PERFORMANCE AUDIT REPORT
ON
NATIONAL POWER PARKS MANAGEMENT COMPANY (PVT) LIMITED
AUDIT YEAR 2021-22

AUDITOR-GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audit in terms of Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor-General's (Functions, Powers, Terms and Conditions of Service) Ordinance 2001. The Performance Audit of National Power Parks Management Company Pvt. Limited (NPPMCL) was carried out accordingly.

The Directorate General of Audit Power conducted Performance Audit of National Power Parks Management Company in April 2022 for financial year 2020-21 with a view to report significant findings to relevant stakeholders. Audit examined the economy, efficiency and effectiveness aspects of NPPMCL. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules, and regulations in managing the affairs of company. The performance audit report indicates specific actions that, if taken, will help the management to realize the objectives of the company. Most of the observations included in this report have been finalized in the light of the discussion in DAC meeting held on 10th June, 2022.

The Performance Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before both houses of Majlis-e-Shoora [Parliament].

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Muhammad Ajmal Gondal

Auditor-General of Pakistan

Islamabad

Dated: 06 April 2023

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ABBREVIATION AND ACRONYMS

AoA	Article of Association
BLK	Balloki Power Plant
CCoE	Cabinet Committee on Energy
COD	Commercial Operation Date
CPPA-G	Central Power Purchasing Agency-Guarantee, Limited
DC	Double Circuit
DAB	Dispute Arbitration Board
DAC	Departmental Accounts Committee
ECNEC	Executive Committee on National Economic Council
EPC	Engineering Procurement and Construction
GoP	Government of Pakistan
GSA	Gas Supply Agreement
GT	Gas Turbine
GWh	Giga Watt hour
HBS	Havelli Bahadur Shah
HSD	High Speed Diesel
IA	Implementation Agreement
IFRS	International Financial Reporting System
IPPs	Independent Power Producers
Km	Kilometer
LC	Letter of Credit
LD	Liquidated Damages
LTSA	Long Term Service Agreement
MoA	Memorandum of Association
MW	Mega Watt
NEO	Net Electrical Output
NPCC	National Power Control Center
NPPMCL	National Power Parks Management Company (Pvt) Limited

O&M	Operation and Maintenance
PC-I	Planning Commission Proforma-I
PDFL	Pakistan Development Fund Limited
PKR	Pakistan Rupee
PPAs	Power Purchase Agreements
PPRA	Public Procurement Regulatory Authority
PSDP	Public Sector Development Programme
QATPL	Quaid-e-Azam Thermal Power Private Limited
RFP	Request For Proposals
RLNG	Re-gasified Liquefied Natural Gas
SBLC	Standby Letter of Credit
SNGPL	Sui Northern Gas Pipeline Limited
STFF	Syndicated Term Finance Facility
USD	United State Dollar
WPPF	Workers Profit Participation Fund
WWF	Workers Welfare Fund

EXECUTIVE SUMMARY

Directorate General Audit Power conducted Performance Audit of National Power Parks Management Company (Pvt.) Limited in April 2022 for the financial year 2020-21. The main objectives of the audit were to evaluate the economy, efficiency and effectiveness of NPPMCL. The audit was conducted in accordance with the prevailing rules and regulations.

National Power Parks Management Company Private Limited was established in 2015 with overall management of two power plants Balloki and Havelli Bahadur Shah. The performance audit of NPPMCL during financial year 2020-21 revealed that plants were operating at a lower efficiency level as compared to targeted efficiency level and the consumption of auxiliary units was higher than the benchmark approved in PC-1 of the projects. Both plants of NPPMCL were delivering lesser amount of energy units as compared to the plant of Punjab Government named as Quaid-e-Azam Thermal Power. The procurement of Engineering Construction Contract was also found uneconomical due to pending recovery of liquidated damages since 2018 which are still being dealt by the arbitration board. The violation of PPRA rules in procurements was also found in NPPMCL. The financial management of NPPMCL was found inefficient due to non-reconciliation issues with the power purchaser, and high balances were still in reconciliation with CPPA(G) Limited.

Key Audit Findings

i. Low efficiency of power plants of NPPMCL led to less delivery of energy units 2,320 (GWh) as compared to QATPL - Rs. 42,120 million[1]

ii. Loss due to excess utilization of auxiliary units - Rs.9,415 million[2]

iii. Non-preparation of PC-III, IV & V as required by Planning Commission of Pakistan[3]

iv. Irregular execution/operations of NPPMCL in violation of provincial and local authorities' law[4]

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[1] **Para No. 4.1.1**
[2] **Para No. 4.1.2**
[3] **Para No. 4.1.3**
[4] **Para No. 4.1.4**

v. Decrease in net profit - Rs. 3.6 billion[5]
vi. Non-reconciliation with power purchaser - Rs. 63,918 million[6]
vii. Dispute on liquidated damages by contractor - Rs.17,187 million[7]
viii. Excess stock of high-speed diesel fuel to the tune of Rs. 3,041 million[8]
ix. Non-recovery of receivables from power purchaser - Rs.132,036 million[9]
x. Non-amortization of Pakistan Development Fund Limited (PDFL) loan - Rs.37,666 million[10]
xi. Non-contribution to WWF & WPPF - Rs. 4,778 million[11]
xii. Privatization of profitable National Power Parks Management Company (Pvt.) Limited[12]
xiii. Irregular procurement in violation of PPRA rules without obtaining performance guarantee - Rs.1.582 million[13]

a. Recommendations

In view of the audit findings, the following suggestions were recommended to improve the operational working of National Power Parks Management Company (Pvt.) Limited: -

- The low efficiency of HBS and BLK compared to QATPL should be investigated in order to deliver more energy units
- Excess utilization of auxiliary units may be investigated
- Planning Commission proformas be completed well in time as per requirement
- Compliance with the local authorities' laws is to be made without any delay to avoid any sort of penalty in future
- Investigate the reason which caused the reduction in net profit for the year 2020-21

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[5] Para No. 4.2.1
[6] Para No. 4.2.2
[7] Para No. 4.2.3
[8] Para No. 4.2.4
[9] Para No. 4.2.5
[10] Para No. 4.2.6
[11] Para No. 4.2.7
[12] Para No. 4.2.8
[13] Para No. 4.3.1

- Prompt reconciliation with the power purchaser is to be made so that the exact figure of receivables from power purchaser could be attained
- Cases of liquidated damages may be negotiated with the contractors for early receipt of money to improve cash flow position
- Rationalization of HSD stock concerning consumption may be carried out to avoid excess stock
- Strenuous efforts are needed for recovery of outstanding dues from CPPA-G
- Efficient financial management strategies may be chalked out for repayment of PDFL loan and interest as agreed
- Contribution to WWF and WPPF may be submitted to relevant authorities instead of parking in books of accounts
- NPPMCL should prepare and submit its contribution plan to Privatization Commission of Pakistan regarding its share in National Economy
- Compliance with PPRA rules may be ensured in letter and spirit

1. INTRODUCTION

National Power Parks Management Company Limited (NPPMCL) was incorporated as private limited company under the Companies Ordinance 1984 (now Companies Act, 2017) on 2nd March, 2015. It is a public sector company owned and controlled by the Government of Pakistan through Pakistan Development Fund Limited (PDFL). The principal activity of the company is to carry out the business of generation of electricity through fossil fuels and bio fuels, including but not limited to oil (residual fuel oil, high speed diesel), gas, coal, hydro or alternative energy resources, including but not limited to wind, solar and hydel or any other fuel mix used for generation of electricity in Pakistan and or outside Pakistan and to provide/sell the electricity produced to buyers following applicable laws. For this purpose, this Company is operating two Re-gasified Liquefied Natural Gas (RLNG) based combine cycle power plants namely 1223 MW Balloki District Kasur and 1230 MW at Havelli Bahadur Shah (HBS), District Jhang.

1.2 Power Plants of NPPMCL

i. Balloki

ii. Havelli Bahadur Shah

i) The 1,223 MW Balloki combined-cycle gas-fired power plant bridges the energy shortfall in Pakistan. This power plant achieved simple cycle operations on 13th August 2017 (GT1) and 30th August 2017 (GT2) while combined cycle commercial operation was carried out on 29th May 2018 **(Annex-I&II).** The power plant generates the equivalent power needed to supply more than six million Pakistani homes. The plant utilizes two high-efficiency General Electric 9HA.01 gas turbines, one steam turbine, and associated equipment. The turbine combustion system provides dual-fuel capability with RLNG being the primary fuel, while high-speed diesel serves as the backup fuel. In RLNG-fired combined cycle operation, the plant has an efficiency of greater than 61%. The total project cost as per the 2nd revised PC-1 Eq. US$ 904.08 million, i.e., PKR 94,037.63 million at a reference exchange rate of 1 USD = 104.35 PKR.

ii) The 1230 MW Combined Cycle Havelli Bahadur Shah power plant is on RLNG fuel and its high efficiency directly translates into huge savings for the national exchequer through fuel cost savings and would provide cheap electricity to the masses and industry. At the heart of this generation facility, there are two General Electric Gas Turbines of Frame 9HA.01 and an Alstom Steam Turbine. The Frame 9HA.01 turbine boasts the high fuel efficiency and flexibility. The power plant achieved simple cycle operation (760 MW) on 18th July, 2017 and combined cycle commercial operation on 9th May 2018 ***(Annex-III & IV)***. The total project cost as per 2nd revised PC-1 was USD 935.01 million (PKR 97,253.06 million) at a reference exchange rate of 1 USD = 104.35 PKR.

2. AUDIT OBJECTIVES

The main objectives of the performance audit were to assess:

- Achievement of targets of the company
- Transparency of operations under the company
- Analysis of heat rate/auxiliary consumption of power plants
- Compliance with the corporate policies
- Internal Control of NPPMCL
- Actual fuel consumption concerning estimated fuel requirement to generate electricity
- Receipt and issuance of store/ fuel

3. AUDIT SCOPE AND METHODOLOGY

The scope of performance audit was to review a period of the financial year 2020-21 with respect to performance of NPPMCL. For the period under audit, a brief financial overview is as under:

(Rs. in million)

HAVELLI BAHADUR SHAH			BALLOKI			TOTAL		
Revenue	**Expenditure**	**Profit**	**Revenue**	**Expenditure**	**Profit**	**Revenue**	**Expenditure**	**Profit**
87,118	71,597	15,521	68,234	59,472	8,762	155,352	131,069	24,283

Performance Audit activity of NPPMCL started with preparation of Preliminary Survey Report (PSR).

The following audit methodology was adopted during the course of the execution of Performance Audit: -

- Interview and discussion with the NPPMCL management
- Examination of PC-1 of HBS & BLK
- Review of contracts and consultancy agreements
- Scrutiny of procurement plan
- Assessments of multiple ledgers
- Analysis of financial statements vetted by Chartered Accountants
- Visit of power plant

4. AUDIT FINDINGS AND RECOMMENDATIONS

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Low efficiency of power plants of NPPMCL caused less delivery of energy units 2,320 (GWh) as compared to QATPL Rs. 42,120 million

According to Clause (7.7) of PC-1 Description of Major Equipment and Structure "Heavy duty gas turbines (9HA.01) in a 2xGT+ 2xHRSG + 1xST Combined Cycle Power Plant Configuration with a CCPP thermal efficiency of 61.63% for Balloki and 62.44% for Havelli Bahardur Shah has been contracted."

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that QATPL (Quid-e-Azam Thermal Power Private Limited) being the same fuel based RLNG project of 1180 MW managed and controlled by the Punjab Government through Energy Department of Punjab has higher efficiency as compared to both plants of NPPMCL during the last four years of HBS and three years of BLK as detailed below:

Power Station	Year	Plant Efficiency (%)	
		on Gross Generation	On net Export to NTDC
QATPL (Bhikki)	2018-19	62.89	61.61
	2019-20	62.92	61.68
	2020-21	62.85	61.60
NPPMCL (HBS)	2018-19	61.80	60.36
	2019-20	61.78	60.16
	2020-21	61.72	60.21
NPPMCL (Balloki)	2018-19	60.85	58.83
	2019-20	60.85	58.77
	2020-21	61.00	58.86

Source: NEPRA State of Industry Report 2021

Low efficiency of power plants of NPPMCL caused less delivery of energy units 2,320 (GWh) as compared to QATPL Rs. 42,120 million, when the delivered energy units were compared with the energy units delivered by the QATPL for the year 2017-18, 2018-19, 2019-20 and 2020-21, it was observed that HBS power plant of NPPMCL delivered more energy than QATPL, but BLK delivered less number of units except for the year 2019-20 when compared to QATPL. The detailed analysis is as under: -

Comparison of Energy Delivered (GWh)				
Power Plant	FY-2017-18	Fy-2018-19	FY-2019-20	FY-2020-21
	Energy Delivered (GWh)	Energy Delivered (GWh)	Energy Delivered (GWh)	Energy Delivered (GWh)
QATPL (Bhikki)	983.30	6,149.75	5,192.50	7,118.80
NPPMCL (HBS)	1,295.24	7,127.24	7,050.30	7,682.35
NPPMCL (Balloki)	-	4,914.95	5,911.84	6,032.81
Difference HBS with QATPL	311.94	977.49	1,857.80	563.55
Difference BLK with QATPL	(983.30)	(1,234.80)	719.34	(1,085.99)

Source: NEPRA State of Industry Report 2021

It was evident from the above figures that Balloki power plant delivered 2,320 GWh less units as compared to QATPL. The financial impact of these units was calculated as Rs.42,120 million (2,320,000,000 *18.1552).

Non-adherence to clause 7.7 resulted in lower efficiency of the power plant of NPPMCL during the period 2018-19 to 2019-20 caused less delivery of energy units 2,320 (GWh) as compared to QATPL Rs.42,120 million.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that the efficiency figures of HBS and Balloki were not comparable with QATPL due to reasons that Guaranteed net thermal efficiency approved by NEPRA at the time of Commercial Operation Date (COD) tariff determination for HBS and Balloki was 62.18 & 61.72 respectively. Both plants were performing within the allowable efficiency degradation. The efficiency numbers achieved by HBS and Balloki have been derived from the total NEO delivered and the total fuel consumed. Further it depends upon the Merit Order issued by NPCC/CPPA-G.

The DAC in its meeting held on 10th June, 2022 directed the management to submit comprehensive revised reply alongwith proper justification of merit order. No further progress was received till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.1.2 Loss due to excess utilization of auxiliary units - Rs. 9,415 million

According to 2nd Revised PC-1 Clause (9) "Annual operating cost based on proposed capacity utilization and source of financing". The calculated percentage for Auxiliary units' consumption approved in the said document was 1.22% from year 1 to year 5 for Havelli Bahadur Shah and the calculated percentage for Auxiliary units' consumption for Balloki 1.47% was approved.

During the performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that consumption of auxiliary units for both the plants were in excess as compared to the approved auxiliary unit's consumption in 2nd revised PC-1 (Year-wise auxiliary units consumption detail is attached as **Annex-V**). HBS used 585.16 GWh units instead of 289.30 GWh units during the period 2017-18 to 2020-2021 and Balloki used 619.14 GWh units instead of 256.68 GWh units.

Non-adherence to Clause 9, resulted in a loss of Rs.9,415 million due to excessive consumption of auxiliary units during the period 2017-18 to 2020-21.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that the quantum of auxiliary consumption mentioned in PC-1 was indicative only. Tariff of both power plants based on the Net Electrical Output and Heat Rate demonstrated at the time of COD which already accounted for auxiliary consumption in the process of power generation. The auxiliary consumption did not impact the tariff of the consumer, nor put the company in any loss.

The DAC in its meeting held on 10th June, 2022 directed the management to submit detailed revised reply. No further progress was received till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.1.3 Non-preparation of PC-III, IV & V as required by the Planning Commission of Pakistan

According to Planning Commission of Pakistan government departments and entities have to submit planning commission the relevant proformas regularly.

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that only PC-1 of both the projects namely Havelli Bahadur Shah and Balloki was prepared. PC-III, PC-IV and PC-V were not prepared by NPPMCL management which were mandatory to determine the achievement of the projects of NPPMCL.

Non-adherence to Planning Commission of Pakistan guidelines resulted in ineffective operations of NPPMCL during financial year 2020-21

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that the company had submitted quarterly/half yearly progress reports (PC-III) to Planning Commission. Further, certain project costs were yet to be incurred; therefore, PC-IV would be submitted once project costs were closed. Moreover, NPPMCL's power plants were operated as Independent Power Producer (IPP), therefore, PC-V was not applicable to the company.

The DAC in its meeting held on 10th June, 2022 directed the management that the para may be settled subject to verification of record. No record was produced till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.1.4 Irregular execution/operations of NPPMCL in violation of provincial and local authorities Laws

According to Clause III (29) of Memorandum of Association of National Power Parks Management Company (Pvt.) Limited states that "to apply for and obtain all necessary consents, permissions, and licenses from the government, state, and local and other authorities for enabling the company to carry on any of its objects into effect as and when required by law"

During performance audit of National Power Parks Management Company, it was observed that the company was required to obtain approval / NOCs from different provincial authorities but the company started its operation without obtaining such approval / NOCs as required in section 34 of Electricity Act 1910, Para 24 (6th Schedule) of Punjab Local Government Ordinance, 2001 and Section 33(2) of Factories Act 1934. Hence, NPPMCL performed its operations in violation of MoA and provincial authority laws.

Non adherence to Clause III (29) of Memorandum of Association resulted in irregular execution /operation of NPPMCL

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The Management replied that the required approvals/ NOCs, mentioned in the observation have already been obtained by the Company and were ready for verification of Audit.

The DAC in its meeting held on 10th June, 2022 directed that the para may be settled subject to verification of record. No record was produced till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2 Financial Management

4.2.1 Decrease in net profit - Rs. 3.6 billion

According to Public Sector Corporate Governance Rules 2013 "The Board shall establish a system of sound internal controls, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders"

During performance audit of National Power Parks Management Company (Pvt.) Limited, the audited financial statements for the year 2020-21 vetted by Chartered Accountants were examined and it was found that net profit for the year 2020-21 decreased by thirteen percent as compared to the reported net profit figure for the year 2019-2020. NPPMCL claims its power plants as state-of-the-art power plants but net profit for the year 2020-21 decreased by 13%. The mission of the company is to generate economical electricity by applying best project management practices in order to meet stakeholders' expectations in a timely manner. But analysis of profit / loss statement showed that NPPMCL was deviating from its mission statement **(Annex-VI)**.

Non adherence to Corporate Governance Rules, resulted in decreased net profit for the year 2020-21 by Rs. 3.6 billion.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that the net profit has been decreased mainly due to reduction in return on equity from 16% to 12% effective from 06th October, 2020 for Government owned power plants as per the decision of Federal Government and NEPRA revised tariff. Secondly, the profit was also reduced on account of additional maintenance cost incurred on Balloki Power Plant due to unavoidable circumstances beyond the control of management.

The DAC in its meeting held on 10th June, 2022 directed the management to submit detailed revised reply. No further progress was reported till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.2 Non-reconciliation with power purchaser - Rs. 63,918 million

Section 9.7 of Power Purchase Agreement, Payment Disputes, (a) at any time within three hundred and sixty (360) days after receipt of an invoice, a party may serve notice (an "invoice Dispute Notice") on the other party that the amount of such invoice (or part thereof) is in dispute. Each invoice dispute notice shall specify the invoice concerned and the amount in dispute, giving reasons as complete and as detailed as reasonably possible. A party shall be entitled to submit any dispute relating to an invoice to dispute resolution.

During performance audit of NPPMCL, it was observed that reported figures of receivables from power purchaser in the audited financial statements of NPPMCL was Rs. 132,036 million as on 30.06.2021, while the corresponding payable figure reported by the Power Purchaser i.e. CPPAG was Rs. 68,118 million for NPPMCL (Rs. 36,734 million for Havelli Bahadur Shah and Rs. 31,384 million for Balloki Power Plant). The difference between the receivables reported by NPPMCL and payables reported by CPPA-G is Rs. 63,918 million (132,036 – 68,118) which needs justification. Huge difference of balances of two transactional entities apparently showed the non-reconciliation between NPPMCL and CPPA-G because no invoice dispute notice was found on record.

Non-adherence to section 9.7 of power purchase agreement resulted in differences of balance of Rs. 63,918 million with CPPA during the financial year 2020-21.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that as per IFRS, the company was required to immediately record the receivables when invoices were issued to CPPA-G. Whereas, CPPA-G records the invoices in its books of accounts upon approval in terms of the Power Purchase Agreement. Therefore, the difference was attributable to the timing of recording which was temporary in nature and would be resolved in due course. Further, NPPMCL was carrying out reconciliation exercise on regular basis with CPPA-G especially at cut-off dates. Copies of reconciliation along with approval letters issued by CPPA-G for the invoices approved subsequent to the cut-off were ready for verification.

The DAC in its meeting held on 10th June, 2022 directed the management that detailed revised reply showing comprehensive calculation of reconciliation with CPPA-G and justification for un-reconciled balances with power purchaser along with documentary evidences be furnished to Audit. No further progress was received till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.3 Dispute on liquidated damages by contractor - Rs.17,187 million

According to Engineering Procurement Construction Agreement Section 8.7.1 Delay Damages "In the event the contractor fails to procure: (a) the taking-over certificate GT1 by the time for completion GT1. (b) the taking-over certificate GT2 by the time for completion GT2; and/or (c) the taking-over certificate for the facility by the time for completion for the facility. The contractor shall pay the employer, as compensation for damages and not as penalty an amount determined in accordance with schedule 10 (liquidated Damages and Bonus Payments)"

During performance audit of NPPMCL, it was noticed that the company entered into a contract for Engineering, Procurement and Construction (EPC). The contract detail is as under: -

Sr. No.	Particulars	Balloki Power Plant		Havelli Bahadar Shah Power Plant	
		Target Dates	Actual Dates	Target Dates	Actual Dates
1.	Gas Turbine -1	02.04.2017	06.07.2018	12.04.2017	17.04.2018
2.	Gas Turbine -2	02.05.2017	06.07.2018	12.05.2017	17.04.2018
3.	The Facility Certificate	29.01.2018	27.07.2018	09.01.2018	08.05.2018

Source: Audit Financial Statements 2020-21

Liquidated damages amounting to Rs.8,930 million were charged to the contractor for HBS and LDs amounting to Rs.8,257 million were charged to the contractor for Balloki.

Contractors for Balloki and Havelli Bahadur Shah have expressed disagreement on LDs charged by claiming that the delays were attributed to the company. However, the company did not accept the stance of the contractor in terms of EPC contract. As such, the liquidated damages were in arbitration with contractors since April 2018

Non-adherence to EPC agreement Section 8.7.1 resulted in to non-recovery of disputed liquidated damages Rs.17,187 million during the financial year 2020-21

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that in terms of the EPC Agreements, NPPMCL issued LDs invoices to the EPC contractors. Accordingly, the payables to EPC contractor's equivalent to the amount of LDs have not been paid. In addition to that Letter of Credits (LCs) provided to EPC contractors have been reduced by the LDs amounts. Hence the LDs stand recovered as amount equivalent to the imposed LDs have been withheld from the agreement price, which was payable to the EPC Contractor.

The DAC in its meeting held on 10th June, 2022 directed the management to submit detailed revised reply. No further progress was made till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.4 Excess stock of High-Speed Diesel fuel to the tune of Rs. 3,041 million

According to Section 3.1 (b) of Gas Supply Agreement: Purchase and Supply "Seller hereby represents to, and warrants and covenants with (subject to the terms of this agreement), the buyer that it will maintain sufficient Gas supplies on its system at all times during the delivery period to meet all of its obligation to the Buyer under this Agreement"

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that an item No.09 of audited financial statements "Stock in Trade" having HSD – High Speed Diesel lying in stock as detailed below;

Stock of HSD in FY-2019-20 (Rs. in million)	Stock of HSD in FY-2020-21 (Rs. in million)	Increase in HSD Stock (Rs. in million)
3,024	3,041	17

HSD is used as back up fuel for both the plants namely Havelli Bahadur Shah and Balloki power plants when RLNG is not available. The company has made GSA (Gas Supply Agreement) with SNGPL on Take or Pay basis which enabled the company to have uninterrupted supply of RLNG from SNGPL. Moreover, HSD consumption for the financial year 2020-21 of both the power plants of NPPMCL was Rs.776.061 million (Rs. 8.026 million HBS &Rs. 768.035 million Balloki) which was 25.51% of total stock of HSD. Excess stock of HSD was incurring carrying cost against the fuel value of Rs. 3,041 million.

NPPMCL has Gas Supply Agreement (GSA) with SNGPL on Take or Pay basis that NPPMCL must make capacity payments to the SNGPL if it did not procure the gas as per the GSA with SNGPL. Poor financial management strategies made excess stock of HSD to the tune of Rs. 3,041 million.

Non-adherence to section 3.1 (b) of GSA, NPPMCL made excess investment in HSD Rs.3,041 million during financial year 2020-21.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that in terms of Section 5.14 of Power Purchase Agreements (PPAs), it was mandatory for NPPMCL to maintain HSD Stock sufficient for seven (07) consecutive day's generation, equal to sixty percent (60%) of the prevailing contract capacity. There was no financial impact of this HSD storage quantity as NPPMCL was allowed financial cost to store referred HSD stock under PPA and covered in the tariff approved by NEPRA.

The DAC in its meeting held on 10th June, 2022 directed the management to submit detailed revised reply showing calculation regarding consumption of HSD and justification to retain HSD stock in excess of the permissible limits. No further progress was reported till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.5 Non-recovery of receivables from power purchaser - Rs.132,036 million

According to Section 9.6 Payment (a) (i) "The Power Purchaser shall pay the company the amount shown on an invoice delivered in accordance with (A) section 9.5(a) or Section 9.5(b) on or before the thirtieth (30th) Day following the Day invoice is received by the Power Purchaser; and (B) Section 9.5(b), on or before the twenty-fifth (25th) Day following the Day the invoice is received by the Power Purchaser, in each case less deductions for any Disputed amounts or portions of amounts shown in the invoice or deductions."

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that inefficient financial management strategies were adopted by the company as the invoices were regularly booked in the accounts, then late payment surcharges became part of these receivables along with invoice amount but outstanding receivables from Central Power Purchasing Agency (G) Limited stood at Rs.132,036 million. These trade debts were secured by a guarantee from GoP under the Implementation Agreement (IA). For the purpose of securing its obligation to the financiers as per the agreement of Stand By Letter of Credit (SBLC) and working capital facility, NPPMCL has assigned by way of charge to the Syndicated Term Financial Facility (STFF) with respect to energy receivables from CPPA.

The receivables from power purchaser were piled up and increased in financial year 2020-21 to Rs. 37,357 million as compared to financial year 2019-20: - **(Rs.)**

Financial Year	**Receivables from CPPA**
2019-2020	94,678,828,000
2020-2021	132,036,783,000
Increase in FY-2020-21	**37,357,955,000**
Percentage Increase in FY-2020-21	**39.45%**

Source: Audited Financial Statements of NPPMCL FY-2020-21

Non-adherence to the clause 9.6 of PPA of power purchase agreement NPMCCL has receivable amount of Rs.132,036 million during financial year 2020-21.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that NPPMCL has been continuously following up not only with CPPA-G but also with Ministry of Energy (Power Division) and other government forums for timely clearance of receivables of the Company.

The DAC in its meeting held on 10th June, 2022, directed the management to furnish documentary evidences regarding efforts made by NPPMCL for recovery from power purchaser. No further progress was reported till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.6 Non-amortization of Pakistan Development Fund Limited (PDFL) loan - Rs.37,666 million

According to Memorandum of Association of National Power Parks Management Company (Pvt.) Limited Clause III (9) "to guarantee and indemnify the payment of money unsecured by or payable under or in respect of promissory notes, bonds, contracts, mortgages, charges, obligations, instruments, or securities of the company, and general to guarantee or become sureties for the performance of any contracts or obligation concerning the business of the company"

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that NPPMCL had signed Long-term loan agreement with Pakistan Development Fund Limited (PDFL) on 11th January, 2020 of Rs. 32,738 million for its two-power plants Balloki and Havalli Bahadur Shah. Detail is as under:

(Amounts in million PKR)

Loan Amount	Interest Outstanding	Principal Outstanding	Payable as on 30.06.2021 Principle plus interest
32,738	7,296	30,307	37,666

Non-adherence to Clause III (9) of MoA, NPPMCL incurred outstanding interest and principal payment to the tune of Rs. 37,666 million during the financial year 2020-21.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that sole buyer of all the electricity generated by NPPMCL was M/s Central Power Purchasing Agency (Guarantee) Limited, an entity of the Federal Government for the purpose, under the Power Purchase Agreements duly approved by the ECC of the Federal Cabinet. Therefore, recovery from CPPA-G was imperative for payment of liabilities of NPPMCL. Accordingly, NPPMCL was continuously pursuing CPPA-G to clear overdue installments of PDFL long-term loan.

The DAC in its meeting held on 10th June, 2022 directed the management to submit detailed revised reply. No further progress was received till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.7 Non-contribution to WWF & WPPF - Rs. 4,778 million

According to section 4 of Punjab Workers Welfare Fund Act 2019 "every establishment or a part thereof, the total income of which in any year of account commencing on or after the date of closing of accounts on 30th June or 31st December, as the case may be, is not less than rupees five hundred thousand, shall be liable to pay to the Fund in respect of that year a sum equal to two percent of its total income."

According to Section 3 of Companies Profit (Workers Participation) Act 1968 "establish a Workers Participation Fund in accordance with the scheme as soon as the accounts for the year in which the scheme becomes applicable to it are finalized, but not later than nine months after the close of that year."

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that NPPMCL had not made any contribution towards the WWF – Workers Welfare Fund as per the requirement of section 4 of Punjab Workers Welfare Fund Act 2019. The outstanding payable amount, as reported in financial statements on 30.06.2021, was Rs. 1,045.09 million. Moreover, NPPMCL also had not made any contribution to the Worker's Profit Participation Fund up till 30.06.2021 and payable from the same was Rs. 3,733 million. The second E of performance evaluation viz efficiency was not achieved in the shape of non-contribution to workers welfare fund and workers profit participation fund.

Non-adherence to Section 4 of Punjab Workers Welfare Fund Act 2019 and Section 3 of Companies Profit (Workers Participation) Act 1968 NPPMCL had outstanding payables of Rs.4,778 million during financial year 2020-21

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that after the promulgation of provincial WPPF and WWF laws, an ambiguity was persisting as to the jurisdiction of the authority i.e. Federal Board of Revenue or Punjab Revenue Authority for payment of WWF and WPPF. The company would discharge its liability towards WPPF and WWF as soon as the situation clarified.

The DAC in its meeting held on 10th June, 2022 directed the management to submit detailed revised reply along with documentary evidences for exemption from contribution to WPPF & WWF. No further progress was received till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.2.8 Privatization of profitable National Power Parks Management Company (Pvt.) Limited

According to Privatization Policy of 1994 "The program is designed to enable the state to liberate itself from micro management of the enterprises and provide budgetary support to loss making units".

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that Privatization Commission of Pakistan was very actively trying to initiate the proceeding to privatize the National Power Parks Management Company (Pvt.) Limited. NPPMCL maintains two power generation plants viz Havelli Bahadur Shah at District Jhang and Balloki at District Kasur. Both the plants are combined cycle power plants based on RLNG (Re gasified Liquefied Natural Gas) and HSD (High Speed Diesel) as backup fuel to generate NEO (Net Electrical Output).

Havelli Bahdur Shah Power Plant has produced 7,682.35 GWh and Balloki Power Plant produced 6,032.81 GwH during the financial year 2020-21 against the energy purchase price of Rs. 65,311 million and 50,075 million respectively. Moreover, earning per share of NPPMCL for the financial year reported in the financial statements was Rs. 4.38 per share which means that every 10 rupees investment in NPPMCL generated Rs. 4.38 for its investors (GoP – PDFL). The figures clearly showed NPPMCL generated profit on the investment of GoP through PDFL but the GoP had put both the power plants of the company namely, 1223 MW Balloki Power Plant and 1230 MW Havelli Bahadur Shah Power plant on its active privatization program which was contradictory to Privatization policy of 1994 which states that proceeds of privatization be used for support to loss making units while NPPMCL is profit making unit of GoP.

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The Management replied that since the privatization of NPPMCL was decided by the Federal Government and process was being undertaken by the Privatization Commission, therefore, Company was not in position to respond whether the privatization of NPPMCL, a profitable entity, should be made or not

The DAC in its meeting held on 10th June, 2022 directed the management to furnish documentary evidences regarding efforts made by NPPMCL for non-privatization of profitable NPPMCL. No record was produced till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.3 Procurement and Contract Management

4.3.1 Irregular procurement in violation of PPRA rules without obtaining performance guarantee - Rs.1.582 million

According to Clause-39 of PPRA rules (i) Performance guarantee, "where needed clearly expressed in the bidding documents by the procuring agency the successful bidder to furnish a performance guarantee which shall not exceed the ten percent of the contract amount".

During performance audit of National Power Parks Management Company (Pvt.) Limited, it was observed that four tenders against different vendors were made **(Annex- VII).** The performance guarantees worth Rs. 1.582 million as required by PPRA Rules was to be obtained, which were not obtained viz 10% of contract price amounting to Rs. 1.582 million.

Non-adherence to PPRA rules Clause-39, NPPMCL made procurement without obtaining performance guarantee amounting to Rs. 1.582 million during the financial year 2020-21

The matter was taken up with management in April, 2022 and reported to the Ministry in May, 2022. The management replied that the assertion of the audit was not in line with the provisions of Rule 39 of PPRA Rules 2004, where needed and clearly expressed in the bidding documents, the procuring agency should require the successful bidder to furnish a performance guarantee which should not exceed ten per cent of the contract amount. The objected procurements related to general supplies/standard stationery, insurance obtained state-owned entity and external audit services obtained from a firm of Chartered Accountant. Generally, in most of such procurements the performance issues seldom arose and requiring the performance security led to higher costs and lessor competition.

The DAC in its meeting held on 10th June, 2022 directed the management to furnish justification for non-obtaining of performance guarantee from successful bidders. No further progress was reported till finalization of report.

Audit recommends that the management needs to implement DAC's directives.

4.4 Overall Assessment

Access to reliable, affordable and uninterrupted supply of energy is the key to economic growth and welfare of any society. Unfortunately, Pakistan is in the middle of a major socio-economic crisis because of non-availability of electricity on a sustained and affordable basis. Major supply-side constraints basically cause the crisis. National Power Parks Management Company (Pvt.) Limited has issues in the following key areas:

- Less delivery of Energy Units as compared to the rival power plant
- Excess utilization of auxiliary units
- Non-compliance to PPRA Rules
- Imprudent financial management
- Lesser efficiency in comparison to other power plants
- Non-compliance with local authorities’ law

5. CONCLUSION

Key issues highlighted in this performance audit report will not only help management to take corrective actions towards efficient utilization of resources but also aid to deliver affordable energy by improving efficiency in procurement, plant auxiliary units' consumption, and net electrical output delivery. The output of these power plants should be comparable with others plants operating in the country. Rationalization of HSD stock with respect to consumption is essential to avoid blockage of funds. Efficient financial management strategies are to be chalked out for repayment of PDFL loan and interest as agreed. The Company should comply with the local authorities' laws without any delay to avoid any sort of penalty in future. NPPMCL must present its cause to Privatization Commission of Pakistan regarding its contribution to National Economy.

6. ACKNOWLEDGEMENT

We would like to express our appreciation to the Management and staff of National Power Parks Management Company (Pvt.) Limited for the assistance and cooperation extended to the Auditors during this assignment.

7. ANNEXES

7. ANNEXES

Annex-I

BALLOKI POWER PLANT DIGEST

Plant owner	NPPMCL
Location	District Kasur, Punjab, Pakistan
Capacity	Approximately 1,223 MW (Gross RSC) generation capacity
Primary fuel	R-LNG
Backup fuel	High-speed diesel
Technology	2x GE HClass-9HA.01 Gas Turbines 2x Alstom Heat Recovery Steam generators 1xAlstom Steam Turbine
COD	Simple cycle operation 13 August 2017(GT1) and 30 August 2017 (GT2) Combined cycle commercial operation: 29 May 2018
Gas Supply Agreement	With Sui Northern Gas Pipeline Limited in October 2016 term of 15 years (with 15-year option to extend) from date of commercial operations
Power Purchase Agreement	With CPPA in October 2016; term of 30 years from date of commercial operations
(EPC) Contract	Awarded to a HEI-HRL joint venture (Joint venture of Harbin Electric International and Habib Rafiq (Pvt) Ltd in November 2015.
O&M Agreement	12 years, signed TNB REMACO, a subsidiary of Malaysia's Tenaga Nasional Berhad,P, in May 2017.

Annex-II

CHRONOLOGICAL HISTORY OF BALLOKI POWER PLANT

Date	Milestone	Detail
02 November 2015	Award of contract to Harbin Electric International	Engineering, Procurement, and Construction (EPC) contract awarded to Harbin Electric International.
10 November 2015	Ground Breaking of Balloki Power Plant	Ground Breaking of 1223 MW Balloki, Kasur R-LNG Combined-Cycle Power Plant by Prime Minister of Pakistan, Mian Muhammad Nawaz Sharif.
18 October 2016	Long Term Service Agreement	Long Term Service Agreement (LTSA) signed with General Electric.
29 October 2016	Agreement signed with Sui Northern Gas Pipeline Limited	Gas Supply Agreement signed with Sui Northern Gas Pipeline Limited (SNGPL).
29 October 2016	Power Purchase Agreement signed	Power Purchase Agreement signed with Central Power Purchasing Agency (Guarantee) Limited.
01 May 2017	Gas Turbine #1 delivered	Gas Turbine #1 delivered on site.
05 May 2017	Agreement signed with TNB REMACO	Operations and Maintenance Agreement signed with TNB REMACO, Malaysia.
06 July 2017	First fire achieved for Gas Turbine #1	First fire achieved for Gas Turbine #1 in 66 days from GT’s arrival at site.
27 July 2017	First fire achieved for Gas Turbine #2	First fire achieved for Gas Turbine #2 in a record 64 days from GT’s arrival at site.
29 July 2018	Combined Cycle Commercial operation	Balloki power plant successfully started 1223 MW commencement of combined cycle commercial operation

Annex-III

HAVELLI BAHADUR SHAH POWER PLANT DIGEST

Plant Owner	NPPMCL
Location	District Jhang, Punjab, Pakistan
Capacity	Approximately 1,230 MW (Gross RSC) generation capacity
Primary fuel	R-LNG
Backup fuel	High-speed diesel
Technology	2x GE HClass-9HA.01 Gas Turbines 2x Alstom Heat Recovery Steam Generators 1xAlstom Steam Turbine
COD	Simple cycle operation (760 MW): 18 July 2017 Combined cycle commercial operation: 9 May 2018
Gas Supply Agreement	With Sui Northern Gas Pipeline Limited in October 2016 term of 15 years (with 15 year option to extend) from date of commercial operations
Power Purchase Agreement	With CPPA in October 2016; term of 80 years from date of commercial operations
Engineering, Procurement and Construction (EPC) contract	Awarded to joint venture of Power Construction Corporation of China and Qavi Engineers (Pvt.) Ltd in October 2015.
O&M Agreement	12 years, signed with SEPCO III Electric Power Construction Corporation, a subsidiary of Power Construction Corporation of China, in May 2017.

Annex-IV

CHRONOLOGICAL HISTORY OF HAVELLI BAHADUR SHAH PLANT

Date & Year	Milestone	Detail
16 October 2015	Ground-Breaking of 1230 MW Havelli Bahadur Shah	Ground-Breaking of 1230 MW Havelli Bahadur Shah Jhang R-LNG Combined-Cycle Power Plant by Prime Minister of Pakistan, Mian Muhammad Nawaz Sharif.
13 October 2015	Contract awarded to Power China	Engineering, Procurement, and Construction (EPC) contract awarded to Power China.
29 October 2016	Ground-Breaking of Havelli Power Plant	Ground-Breaking of 1230 MW Havelli Bahadur Shah Jhang R-LNG Combined-Cycle Power Plant by Prime Minister of Pakistan, Mian Muhammad Nawaz Sharif.
18 October 2016	Agreement signed with General Electric	Long Term Service Agreement (LTSA) signed with General Electric.
29 October 2016	Agreement signed with Sui Northern Gas Pipeline Limited	Gas Supply Agreement signed with Sui Northern Gas Pipeline Limited (SNGPL).
28 April 2017	First fire achieved for Gas Turbine #1	First fire achieved for Gas Turbine #1 in 94 days from GT's arrival at site.
04 May 2017	Agreement signed with SEPCO-III Electric Power Construction Corporation	Operations and Maintenance Agreement signed with SEPCO-III Electric Power Construction Corporation.
19 May 2017	First fire achieved for Gas Turbine #2	First fire achieved for Gas Turbine #2 in a record 73 days from GT's arrival at site.
07 July 2017	Inauguration of simple cycle operation	Inauguration of simple cycle operation (760 MW) of 1230 MW Havelli Bahadur Shah Jhang R-LNG Combined-Cycle Power Plant by Prime Minister of Pakistan, Mian Muhammad Nawaz Sharif.
09 May 2018	Combined Cycle Commercial operation	Havelli Bahadur Shah power plant successfully started 1230 MW combined cycle commercial operation

Annex-V

Para No. 4.1.2

Excess Consumption of Auxilliary Consumtion								
			Auxiliary Consumption					
POWER Station	Year	Production (GWh)	Actual Auxiliry Units Consumption(GWh)	Actual %	Targeted %	Excess %	Targeted Consumption of Auxiliry Units (GWh)	Excess Consumption of Auxiliry Units (GWh)
NPPMCL (HBS)	2017-18	1,323.04	28.71	2.17	1.22	0.95	16.14	12.57
	2018-19	7,285.06	175.57	2.41	1.22	1.19	88.88	86.69
	2019-20	7,243.68	189.06	2.61	1.22	1.39	88.37	100.69
	2020-21	7,861.48	191.82	2.44	1.22	1.22	95.91	95.91
Total		**23,713.26**	**585.16**				**289.30**	**295.86**
Financial Impact of Excess Consumption of Auxiliary Units								
GWh to kWh								**295,850,000.00**
Cost Rs./kWh for HBS								**9.58**
Total Rs. in Million								**2,834,725,235.50**
NPPMCL (Balloki)	2018-19	5,081.16	175.30	3.45	1.47	1.98	74.69	100.61
	2019-20	6,126.74	219.95	3.59	1.47	2.12	90.06	129.89
	2020-21	6,253.91	223.89	3.58	1.47	2.11	91.93	131.96
Total		**17,461.81**	**619.14**				**256.69**	**362.45**
Financial Impact of Excess Consumption of Auxiliary Units								
GWh to kWh								**362,450,000.00**
Cost Rs./kWh for BLK								**18.16**
Total Rs. in Million								**6,580,352,240.00**
Total cost of Excess Consumption of Auxility Units in Rs. Million								**9,415,077,475.50**

Annex-VI

Para No. 4.2.1

Summary of Comparative analysis of financial position of NPPMCL is presented below by taking FY 2019-2020 as base year.

Detail **Financial Position**	***2019-20 (Rs. in "000")**	**2020-21 (Rs. in "000")**	**Increase / Decrease (Rs. in "000")**	**%age Increase / Decrease**
Non-current Assets	162,179,954	155,593,308	(6,586,646)	(4)
Current Assets	125,661,496	163,976,061	38,314,565	30
Total	**287,841,450**	**319,569,369**	31,727,919	11
Equity & Reserves	166,694,621	190,971,265	24,276,644	15
Non-Current Liabilities	39,842,251	35,240,259	(4,601,992)	(12)
Current Liabilities	81,304,578	93,357,845	12,053,267	15
Total	**287,841,450**	**319,569,369**	31,727,919	11
Statement of Income			-	
Sales	162,672,728	148,249,166	(14,423,562)	(9)
Cost of Sales	(131,819,886)	(124,399,008)	7,420,878	(6)
Gross Profit	30,852,842	23,850,158	(7,002,684)	(23)
other Income	9,618,507	7,102,978	(2,515,529)	(26)
Admn Expenses	(207,823)	(302,235)	(94,412)	45
Financial Charges	(12,205,440)	(6,454,536)	5,750,904	(47)
Taxation	(126,501)	86,117	212,618	(168)
Net Profit / Loss	**27,931,585**	**24,282,482**	(3,649,103)	(13)

Source: NPPMCL Audited Financial Statements 2020-21

**Base year*

(Rs in "000")

FINANCIAL YEAR	**NET PROFIT**
2020-21	24,282,482
2019-20	27,931,585
2018-19	18,990,997
2017-18	3,431,028
2016-17	(167,626)
2015-16	9,532

Annex-VII

Para No. 4.3.1

DETAIL OF TENDERS FOR WHICH PERFORMANCE GUARANTEE WAS NOT OBTAINED FROM CONTRACTORS

Sr. No.	Tender No	Name Supplier	Tender Value (Rs.)	10% Performance Guarantee (Rs.)
1	NPPMCL-admn-202-21/03	M/s COS Traders Lhr	1,178,893	117,889
2	NPPMCL-admn-202-21/02	M/s COS Traders Lhr	1,460,424	146,042
3	Sanction Order No dated 14.10.2021	M/s National Insurance Company	7,224,58 5	722,458
4	Sanction Order No dated 30.11.2021	M/s AF Ferguson & Co	5,960,000	596,000
	TOTAL		**15,823,902**	**1,582,389**