



TARIFF PETITION

SUBMITTED BEFORE

THAR COAL AND ENERGY BOARD

BY

SINDH ENGRO COAL MINING COMPANY LIMITED

FOR DETERMINATION OF

FINANCIAL CLOSE STAGE TARIFF

IN RESPECT OF

EXPANSION OF OPEN CAST LIGNITE MINE FROM CAPACITY OF 3.8 MT/A TO 7.6 MT/A

LOCATED AT

THAR BLOCK-II, DISTRICT THARPARKAR, SINDH, PAKISTAN

DATED

JUNE 26, 2020

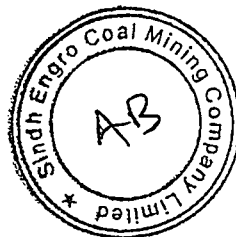


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1 INTRODUCTION

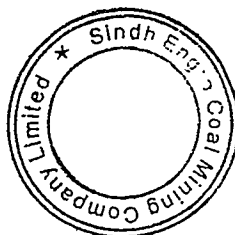
1.1 PETITIONER DETAILS

SINDH ENGRO COAL MINING COMPANY (the Petitioner)

16th Floor, The Harbor Front Building,
HC # 3, Marine Drive, Block 4, Clifton, Karachi
Telephone: +92-21-35297501-10
Fax: +92-21- 35296018

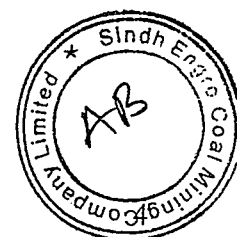
PETITIONER'S REPRESENTATIVE'S DETAILS

- (a) SYED ABUL FAZAL RIZVI, Chief Executive Officer.
- (b) MOHAMMAD SAQIB, Chief Financial Officer.



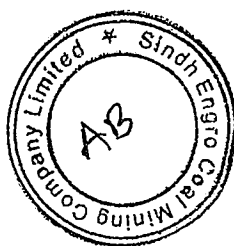
1.2 LIST OF ABBREVIATIONS

Bt	BILLION TONS
COVID-19	CORONA VIRUS DISEASE
CPPA-G	CENTRAL POWER PURCHASE AGENCY
EPC	ENGINEERING, PROCUREMENT & CONSTRUCTION
GoP	GOVERNMENT OF PAKISTAN
GoS	GOVERNMENT OF SINDH
HESCO	HYDERABAD ELECTRIC SUPPLY COMPANY
HSE	HEALTH, SAFETY & ENVIRONMENT
IPP	INDEPENDENT POWER PRODUCERS
IRR	INTERNAL RATE OF RETURN
KIBOR	KARACHI INTERBANK OFFER RATE
KWH	KILO WATT HOUR
Mt/a	MILLION TONS PER ANNUM
MW	MEGA WATTS
NEPRA	NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NTDC	NATIONAL TRANSMISSION & DISPATCH COMPANY
O&M	OPERATIONS & MAINTENANCE
PKR	PAKISTANI RUPEES
SWB	SALARIES, WAGES & BENEFITS
TCEB	THE THAR COAL AND ENERGY BOARD
TCEB Act	THE THAR COAL AND ENERGY BOARD ACT, 2011
USD	UNITED STATES DOLLAR



Note:

It is submitted before TCEB that all Project Cost and Coal tariff numbers contained in this Tariff Petition are based on and taken from the Financial Model, as submitted together with this Tariff Petition. All numbers have been rounded off to the nearest decimal places.



1.3 DEFINITIONS

Unless otherwise defined herein or if the context otherwise requires, all capitalized terms used in this petition shall have the meanings assigned to them hereunder:

Actual Phase I Pre-CoD Sale Proceeds shall have the meaning ascribed thereto in Section 4(e).

CHS means coal handling system.

Coal Purchaser means individually each of TEL and TNTPL and **Coal Purchasers** means the same collectively.

Coal Supply Agreement means individually each coal supply agreement executed by the Petitioner with each Coal Purchaser separately for the sale of Coal/ Lignite (as amended, modified, supplemented and/or novated from time to time) and **Coal Supply Agreements** means will such agreements collectively.

Coal/Lignite means the lignite reserves in Thar Block-II.

Mining Facility or Mine means the open cast lignite mine at Thar Block-II and associated mine surface facilities, mine infrastructure, lignite stock yard, interconnections, outside dump, inside dump, surface and mine drainage system, floods prevention dams, dust suppression system and any other system required for a safe, credible, sustainable efficient and most cost effective operations & maintenance of the Mining Facility.

Petitioner means Sindh Engro Coal Mining Company.

Phase I Chinese Lenders means the international Chinese Lenders that extended financing facilities to the Petitioner in respect of the Mine at the time of financial close of Phase I Mine.

Phase I Commercial Operations Stage Tariff Petition means the tariff petition filed by the Petitioner before TCEB dated October 10, 2019, for determination by TCEB of the 'Commercial Operations Stage Tariff' (as defined therein) for the Phase I Mine.

Phase I Contract Stage Tariff Determination means the Determination No. TCEB/Registrar/2-1/2014 of TCEB dated June 5, 2015, as subsequently reviewed and determined in Phase I Contract Stage Tariff Review Determination.

Phase I FC Stage Tariff Determination means the Determination No. TCEB/Registrar/2-1/2014 of TCEB dated October 21, 2016 for determination by TCEB of the financial close stage tariff for the Phase I Mine.

Phase I Contract Stage Tariff Review Determination means the Determination No. TCEB/Registrar/2-1/2014/1047 of TCEB dated October 2, 2015.

Phase I Local Lenders Facility means the local currency financing facility extended by the Phase I Local Lenders to the Petitioner in respect of the Mine at the time of financial close of Phase I Mine, which financing facility is backed and secured by the Sovereign Guarantee issued in favor of the Phase I Local Lenders.

Phase I Local Lenders means the local lenders/financiers that extended financing facilities to the Petitioner in respect of the Mine at the time of financial close of Phase I



Mine.

Phase I Mine means the Mine having a capacity of 3.8 Mt/a.

Phase I Pre-CoD Sale Proceeds means the sale proceeds received by the Petitioner from sale of Coal from Phase I Mine prior to achievement of commercial operations date of Phase I Mine.

Phase II Additional Financing Facility Local Lenders means the local lenders/financiers that have extended the Phase II Additional Financing Facility to the Petitioner.

Phase II Additional Financing Facility means the additional financing facility, not backed by the Sovereign Guarantee, arranged by the Petitioner for financing of the Phase II Mine, the same being in an amount equal to Pakistani Rupees Five Billion only (PKR 5,000,000,000/-).

Phase II Contract Stage Initial Tariff Determination means the Determination No. No. TCEB/Registrar/2-1/2014 of TCEB dated October 8, 2018.

Phase II Contract Stage Motion For Leave For Review means the "*Motion For Leave For Review*" dated October 19, 2018, filed by the Petitioner before TCEB in respect of matters relating to the Phase II Contract Stage Initial Tariff Determination.

Phase II Contract Stage Tariff Determination means the Phase II Contract Stage Initial Tariff Determination, as subsequently reviewed and determined in Phase II Contract Stage Tariff Review Determination.

Phase II Contract Stage Tariff Petition means the tariff petition filed by the Petitioner before TCEB dated December 29, 2017, for determination by TCEB of the Contract Stage Tariff for the Phase II Mine.

Phase II Contract Stage Tariff Review Determination means the Determination No. TCEB/Registrar/2-1/2014 of TCEB dated April 5, 2019.

Phase II Contract Stage Tariff shall bear the meaning ascribed to the term "*Contract Stage Tariff*" in the Rules, the same being, in respect of the Phase II Mine, the reference tariff (together with all assumptions and other parameters relating thereto) determined by the TCEB in terms of the Phase II Contract Stage Tariff Determination.

Phase II FC Stage Tariff shall bear the meaning ascribed to "*financial close stage tariff*" in part III (*Tariff Determination Procedure*) of rule 4(4)(a)(iii) of the Rules, being, in respect of the Phase II Mine, the tariff submitted by Petitioner for determination by the TCEB pursuant to this Tariff Petition.

Phase II Financial Close Date means the date of occurrence of the Phase II Financial Close, the same being December 31, 2019.

Phase II Financial Close means the occurrence of financial close for Phase II Mine Expansion so as to result in the Mining Facility being the Phase II Mine.

Phase II Mine Expansion means the expansion of the Mine from a capacity of 3.8 Mt/a. to 7.6 Mt/a., the same being, the expansion of the Mine from Phase I Mine to Phase II Mine.



Phase II Mine means the Mine having a capacity of 7.6 Mt/a.

Project means Open Cast Lignite Mine in Thar Block-II with an initial capacity of 3.8 Million tons/annum i.e. Phase II Mine, which is currently being expanded to 7.6 Million tons/annum in phase II, i.e. the Phase II Mine.

Rules means the Thar Coal Tariff Determination Rules, 2014.

Section means a section of this Tariff Petition.

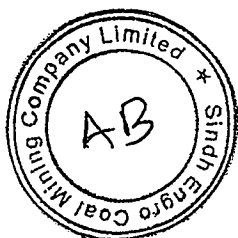
Sovereign Guarantee means the sovereign guarantee issued by the GOP in favor of:

- (a) the Phase I Mine Chinese Lenders in an amount equal to United States Dollars Two Hundred Million only (USD 200,000,000/-);
- (b) the Phase I Mine Local Lenders in an amount equal to Pakistani Rupees Fifty-Two Billion only (PKR 52,000,000,000/-) (being equivalent of United States Dollars Five Hundred Million only (USD 500,000,000/-) at the then prevailing exchange rate of 104).

Sovereign Guarantee Backed Facility shall have the meaning ascribed thereto in Section 3(b).

TEL means THAR ENERGY LIMITED, being an entity that has entered into a coal supply agreement with the Petitioner for the purchase of Coal from the Phase II Mine.

TNPTL means THALNOVA POWER THAR LIMITED, being an entity that has entered into a coal supply agreement with the Petitioner for the purchase of Coal from the Phase II Mine.

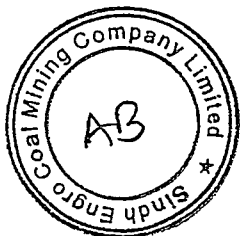


1.4 INTRODUCTION, APPLICABLE LAW & POLICY

Under the TCEB Act, the TCEB has been set up, *inter alia*, as a one window facilitator in matters relating to coal mining projects being established in the region of Thar, Sindh, Pakistan. Pursuant to section 5 of the TCEB Act, the TCEB is mandated to determine the tariff of coal from Thar, Sindh, Pakistan subject to the need to comply with guidelines, not inconsistent with the provisions of the TCEB Act, laid down by the GoS. In addition, the TCEB is also responsible for determining the process and procedures for reviewing tariff and recommending tariff adjustments.

In accordance with the requirements of the relevant laws of Pakistan (including, without limitation, the TCEB Act and rules and regulations made thereunder), the Petitioner hereby submits this Tariff Petition for tariff determination by the TCEB of the Phase II FC Stage Tariff, as submitted herein, for the Petitioner's Mining Facility located at Thar Block – II, the same being the Phase II Mine.

This Tariff Petition is being filed under part III (*Tariff Determination Procedure*) of the Rules. This Tariff Petition and the matters contained herein have been prepared based on the guidelines presented in part IV (*Standards and Guidelines*) of the Rules and the Economic Coordination Committee's approved incentive package for the Project. Further, any other information required to be filed is included in and/or with this Tariff Petition.



2 GROUNDS AND FACTS FORMING BASIS OF TARIFF PETITION

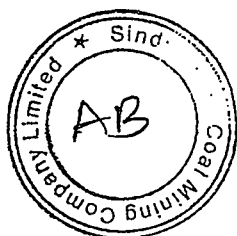
- (a) Pakistan has been blessed with the world's seventh largest lignite reserves of around 186 Bt. The largest reserves are located in the Tharparkar District in the province of Sindh, Pakistan where ninety five percent (95%) of total lignite (175Bt) have been identified. The extension of entire lignite bearing area is about 9100 km². Despite having such a vast energy resource, Pakistan has been plagued with the power crisis arising out of a suboptimal fuel mix with an over reliance on imported fuel; expensive electricity; and a demand and supply gap exceeding 5000-7000 MW at its peak. As a result, it was critical to harness the enormous potential of Thar Coal to alleviate the energy crisis and ensure energy security for Pakistan. This fact was also recognized in the 'CPEC ENERGY PLANNING REPORT' as well that states:

"The development potential (of Thar Coal) is huge. Even if in the future the development scale of Thar Coal Field is expanded to 100 million tons, it is sufficient to supply the fuel demand of Pakistan for several centuries"

- (b) It is in recognition of this potential that the Petitioner was incorporated as a joint venture between the GoS, ENGRO ENERGY LIMITED (formerly Engro Powergen Limited), THAL LIMITED, HUB POWER COMPANY, HABIB BANK LIMITED, CHINA MACHINERY ENGINEERING CORPORATION and HUOLINHE OPEN PIT COAL (HK) INVESTMENT CO., and was established to construct, develop, own and operate the Mining Facility in District Tharparkar, Sindh, Pakistan.
- (c) In the initial phase of the Project i.e. Phase I Mine, the Phase I Mine was to be developed that would fuel a power plant as a proof of concept. The Phase I Mine achieved commercial operations last year and is now being successfully operated by the Petitioner.
- (d) It is submitted that as the Mine expands, the Coal offers the potential to be the cheapest source of thermal energy in Pakistan. The Mine, currently with capacity of Phase I Mine, may be expanded in phases to enhance the associated power generation capacity from Block II until it reaches its optimum capacity and lowering the tariff of the Coal and power produced from the Mine. At the optimum Mine capacity, it will offer a tariff of less than 5 cents/kwh (post debt repayment). In furtherance of its objectives of, inter alia, providing one of the cheapest sources of fuel of thermal energy, the Petitioner has been in the process of development and implementation of the Phase II Mine Expansion.
- (e) For the purposes of off-take/sale of additional Coal resulting from the Phase II Mine Expansion, the Petitioner entered into separate a Coal Supply Agreement with each Coal Purchaser, with a term of each such Coal Supply Agreement being thirty (30) years, for the supply of 1.9 Mt/a coal by the Petitioner to each Coal Purchaser. Each Coal Purchaser will utilize the Coal supplied by the Phase II Mine, following completion of the Phase II Expansion, for its three hundred and thirty (330) MW mine mouth IPP that is currently under construction in Thar Block II.
- (f) The Petitioner, through its Phase II Contract Stage Tariff Petition, requested the TCEB for determination of the Phase II Contract Stage Tariff. The Petitioner also submitted all relevant data/ information required by the TCEB to arrive at an informed decision with regards to the determination in respect to the Phase II Contract Stage Tariff. Thereafter, the TCEB, pursuant to rule 10(5) of the Rules, issued its determination with regards to the Phase II Contract Stage Tariff for the Phase II Mine vide the Phase II Contract Stage Initial Tariff Determination.



- (g) Following the Phase II Contract Stage Initial Tariff Determination, the Petitioner, pursuant to rule 10(8) of the Rules, filed the Phase II Contract Stage Motion For Leave For Review to highlight certain key points stated in the Phase II Contract Stage Initial Tariff Determination that could potentially affect the Phase II Mine and hence the overall Project. The TCEB, through the Phase II Contract Stage Tariff Review Determination addressed the points highlighted in the Phase II Contract Stage Motion For Leave For Review.
- (h) In furtherance of the development and implementation process for the Phase II Mine Expansion, the Petitioner achieved the Phase II Financial Close on the Phase II Financial Close Date and thereafter commenced, *inter alia*, the construction activities related to the Phase II Mine Expansion.
- (i) With regards to the update on the Phase II Mine Expansion and matters relating to the same, it is submitted that following the achievement of the Phase II Financial Close on the Phase II Financial Close Date, one of the Coal Purchasers, TEL, achieved financial close for its power project on January 30, 2020. However, the second IPP, TNPTL, which was scheduled to achieve financial close for its power project on March 31, 2020, is yet to achieve this milestone owing to, *inter alia*, as the Petitioner understands, COVID-19 related lockdowns observed in China and Pakistan. In addition, it is submitted that while the Petitioner has commenced EPC activities related to the Phase II Mine Expansion, the Petitioner faces delays in equipment and material delivery owing to, *inter alia*, the most extenuating global circumstances emanating from the COVID-19 pandemic.
- (j) In view of, *inter alia*, matters set out above and in light of the submissions contained herein and in accordance with the requirements of the relevant laws of Pakistan (including, without limitation, the TCEB Act and the Rules and regulations made thereunder), the Petitioner hereby submits this Tariff Petition for tariff determination by the TCEB of the Phase II FC Stage Tariff, as submitted herein, for the Petitioner's Mining Facility located at Thar Block – II, the same being the Phase II Mine.
- (k) The details regarding the adjustments/ amendments sought herein have been elaborated upon in Sections 3 to 12 of this Tariff Petition below and consist of the following heads:
3. Sovereign & Non-Sovereign Debt.
 4. Actualized Pre-CoD Sale Proceeds from the Phase I Mine.
 5. Debt to Equity Ratio.
 6. Upfront Equity Injection.
 7. Rollover of Cost of CHS from the Scope of Phase I Mine.
 8. SWB Cost in Non-EPC Costs.
 9. Uncapping of Cost Heads in Non-EPC Costs
 10. One percent (1%) IRR Penalty Waiver.
 11. Increase in Owner's Cost of Operations & Maintenance in Respect of Phase II Mine.
 12. Power Generation Mix in the O&M of Phase II Mine.
- (l) For the benefit of the TCEB and in support of the submissions and matters set out herein, supporting information and documents are enclosed with this Tariff Petition for the TCEB's perusal.



- (m) The Petitioner submits that the Petitioner be allowed to submit additional evidence and further submissions in relation to this Tariff Petition, if the same are required by the TCEB.



3 SOVEREIGN & NON-SOVEREIGN DEBT

- (a) The TCEB is reminded that the Sovereign Guarantee was issued in respect of the Mine at the time of financial close of the Phase I Mine.
- (b) To maximize the utilization of the Sovereign Guarantee, the Petitioner negotiated with the relevant Phase I Local Lenders to allocate savings from the Phase I Mine to complete the Phase II Mine Expansion. As a result, Pakistani Rupees Twenty One Billion and One Hundred And Twenty Million Four Hundred and Eighty Thousand Eight Hundred and Four Only (PKR 21,120,480,804/-) was allocated from the Phase I Local Lenders Facility for completion of the Phase II Mine Expansion (the **Sovereign Guarantee Backed Facility**) – it being clarified that such allocated amounts will continue to be secured by the Sovereign Guarantee. It is submitted that such Sovereign Guarantee backed local facility carries a spread of one point seven five percent (1.75%) over KIBOR.
- (c) The Petitioner, in the Phase II Contract Stage Tariff Petition, submitted a tentative funding plan to the TCEB based on the Sovereign Guarantee Backed Facility and sought relief that the Project be allowed to bridge any further funding requirement through equity with an overall cap on equity being thirty percent (30%) of the funding. However, the TCEB, in the Phase II Contract Stage Tariff Determination, determined at the time that such a request was based on guestimates and disallowed this request of the Petitioner.
- (d) As at the time of submission of the Phase II Contract Stage Tariff Petition the Petitioner had not finalized its financing arrangements. The Petitioner negotiated with the Phase II Additional Financing Facility Local Lenders over the next six (6) months and arranged the Phase II Additional Financing Facility. It is noted that the Phase II Additional Financing Facility does not benefit from the Sovereign Guarantee.
- (e) The Phase II Additional Financing Facility is based on a spread of two and a half percent (2.5%) over KIBOR, which is in line with the spread allowed by NEPRA in the latest upfront tariff for Thar Coal based IPPs. Given that the risk profile of the Petitioner is higher than Thar Coal based IPPs, as the Petitioner does not benefit from a security package provided by the GoP (including an a sovereign guarantee or an implementation agreement) and is solely relying on non-sovereign customers, the Petitioner submits that the spread of two and a half percent (2.5%) over KIBOR is very reasonable. Furthermore, it is submitted that the Phase II Additional Financing Facility will only be used once the Petitioner has exhausted the entire Sovereign Guarantee Backed Facility.
- (f) **Based on the above, the Petitioner submits to the TCEB to allow the Petitioner the inclusion of the Phase II Additional Financing Facility (with a maximum spread of two and a half percent (2.5%) over KIBOR) as part of the debt servicing component in its determination of the Phase II FC Stage Tariff.**



4 ACTUALIZED PRE-COD SALE PROCEEDS FROM THE PHASE I MINE

(a) The Petitioner refers the TCEB to:

- (i) paragraph viii of the 'General Conditions' on page 9 of the Phase I FC Stage Tariff Determination that states as under:

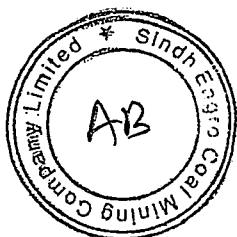
“viii. Pre-COD sale of 1.45 million Tons of lignite will be priced at the full first year tariff of coal as per this Determination. The proceeds of this sale will be utilized to finance the capital for expansion of mine to 6.5 MTPA capacity.”

- (ii) paragraph 7 of Material 'Aspects of the Petition – Analysis & Decisions' of the Phase II Contract Stage Initial Tariff Determination that states as under:

“7. Pre-COD Revenue

The 3.8 MTPA Determination had established that revenues for pre-COD sales be used of substituting equivalent capital requirements for future mine expansion. SECMC seeks to offset the use of pre-COD revenues for use as reserve fund for asset replacement instead. One does not see any conflict in timelines of revenue generation and funds requirement for mine expansion. Accordingly, the Determination maintains the earlier adjudication of using pre-COD sale revenues for reducing capex requirements for mine expansion. This applicable for both pre-COD sales of 3.8 MTPA mine as well as the 7.6 MTPA mine.”

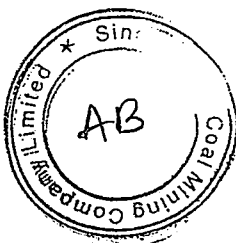
- (b) Based on above, the TCEB has determined that the Phase I Pre-CoD Sale Proceeds will be used by the Petitioner as a source of funding for the subsequent phase, i.e. the Phase II Mine Expansion, as this will lower the funding requirement for the subsequent Phase II Mine Expansion and, ultimately as a result, the tariff for the consumers.
- (c) At the time of the Phase II Contract Stage Tariff Determination, it was assumed that the Petitioner will be able to sell approximately One Million Four Hundred and Fifty Thousand tons (1.45 Million tons) of the Coal prior to the commercial operations date of the Phase I Mine (including on-spec coal to the IPP and off-take of peat) and, as a result, generate the Phase I Pre-CoD Sale Proceeds of United States Dollars Fifty Six Million Three Hundred and Eighty Thousand only (USD 56,380,000/-), which were to be used as a source of funding for the Phase II Mine Expansion. This estimate was however subject to actualization of the Phase I Pre-CoD Sale Proceeds post achievement of commercial operations by the Phase I Mine.



- (d) The Petitioner has since achieved the commercial operations for the Phase I Mine. Based on the actual requirement of the off-taker of the Coal from the Phase I Mine, the Petitioner sold Three Hundred And Forty-Eight Thousand Six Hundred And Eighty-Four tons (348,684 tons) of on-spec coal to the off-taker for electricity generation prior to commercial operations for the Phase I Mine. This generated, as the Phase I Pre-CoD Sale Proceeds, of a total revenue of Pakistani Rupees Three Billion Four Hundred and Thirty Four Million Eighty Five Thousand Four Hundred and Sixty only (PKR 3,434,085,460/-) (being equivalent to USD 22,105,474/- at the USD/PKR current exchange rate of 155.35). For the remaining coal and peat, while the Petitioner made diligent efforts to sell the same in the market, such efforts were not successful due to, *inter alia*, taxation constraints, the Coal's low heating value and high transportation cost (as most off-takers for this sale were located in Punjab, Pakistan).
- (e) As a result, the total revenue generated by the Petitioner from the Phase I Pre-CoD Sale Proceeds is United States Dollars Twenty Two Million One Hundred and Five Thousand Four Hundred and Seventy Four only (USD 22,105,474/-) net of United States Dollars Four Hundred and Ninety Four Thousand Eighty Hundred and Fifty Eight only (USD 494,858/-) (including transportation charges) (the **Actual Phase I Pre-CoD Sale Proceeds**), which is being petitioned as part of the funding plan for the Phase II Mine Expansion. However, considering that:
- (i) recovery of the Actual Phase I Pre-CoD Sale Proceeds is delayed due to late payments from CPPA-G to the off-taker of the Phase I Mine; and
 - (ii) such that the Actual Phase I Pre-CoD Sale Proceeds, once received, will only be available in the Petitioner's accounts designated for the purposes of the Phase II Mine Expansion after passing through the accounts funding waterfall mechanism and the related accounts funding obligations of the Petitioner in an order of priority, in each case, stipulated by the financing agreements related to and agreed with the lenders/financiers of the Phase I Mine (i.e. the Phase I Chinese Lenders and the Phase I Local Lenders); and

the Petitioner submits to the TCEB that the Actual Phase I Pre-CoD Sale Proceeds will only become available to the Petitioner towards the end of the second year of construction of the Phase II Mine Expansion.

- (f) **Based on the above, the Petitioner submits to the TCEB to allow the funding plan for the Phase II Mine Expansion be based on the Actual Phase I Pre-CoD Sale Proceeds and, further, allow that utilization of these Actual Phase I Pre-CoD Sale Proceeds are included in such funding plan at the end of the second year of construction.**



5 DEBT TO EQUITY RATIO

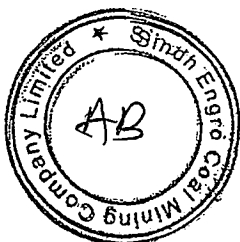
- (a) The Petitioner refers the TCEB to paragraph 3 of '*Material Aspects of the Petition – Analysis & Decisions*' of the Phase II Contract Stage Initial Tariff Determination that states, in relevant parts, as under:

"3. Capital Structure – Debt to Equity Ratio

The 3.8 MTPA tariff is based upon a Debt/Equity ratio of 75:25. The Petitioner states that the Project is being financed under a Sovereign Guarantee of USD 700 million and a situation triggered by requirements of "contingencies and certain macro-economic variables" may require additional capital requirements. Consequently, it is petitioned that this may necessitate the raising of up to USD 15 million dollars, beyond the cover provided by the Sovereign Guarantee. Accordingly, the Petitioner seeks to raise these additional funds (if required) through Equity injection and solicits the raising of Equity ratio from 25% to 30% & resulting in reconfiguring of Debt to Equity ratio to 70:30.

The plea is premised upon guestimates and assumptions. Furthermore, the Tariff of 3.8 MTPA would be required to be adjusted by rationalized costs and eminently shorter construction period. The shorter construction period results in reduction in costs heads like IDC, ROEDC, Operating costs, etc. The adjusted cost scenario is not available with TCTDC and insufficiency of updated data restricts an informed decision in this respect. In short, we are not able to determine whether there actually would be a justifiable need for additional capital or not, and if so, what would be its quantum.

In light of above, the Petitioners request to; (a) acknowledge the configuration of additional capital requirements; and, (b) to regulate a mechanism for treatment of this additional requirement is considered unwarranted."



- (b) It is submitted that the total cost required for the construction of the Phase II Mine Expansion is United States Dollars Two Hundred and Fourteen Million only (USD 214.07 million/-). Based on such cost and the TCEB's recommendation to maintain a 75:25 debt to equity ratio, the Petitioner arranged for Pakistani Rupees Twenty-Six Billion One Hundred and Twenty Million Four Hundred and Eighty Thousand Four Hundred and Four only (PKR 26,120,480,804/-) debt from the local market and the remainder funds from equity.
- (c) The debt facilities arranged for the construction of the Phase II Mine Expansion are denominated in Pakistani Rupees and as such remain exposed to the fluctuations of the Pakistani Rupee against the United States Dollar. .
- (d) in light of recent devaluations of the Pakistani Rupee against the United States Dollar and the fact that since the financing agreements for the Phase II Mine Expansion have already been executed and the Phase II Financial Close has been achieved, it is submitted that it is no longer possible for the Petitioner to arrange additional funds.
- (e) To address the matter, it is submitted that multiple precedents are available in the practices adopted by the power sector regulator, NEPRA, which allows flexibility to the sponsors of IPPs to inject equity up to a maximum of thirty percent (30%), while determining most tariffs at 75:25. Further, a precedent in the TCEB's practices and determinations is also present where the TCEB has allowed a 70:30 debt to equity ratio as part of the TCEB's determination in the matter of 'SINDH CARBON ENERGY LIMITED (BLOCK VI)'.
- (f) **Based on the above, the Petitioner submits to the TCEB to allow the Petitioner to inject additional equity in the event that devaluation results in requirement of funding beyond the arranged debt financing for the Phase II Mine Expansion, up to a cap of thirty percent (30%) of the project cost being contributed as equity.**



6 UPFRONT EQUITY INJECTION

- (a) The Petitioner refers the TCEB to *paragraph 4.3 of the Phase II Contract Stage Tariff Review Determination that states as under:*

"4.3 Upfront Equity Requirements

4.3.1 SECMC seeks a review on basis of an earlier determination of 3.8 mtpa tariff whereby a maximum up front equity drawdown was allowed at 35%.

4.3.2 It is to be noted that the 3.8 mtpa tariff was accorded special consideration because of a "first of its kind" venture of such large scale mining. The relaxation in considering such a high up front equity in the initial stages can only be an exception rather than the norm.

4.3.3 The limit of up to 25% upfront equity spend remains as per the Determination."

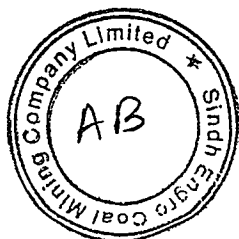
- (b) While the Petitioner had originally sought upfront equity injection cap in respect of the Phase II Mine Expansion to be thirty five percent (35%), the TCEB, in terms of its above determination, affixed a fixed cap of twenty five percent (25%) for upfront equity injection. Subsequently, in its negotiations with the Petitioner, the lenders imposed a requirement on the Petitioner of a thirty percent (30%) upfront equity drawdown, which is in line with the tariff determination for the Phase I Mine. As such, it is submitted that the Petitioner was able to negotiate with the lenders to reduce the amount of upfront equity injection to thirty percent (30%) from its own previous proposal of thirty five percent (35%).

- (c) **Based on the above, the Petitioner submits to the TCEB to allow the Petitioner an upfront equity injection of thirty percent (30%) in line with the requirement of the lenders.**



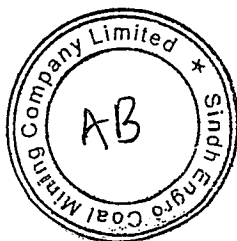
7 ROLLOVER OF COST OF CHS FROM THE SCOPE OF PHASE I MINE

- (a) The TCEB, in the Phase II Contract Stage Tariff Determination, approved a cost of United States Dollars Ten Million Five Hundred and Seventy Thousand only (USD 10,570,000/-) on account of the CHS. As the CHS equipment is a composite system that covers operations for the Phase I Mine, as well as the operations, following completion of the Phase II Mine Expansion, for the Phase II Mine, this cost was allowed on top of the system approved in the Phase I Mine. The above-mentioned cost of United States Dollars Ten Million Five Hundred and Seventy Thousand only (USD 10,570,000/-) is in addition to the existing scope of the CHS to support operations of the Phase II Mine.
- (b) The Petitioner in the Phase I Commercial Operations Stage Tariff Petition submitted to the TCEB that it has limited the scope of any coal handling system to be utilized in the Phase I Mine to a system that would enable the Petitioner to meet the bare minimum requirement of the Phase I Mine. As a result, the Petitioner requested that installation of the remaining CHS should be deferred to the construction scope of the Phase II Mine Expansion. This allowed the Petitioner to limit the cost incurred in the Phase I Mine and consequently lower the tariff for the consumer.
- (c) As a result of the afore-stated deferment of scope, the composite scope of the CHS for the Phase II Mine now consists of procurement supply and installation of 2 x stacker reclaimers, conveyor belt, 1 x 2500 tph crusher, its loading system, wind fence and associated equipment. The total cost of this system will be United States Dollars Twenty One Million Six Hundred and Seventy Thousand only (USD 21,670,000/-), which comprises of: United States Dollars Ten Million Five Hundred and Seventy Thousand only (USD 10,570,000/-) already allowed in respect of the Phase II Mine; and United States Dollars Eleven Million One Hundred Thousand only (USD 11,100,000/-) of the cost to be deferred from the Phase I Mine.
- (d) Based on the above, the Petitioner submits to the TCEB to allow an additional cost of United States Dollars Eleven Million One Hundred Thousand only (USD 11,100,000/-) in lieu of the CHS scope deferred from the Phase I Mine to the Phase II Mine Expansion. In addition, the Petitioner submits to the TCEB to allow the total cost of the CHS (being United States Dollars Twenty One Million Six Hundred and Seventy Thousand only (USD 21,670,000/-) in the cost of the Phase II Mine.



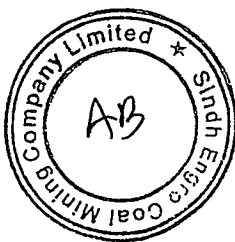
8 SWB COST IN NON-EPC COSTS

- (a) The Petitioner had originally submitted United States Dollar Four Million Five Hundred Thousand only (USD 4,500,000/-) for the SWB for the owner's (i.e. the Petitioner's) staff to carry out activities related to the Phase II Mine Expansion. The TCEB, vide the Phase II Contract Stage Tariff Determination, disallowed the total cost for the SWB citing that the existing manpower was sufficient to carry out the designated activities resulting from the Phase II Mine Expansion.
- (b) It is humbly submitted that the TCEB's assumption entailing that no additional manpower is required to carry out the Phase II Mine Expansion is misplaced. It is highlighted that the Petitioner is not only required to deploy manpower at site for not only supervision and the HSE, but also for developing in house capability for geology, short-range mine planning, production and hydrology. These teams are providing critical input at the site to ensure that operations proceed smoothly.
- (c) For the purposes of the Phase II Mine Expansion, the Petitioner has also taken additional scope whereby all major construction will be carried out by the Petitioner's team, including construction of the CHS, roads, mine service facilities, colony, etc. Due to the additional scope to be performed in-house, critical manpower is required to undertake the Phase II Mine Expansion. For this purpose, the Petitioner will require to deploy additional manpower for supervision, the HSE and construction. Be that as it may, the Petitioner has further optimized its requirement of manpower and requests that it be allowed a cost of United States Dollars One Million Five Hundred Thousand only (USD 1,500,000/-) in respect of the SWB for the scope related to the Phase II Mine Expansion.
- (e) Based on the above, the Petitioner submits to the TCEB to allow the Petitioner a cost of United States Dollars One Million Five Hundred thousand only (USD 1,500,000/-) in respect of the SWB for the scope related to the Phase II Mine Expansion.



9 UNCAPPING OF COST HEADS IN NON- EPC COSTS

- (a) In terms of the Phase II Contract Stage Initial Tariff Determination, the TCEB allowed the Petitioner a total of United States Dollars Forty-Five Million Six Hundred Thousand only (USD 45,600,000/-) for non-EPC costs. This cost was allowed to the Petitioner under certain cost heads, as was also the case for the Phase I Mine.
- (b) However, in the Phase II Contract Stage Tariff Determination, the TCEB also included subheads under the non-EPC heads. Consequently, this has resulted in ambiguity with respect to whether the caps are at the overall cost head level or at subhead level.
- (c) The Petitioner submits that a capping at the overall cost head level is in line with the precedent determinations of the TCEB in respect of the Phase I Mine and in respect of other blocks. As a result, and in order to ensure fairness, the principle forming the basis of the precedent determination should also be adopted in the case of the Phase II Mine Expansion.
- (d) Based on the above, the Petitioner submits to the TCEB to allow the Petitioner that in respect of non-EPC costs, it may be clarified that the capping is at the overall cost head level rather than at individual cost/ subhead level.



10 ONE PERCENT (1%) IRR PENALTY WAIVER

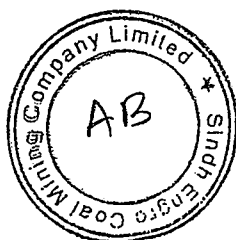
- (a) The Petitioner refers the TCEB to *paragraph 4.7 of the Phase II Contract Stage Tariff Review Determination that states as under:*

"4.7 Waiver of Penalty for failing to reach committed Milestone of 6.5 mtpa

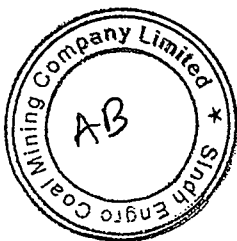
4.7.1 Petitioner solicits to reverse the decision on imposing a penalty of 1% on Equity IRR in case of default in reaching a higher production within twenty four months of 3.8 mtpa COD.

4.7.2 This plea was rejected in the Determination and TCEB re-emphasizes the condition that the said Penalty on IRR shall be applicable as per the conditions of the original Determination. However the condition of reaching enhanced production would be deemed to have been met as and when a higher production is achieved in Phase II of mining plan and the applicability of penalty would cease thereof."

- (b) It is highlighted to the TCEB that in terms of the Phase I Contract Stage Tariff Determination, the TCEB determined that a one percent (1%) IRR penalty would be applied on the Petitioner if the Petitioner fails to expand the existing mine to 6.5 Mt/a within a maximum of twenty-four (24) months from scheduled commercial operations date of the Phase I Mine i.e. October 2, 2021.
- (c) The Petitioner submits that as there is no competitive market that currently exists in the country for Thar Coal, the Petitioner can only undertake the expansion of the Mine if there is an off-taker for the Coal.
- (d) The Petitioner reiterates that the Petitioner's off-takers from the additional Coal to be produced from the Phase II Mine upon completion of the Phase II Mine Expansion, being the Coal Purchasers, are independent companies and that the Petitioner has no control on the timeline of these projects or their ability to achieve financial close. Therefore, despite being in a position to declare financial close last year, the Petitioner was unable to do so until such time that its lenders were satisfied that each of the Coal Purchasers are in a position to declare financial close.
- (e) The Petitioner achieved the Phase II Financial Close on the Phase II Financial Close Date. One of the Coal Purchasers, being TEL, achieved financial close on January 31, 2020 while the other Coal Purchaser, being TNPTL, which was scheduled to achieve financial close is yet to achieve financial close – as also submitted in Section 2(i) of this Tariff Petition – due to, *inter alia*, COVID-19 related delays.



- (f) The TCEB has approved a construction period for the Phase II Mine Expansion of thirty-three (33) months from financial close of the Phase II Mine Expansion and the same implies that the Phase II Mine will be completed in September 2022. The Petitioner has been working with the Coal Purchasers to try and expedite their achievement of financial close and construction activities. However, since the Petitioner has little control over the construction of the IPPs, it is likely that TNPTL will not be able to achieve commercial operations prior to September 2022 while the first off-taker, being TEL, will not be in a position to declare commercial operations date until June 2022. Summarily, since the Petitioner has no control over the timelines of the Coal Purchasers, the Petitioner should therefore not be penalized for factors beyond the Petitioner's control, including vide the One percent (1%) IRR penalty.
- (g) Based on the above, the Petitioner submits to the TCEB that the One percent (1%) IRR penalty imposed on the Petitioner, in the event that the Phase II Mine Expansion is delayed, is waived.



11 INCREASE IN OWNER'S COST OF OPERATIONS & MAINTENANCE IN RESPECT OF PHASE II MINE

(a) The Petitioner refers the TCEB to:

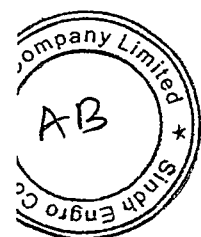
- (i) paragraph 11 of 'Material Aspects of the Petition – Analysis & Decisions' of the Phase II Contract Stage Initial Tariff Determination, as also set out in section 8(a) of this Tariff Petition; and
- (ii) paragraph 4.9 of the Phase II Contract Stage Tariff Review Determination Decision that states as below:

"4.9 Adjustments in claimed escalation to Local O&M Costs

4.9.1 The Determination Order for 7.6 mtpa remains effective and escalations etc. shall be permitted as the indexation mechanism provided for under the Rules and the Tariff Framework."

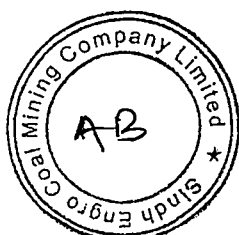
- (b) In the Phase I Contract Stage Tariff Determination, the TCEB allowed the Petitioner a cost increase in local O&M during the operational phase for expansion of the Mine to 6.5 Mt/a in the heads outlined in clause (c) below.
- (c) At the time of the Phase II Contract Stage Tariff Determination, the Petitioner only sought an increase in the SWB and O&M expense of the head-office beyond what was originally allowed for the 6.5 Mt/a. The below table illustrates a comparison in local O&M cost increase petitioned by the Petitioner for the Phase II Mine with the already determined cost of local O&M cost increase allowed by TCEB in the Phase I Contract Stage Tariff Determination.

O&M LOCAL INCREMENT	DETERMINED FOR 6.5 MT/A	PETITIONED FOR 7.6 MT/A
SALARIES, WAGES & BENEFITS	10%	20%
SITE EXPENSES	33%	33%
CONSULTANCY	33%	33%
EFFLUENT DISPOSAL	50%	50%
HEAD OFFICE RUNNING EXPENSES	10%	20%
CAPITAL ITEMS (LEASING, MAINTENANCE COST, RENTAL, SHARED SERVICES)	33%	33%



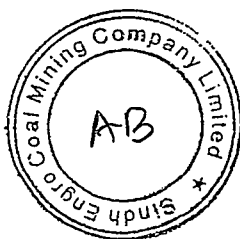
LAND REHABILITATION & WATER	50%	50%
LEGAL & PROFESSIONAL SERVICES	20%	20%

- (d) While the Petitioner is cognizant and appreciative of the TCEB's efforts to keep the tariff low for the consumers, it is submitted that the TCEB has even disallowed the originally determined costs increases for the 6.5 Mt/a mine and set them at the values allowed for the 3.8 Mt/a mine despite the fact that there is a one hundred percent (100%) increase in scope of production of the Mine as a result of the Phase II Mine Expansion.
- (e) Based on the above, the Petitioner submits to the TCEB to allow the Petitioner the local O&M cost that has already been determined for the 6.5 Mt/a mine.



12 POWER GENERATION MIX IN THE O&M OF PHASE II MINE

- (a) At the time of the Phase II Contract Stage Initial Tariff Determination, the power generation source mix was determined on the basis of supply of eighty percent (80%) of the power from the national grid and twenty percent (20%) of power through self-power generation from diesel and solar.
- (b) The Petitioner approached NEPRA, CPPA-G, NTDC, and HESCO for provision of a stable and dedicated power supply to meet the Mine's requirements from the grid. The Petitioner further approached the TCEB to seek the TCEB support to convince NEPRA, NTDC and the Ministry of Power, GoP for this purpose. However, to date, the relevant agencies and entities have failed to commence supply of power from the grid to the Petitioner for its Mining Facilities. The Petitioner was informed that while HESCO, the relevant distribution company, is working on a technical feasibility for a stable and dedicated line from different grid stations, including Umerkot, Sindh and Mithi, Sindh, the provision of power from the grid is not expected to materialize prior to 2021.
- (c) In line with the Petitioner's submitted Phase I Commercial Operations Stage Tariff Petition, it is submitted before the TCEB that out of the envisaged sources of power generation, only 'diesel gensets' and 'solar energy' are available to the Petitioner to meet its power requirements.
- (f) Based on the above, the Petitioner submits to the TCEB that until such time that the power is available and supplied from the grid to the Mine, the Petitioner is allowed to power the Mining Facilities entirely from the solar power system and the diesel gensets and, consequently, the supply of power from the diesel power generations shall be at the already approved rate of 33 cents/kwh, as determined by the TECB in the Phase II Contract Stage Initial Tariff Determination, and PKR 9.25/ kwh from the solar system.



13 CONCLUSION & DETERMINATION SOUGHT

- (a) In light of the foregoing submissions contained in this Tariff Petition, together with all supporting documents and information referred herein and/or attached hereto, the Petitioner hereby submits before the TCEB and requests the TCEB to approve and determine the Phase II FC Stage Tariff of the Petitioner's Phase II Mine, as contained herein, together with, as applicable, the indexations, adjustments, escalations, assumptions and other matters set out herein
- (b) The Petitioner will be pleased to provide any further information, clarification and explanation that the TCEB may require during its evaluation process.



LIST OF SUPPORTING DOCUMENTS/INFORMATION

The following documents, have been enclosed, as part of this Tariff Petition, in support of the submissions and matters set out herein:

SR. No	DOCUMENT
1.	Yearly profile for coal price for 7.6 mt/a mine capacity in (USD/ton)
2.	Financial Model for 7.6 mt/a mine capacity in (USD/ton)
3.	Latest Form A of THE PETITIONER certified by the Securities and Exchange Commission of Pakistan
4.	Latest Form 3 of THE PETITIONER certified by the Securities and Exchange Commission of Pakistan
5.	Executed copy of the Coal Supply Agreement
6.	Implementation Agreement of the Sindh Engro Coal Mining Company
7.	Shareholders Agreement executed between the shareholders of the Sindh Engro Coal Mining Company
8.	Document indicating a binding commitment of injection of the required equity
9.	Financing Document executed in respect of the Project
a)	<i>Common Terms Agreement</i>
b)	<i>Syndicate Terms Facility Agreement</i>
c)	<i>Debt Service Reserve Account (Accounts Agreement)</i>
d)	<i>Intercreditor Agreement</i>
e)	<i>Sponsor Support Agreement</i>
f)	Security Documents executed in respect of the Project
g)	<i>Each Direct Agreement</i>
h)	<i>Security Deed</i>
i)	<i>Each Shareholder charge in assignment</i>
j)	<i>each MOA deposit of title deed</i>
k)	<i>each letter of hypothecation</i>
l)	<i>each letter of lien and set off</i>
m)	<i>each project assignment deed</i>
n)	<i>each share pledge agreement</i>
o)	<i>each immovable property security trust deed</i>
p)	<i>each reinsurance assignment deed and account charge if applicable</i>
q)	<i>mandate agreement as signed between the lead arranger and syndicate</i>

