

BEFORE THE THAR COAL AND ENERGY BOARD

Sindh Engro Coal Mining Company Limited

16th Floor, The Harbour Front Building,
HC # 3, Marine Drive, Block 4,
Clifton, Karachi.

Applicant

Petition for Approval of Revised Financing Terms as per Section 4.2 of Thar Coal Pricing Framework

- A. Through the present Petition for Approval of Revised Financing Terms (“**Petition**”), the Applicant seeks to challenge the assumptions with regards to debt terms including tenor, spread, and financing fees and charges adopted by the TCEB as set out in the decision of Motion for Leave for Review of Contract Stage Tariff bearing reference number TCEB/Registrar/2-1/2014/CS-Phase.III/Review dated 17.11.2023 enclosed as **Annex A**) (“**Determination**”).
- B. This Petition is being submitted pursuant to Chapter 4 (Tariff Determination Stages), paragraph 4.2 (Contract Stage), whereby the Applicant is allowed to approach TCEB if it is unable to achieve financial close within the said limits prescribed by the TCEB in the Reference Coal Tariff i.e., the Determination and through this Petition, the Applicant hereby requests TCEB to reconsider the assumptions taken in the Determination, as discussed below.
- C. The Applicant is a limited liability company. It is a joint venture between the Government of Sindh, 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.
- D. The Applicant has been established to construct, develop, own and operate a coal mine in Block II of the Thar Coal Fields, Tharparkar District, Sindh, Pakistan (“**Project**”). To that end, the Applicant and the Government of Sindh entered into an Implementation Agreement on 19.11.2015. Moreover, the Thar Coal and Energy Board (“**TCEB**”) has enacted the Thar Coal Pricing Framework and the Tariff Determination Rules 2014 for such projects. The purpose of the Project is to harness the considerable potential of the coal resources in Tharparkar (“**Thar Coal**”) to produce power through power plants.
- E. Thar Coal offers the potential to be the cheapest source of thermal energy in Pakistan. Hence, it is likely to alleviate the energy crisis that has continuously plagued Pakistan. In addition, the use of Thar Coal will lead to substantial foreign exchange savings for the country. Furthermore, the Project has provided employment to locals and resulted in substantial investment in healthcare, education and infrastructure in Tharparkar. The Project is, therefore, of enormous benefit to the country.
- F. The Project comprises of multiples phases. The Applicant has developed the Phases I and II of the Project. Applicant now intends to expand the capacity of the Mine with a capacity of 11.2 Mt/a (“**Phase III Mine Expansion**”), for which the Applicant had filed the Contract Stage Tariff Petition dated 24.02.2023 (“**Phase III CS Tariff Petition**”) and subsequently a Motion for Leave for Review of the CS Tariff Petition dated 27.07.2023 (“**CS Tariff Review Petition**”), against which it has received the Determination.



PETITION:

1. SPREAD

The Applicant had petitioned KIBOR+ 2.25% in its CS Tariff Review Petition. In response, via the Determination, TCEB has granted only KIBOR+ 1.5% based on the assumption that, given the bloated sovereign exposures, banks have surplus liquidity for private sector borrowing at this stage. Nevertheless, it should be acknowledged that major prominent banks in Pakistan, have ceased offering new financing for coal and power projects. Faced with limited alternatives, the Applicant initiated discussions with banks willing to provide financing for the Phase III Mine Expansion.

Following extensive and multiple rounds of discussion and negotiations with various financial institutions, the most favorable spread the Applicant has been able to secure is KIBOR + 1.85%.

As previously emphasized, given the general reluctance of most banks to finance coal and power-based projects, the Applicant anticipates challenges in achieving a more favorable spread.

Considering the above, TCEB is urged to approve a spread of KIBOR+ 1.85%, thereby facilitating the Applicant in achieving financial close.

2. FINANCIAL CHARGES

The Applicant had petitioned financial charges in its CS Tariff Review Petition, while TCEB has in the Determination disallowed financial charges based on the reasoning that charges claimed are excessive, given the strong sponsor profiles behind the Project. However financial expenses such as (a) arrangement fees; (b) structuring fee/shariah fees; (c) legal fees; (d) advisory fee; (e) audit fee, and (f) other associated charges are customary fees that apply universally when arranging loans/financing, irrespective of the borrower's profile. The Applicant has previously acknowledged and settled such charges when securing financing for the preceding phases of the Project and it is noteworthy that charges of a similar nature have previously received approval from TCEB.

Throughout the multiple rounds of discussion with financial institutions, the Applicant has been apprised that these charges are standard practices across all financing and loan arrangements.

Given the aforementioned information, TCEB is kindly urged to reconsider its decision and permit financial charges totaling USD 2.42 million to facilitate the Applicant in achieving financial close (break up attached as Annexure B).

vLastly and without prejudice to the foregoing, the Applicant reserves the right to approach TCEB with additional/further grounds during the pendency of this petition or in future applications/determinations.

PAYER

In light of the foregoing, it is prayed in the interests of justice that this Honourable Board may be pleased to revisit the assumptions taken in its Determination in accordance with our aforementioned submissions.

Karachi

Dated: January 3rd, 2024

