Financial instruments by categories

Assets as per balance sheet

	Loans and receivables	
	2018 Rupees	2017 Rupees
Receivable from NTDCL through loan notes	42,412,168,630	42,412,168,630
Long term advance - HUBCO	802,000,000	802,000,000
Due from principals	1,289,402,924,442	813,836,481,404
Market operation fee receivable	-	94,778,780
Other receivables	58,049,360,182	74,058,353,159
Cash and bank balances	16,317,685,827	15,174,113,841
	1,406,984,139,081	946,377,895,814

Financial liabilities as per balance sheet	Financial liabilities at amortized cost	
	2018 Rupees	2017 Rupees
Payable to WAPDA for HUBCO	802,000,000	802,000,000
Energy payable swap	577,639,647,206	431,474,092,020
Energy and other payables	826,590,025,716	543,289,745,242
	1,405,031,672,922	975,565,837,262

21 RECOGNIZED FAIR VALUE MEASUREMENTS - FINANCIAL INSTRUMENTS

(i) Fair value hierarchy

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

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

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

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

22 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

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

	Chief Executive Officer		Executives	
	2018	2017	2018	2017
Managerial remuneration	8,181,816	7,272,732	165,923,940	151,897,669
Allowances:				
House rent	3,681,816	3,272,724	74,665,773	68,353,951
Utilities	818,184	727,272	16,592,394	15,189,767
Medical	818,184	727,272	16,592,394	15,189,767
Vehicle monetization	1,473,600	-	35,917,432	32,501,018
	6,791,784	4,727,268	143,767,993	131,234,503
Contribution to provident fund	409,091	363,637	8,296,197	7,594,883
	15,382,691	12,363,637	317,988,130	290,727,056
Number of persons	1	1	71	68

The aggregate amount charged in these financial statements in respect of meeting fee paid to 7 (2017: 7) directors is Rupees 13,640,025 (2017: 5,995,000).

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

23 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of Government of Pakistan, directors of the Company and key management personnel. Detail of transactions with related parties have been specifically disclosed in these financial statements.

24 NUMBER OF EMPLOYEES

	2018	2017
Number of employees as on June 30	196	180
Average number of employees during the year	188	93

25 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 05 OCT 2018 by the Board of Directors of the Company.

26 CORRESPONDING FIGURES

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

Description	From	To	Amount Rupees
Government loan adjustments	Due from principals	Non-current liabilities	431,474,092,020
Payable to WAPDA - non energy	Energy creditors	Energy and other payables	82,209,683,477
Advance to NTDCL	Current assets	Advances and prepayments	33,847,809,508
Allocation of TRS	TRS	Due from principals	20,751,194,304
Allocation of TRS	TRS	Energy creditors	218,461,801
Payments made to GENCOs	Advances	Energy creditors	19,929,914,645
Unidentified receipts	Energy creditors	Energy and other payables	443,669,899
Payable to K-Electric Limited	Energy creditors	Due from principals	337,798,525
Withholding tax payments	Taxation recoverable	Withholding tax payable	14,918,625
Sales tax recoverable	Sales tax recoverable	Sales tax payable - net	11,976,838
Sales tax recoverable	Taxation recoverable	Sales tax payable - net	673,500

27 GENERAL

Figures have been rounded off to the nearest of Rupees.

CHIEF EXECUTIVE OFFICER | **DIRECTOR** | **CHIEF FINANCIAL OFFICER**

CPPA

Pakistan Electricity Market Operator

15 IMPLEMENTATION OF COMMERCIAL CODE

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

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

Based on this given mandate, in mid of 2016, CPPA started market model development efforts by forming an internal team and then hiring internationally recognized market development consultants. A strategy was devised for the preparation of the future market model and later the transition plan (CTBCM Plan). As per the strategy, the initiative was divided into three phases. The Phase-I (June 2016 to June 2017) included (a) Capacity Building of main power sector entities, (b) High-level Market Model Design and (c) preparation of the draft CTBCM Plan. This phase has been concluded as the CTBCM Model and Plan has been prepared by CPPA and the same has been submitted to NEPRA for regulatory review. Phase-II entailing the detailed market design is being continued this year with the in-parallel execution of must-do items required for implementation.

During Phase-I, five training sessions (including one learning exchange to study the Turkish power market) were carried out in which key market entities i.e. MoE (PD), NEPRA, NTDC, CPPA and DISCOs participated. The objective of enhancing the capacity of the power sector core team that will participate in the future market design was successfully achieved. In addition to this, fundamental and advanced level trainings were also conducted by engaging world class resources. Moreover, a number of consultative workshops have been conducted with DISCOs, NTDC, NPCC, MoE (PD) and NEPRA for the discussion of the model. The model, after incorporating all the necessary details and recommendations, will be submitted to the competent Authority.

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

For this purpose, CPPA is in the process of preparing the draft of the new Market Commercial Code in order to set the objectives, principles, rules, procedures, rights and obligations. The new Commercial Code will govern the Market Operator, participants and as applicable services providers during the transition period and afterwards in the competitive market environment.

It is also aimed to cover the details and requirements of settlement process including the market balancing pricing and trading, the market settlement period and process to enable prior verification and comments by Participants. It is intended to include provisions and procedures for metering system registration, the metering register and calculation of energy and capacity for each Participant, capacity obligations, Balancing Mechanisms; contract information and contract register; market operation fee; market credit cover, and others.

As per the current Commercial Code it was envisaged that initially, CPPA shall follow the same procedures for settlement, billing, and payments as were followed by CPPA of NTDC, for a transition period not longer than two years after issuance of the Commercial Code i.e. June 2017. At end of that period new procedures described in clauses 8.2 to 8.8, 9.2, 9.3 and 9.4 to come into effect. However, since the preparation of new Market Commercial Code is already underway and implementation of the above stated clauses would not be practically a good move. Therefore, a formal request was sent to NEPRA to extend the implementation of the existing Commercial Code till the approval of new Market Commercial Code. NEPRA allowed the extension of the Commercial Code up to June 2018.

The commercial code revision is envisaged in two phase, pre CTBCM and post CTBCM. The pre CTBCM commercial code draft has been completed with modifications enabling the single buyer plus regime, improving the existing code, and aligning the code with post CTBCM regime. The draft new commercial code will be circulated to Commercial Code Review Panel (CCRP) before submission to NEPRA for approval as and when directed by NEPRA.

Additionally, CPPA has already submitted its registration application before the Authority. Based on this Registration Application of CPPA filed before NEPRA in April 2017 and subsequent public hearing by the Authority on March 6, 2018, it is anticipated that CPPA's authorization as Market Operator under NEPRA Act (as amended 2018) shall be issued soon.

16 DIRECTOR'S REPORT

In the wake of power sector reforms, CPPA-G Ltd. was incorporated on 28th January 2009 with Company's Registered Office in Lahore. The Company is fully owned by the Government of Pakistan with the objective to implement and administer market mechanisms for electric power procurement on behalf of XWDISCOs and sale (settlement of dues of electricity between the buyers and sellers), by undertaking and performing functions and discharging responsibilities as are or may be laid down from time to time for the company to undertake or perform in or pursuant to and in the manner prescribed under or pursuant to the provisions of the Regulations of Generation, Transmission and Distribution of Electric Power Act; (Act No. XL of 1997). Due to the practical difficulties of segregation of its functions from NTDC, the company could not be operationalized as a separate working unit till June 2015.

16.1 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 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. Further, NEPRA through regulatory order dated January 3rd, 2018 extended the status of CPPA as deemed Market Operator for an additional year i.e. up to June 2018.
Moreover, based on Registration Application of CPPA filed before NEPRA in April 2017 and subsequent public hearing by the Authority on March 6th, 2018, it is anticipated that CPPA's authorization as Market Operator under NEPRA Act (as amended 2018) shall be issued shortly.

16.2 BACKGROUND

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 and the Pakistan economy in general via newly introduced profit incentives, an increase in managerial autonomy while improving the managerial accountability. There are three types of markets (current and future):

a. Single Buyer;
b. Single Buyer Plus; and
c. Competitive Trading Bilateral Contract Market (CTBCM)

This approach was incorporated in the National Transmission and Dispatch Company (NTDC) Limited, 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

In 2009, the GOP decided to create an independent Company to perform the market functions. The GOP's main objectives for doing so were:

a. The introduction of a new cash flow management system consistent with envisaged sector restructuring.
b. Improved fiscal discipline, i.e., DISCO's abilitto honor debts, especially those arising from new investments, and to attract further investments for the sector that will result in credibility of sector operations.
c. The introduction of measures to improve the power supply-demand balance, while ensuring a reasonable quality of service.
d. Paving the way toward the next phase of market reform, i.e., CTBCM.

e. Accordingly, CPPA-G was incorporated in 2009 in order to become the successor of the CPPA of NTDC and take over the existing market operations being performed by NTDC through its departments i.e. WPPO, CPPA & Manager Finance Treasury.
f. 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.
g. 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.

CPPA by following the directions of GoP, in consultation with stakeholders, formulated the CTBCM market model and the plan for transitioning of the Single Buyer market to CTBCM by 2020. The market model and the transition plan were submitted to NEPRA in March 2018 for obtaining regulatory approval. The process to approve the model and the plan has been initiated by NEPRA.

16.3 CONTRACTUAL FRAMEWORK

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

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

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.

Execution of fresh Power Purchase Agreements between CPPA-G, GENCOs and IPPs.

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.

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 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.

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

In future moving toward a tripartite PPA regime in which CPPA, NTDC and the power producer will jointly enter into a PPA for properly discharging the rights and obligations.

16.4 REGULATORY FRAMEWORK

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:

Modification of NTDC Transmission License for carving out the Market Operations from NTDC;

Approval and notification of the Market Rules; and
Approval and notification of Commercial Code for regulating the payment and settlement;

16.5 FUNCTIONS AND RESPONSIBILITIES OF CPPA-G

The functions and responsibilities of CPPA-G being Market Operator as per Schedule-II of Market Operator Rules 2015 are:

a. To 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.
g. 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.
h. Updating, implementing, administering and enforcing the Commercial Code in relation to the Market Rules.
i. Collecting information and statistics and publishing reports and information relating to the performance of the Market Operator administered market.
j. Administering the development of and amendments to the Commercial Code for submission to NEPRA for approval.
k. Developing and implementing competitive power markets based on policies guidelines of the Federal Government and/or requirements of NEPRA.
l. Publishing such information on its website as may be required by NEPRA from time to time.
m. Liaising with other bodies having market functions similar to the Market Operator or administering competitive power markets.

16.6 DEVELOPMENT OF THE NEW MARKET MODEL AND THE CTBCM PLAN

Any additional functions pursuant to requirements and provisions under the Commercial Code.

16.7 SUMMARY OF STATEMENTS AS PER RULE 17 OF PUBLIC SECTOR COMPANIES CORPORATE GOVERNANCE RULES, 2013

Compliance with the relevant principles of Corporate Governance

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

16.8 STATE OF AFFAIRS, RESULT OF OPERATIONS AND CASH FLOWS

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

16.9 BOOKS OF ACCOUNTS

Proper books of accounts of the company have been maintained

16.10 APPROPRIATE ACCOUNTING POLICIES

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

16.11 SOUND SYSTEM OF INTERNAL CONTROL

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

16.12 APPOINTMENT OF CHAIRMAN AND OTHER MEMBERS OF THE BOARD

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

16.13 BOARD MEETINGS AND ATTENDANCE OF BOARD MEMBERS

Total meetings of the Board of Directors and Board Committees held during the FY 2017-18 are as follows:

Sr. No.	Meeting	No. of Meetings attended
1	Board of Directors	12
2	Procurement Committee of Board	14
3	HR Committee of Board	10
4	Risk Management Committee of Board	09
5	Audit Committee of Board	04
6	Finance Committee of Board	02
7	ERP Implementation Committee of Board	03
8	Nomination Committee	01
9	Special Committee on CTBCM	02

Table 1: Meetings attended by the Directors

Attendance of the Board members in these meetings is as follows

S. No.	Name of Directors	No. of Meetings attended
1	Mr. Yousaf Naseem Khokhar	13
2	Mr. Zargham Eshaq Khan	56
3	Dr. Khaqan Hassan Najeeb	41
4	Mr. Zafar Abbas	31
5	Mr. Mian Muhammad Imran	33
6	Mr. Basit Zaman Ahmad	16
7	Mr. Abid Latif Lodhi	33

Table 2: Meetings attended by the Directors

As at 30th June	Assets (Rupees)	Liabilities (Rupees)	General Fund (Rupees)
2011	-	103,799/-	-103,799/-
2012	-	127,132/-	-127,132/-
2013	-	150,465/-	-150,465/-
2014	-	182,825/-	-182,825/-
2015	487,089,338,629/-	487,101,138,085/-	-11,799,456/-
2016	438,052,298,245/-	438,153,909,032/-	-101,610,787/-
2017	571,955,960,992/-	571,921,397,848/-	34,563,144/-
2018	1,412,632,025,069/-	1,412,607,924,266/-	24,100,803/-

Table 5: Balance Sheet Data

16.18 STATUTORY PAYMENTS ON ACCOUNT OF TAXES, DUTIES LEVIES

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

16.19 SIGNIFICANT PLANS AND DECISIONS

With regard to restructuring with the business perspective, the CPPA-G will restructure itself into two separate business units representing the Market Operator (MO) and Special Purpose Supplier (SPS). Another independent service provider, the Independent Auctions Administrator (IAA) has also been proposed to be created. This will be done in order to ensure the smooth transition towards the new market model and to avoid the conflict of interest. The Market Operator will have the responsibility of administering all market functions and transactions in the Competitive Trading Bilateral Contract Market (CTBCM), the SPS will be a transient organization designed to manage legacy contracts which cannot easily be transferred or assigned to successor entities and it may further continue to procure power for strategic national infrastructure projects including import of power from other Countries. The strategy proposed is to initially operationally separate CPPA-G into these two entities and then go for legal separation.

16.20 VALUE OF INVESTMENT OF PROVIDENT, AND GRATUITY FUNDS

FY 2017-18 provident fund and gratuity fund contributions were of Rupees 5.676 million and Rupees 9.916 million. (FY 2016-2017: Rupees 3.515 million and Rupees Nil) respectively by the Company). Company has further transferred the provident fund and gratuity fund contributions to CPPA Employees Contributory Provident Fund and CPPA Employees Gratuity Fund as per actual liabilities as at the close of the year.

16.21 AUDITOR'S REPORT

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

16.22 ACKNOWLEDGEMENT

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

CENTRAL POWER PURCHASING AGENCY

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