



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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Registrar

No. NEPRA/TRF-133/KESC-2009/4525-4528

December 15, 2010

Subject:- **Decision of the Authority in the matter of Monthly Adjustment of Karachi Electric Supply Co. Ltd. for Fuel and Power Purchase Cost Variation Due to Changes in the Fuel Prices for the Month of October 2010 [Case No. NEPRA/TRF-133/KESCL-2009(6)] - Intimation of Decision of Tariff pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997)**

Dear Sir,

Please find enclosed the Decision of the Authority (04 pages) applying the Tariff Adjustment Mechanism specified in Case No. NEPRA/TRF-133/KESC-2009(6) notified vide SRO 11(I)/2010 dated January 01, 2010.

2. The Decision is being intimated to the Federal Government for the purpose of notification of the approved tariff in the official gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997) and Rule 16(11) of the National Electric Power Regulatory Authority Tariff (Standards and Procedure) Rules, 1998.

3. Pursuant to the orders of Honorable High Court of Sindh, Karachi, passed in Writ Petition No. 1380 of 2009 titled the Law Foundation and 16 others Vs NEPRA and 9 others on 25.06.2010, the Fuel Adjustment Charges (FAC) of KESC shall not be passed on to the consumers till final orders are passed in the Petition. Copy of orders of Sindh High Court is enclosed for reference.

4. Please note that paras 10-11 of the Authority's Decision are required to be notified in the official Gazette. However, prior to the notification of the subject decision, Ministry of Water & Power may like to consult Law, Justice and Parliamentary Affairs Division for legal opinion in the light of order of the Sindh High Court as referred in para 3 above.

Enclosure: As above

(Syed Safer Hussain)

Secretary,
Ministry of Water & Power,
'A' Block, Pak Secretariat,
Islamabad

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, Islamabad.
3. Secretary, Privatization Commission, Islamabad.



**DECISION OF THE AUTHORITY IN THE MATTER OF MONTHLY
ADJUSTMENT OF KESCL FOR FUEL AND POWER PURCHASE COST
VARIATION DUE TO CHANGES IN THE FUEL PRICES FOR THE MONTH
OF OCTOBER, 2010.**

Pursuant to the amendment made in Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act 1997, National Electric Power Regulatory Authority (NEPRA or the Authority) is required to review the fuel charges on monthly basis in the approved tariff on account of any variation. Further the monthly adjustments on account of fuel cost variations is to be done in accordance with the monthly adjustment mechanism for Karachi Electric Supply Company Limited (KESCL) for the fuel cost and the power purchase cost determined by the Authority in case No. NEPRA/TRF-133/KESCL-2009(6) dated December 23, 2009, duly notified by Government of Pakistan vide S.R.O No. 11(I)/2010 dated January 01, 2010. As per said mechanism KESCL is allowed the monthly adjustment in the fuel cost component for its own generation as well as power purchase cost from external sources without taking in to account the effect of T&D losses. The aforesaid variation in cost is to be passed on to the consumers in their monthly bills as Fuel Surcharge Adjustment (FSA).

2. KESCL submitted its request with regards to adjustment of fuel cost and power purchase cost variation for the month of October 2010 vide letter No. CMF/NEPRA/071/421 dated November 15, 2010 received on November 22, 2010. In that data, the cost of power purchase from NTDC/CPPA was accounted for on a provisional basis while taking into account the rates for September 2010, as the invoice of NTDC/CPPA for October 2010 was not received by KESCL till then. KESCL, in accordance with the directions of the Authority, had also certified through its request that the cost of fuel and power purchase claimed by it did not include any amount of late payment surcharge/mark-up/interest.

3. Based on the actual rates of NTDC/CPPA, KESCL resubmitted its request of monthly adjustment in its tariff for the month of October 2010 due to change in fuel price vide letter No. CMF/NEPRA/071/452 dated November 27, 2010 received on November 29, 2010. In the latest request, the fuel component of the cost of power purchase from NTDC/CPPA has increased to Rs. Rs. 2,209.227 from the previous figure of Rs. 1,877.464 million due to increase in energy transfer charges per kWh of NTDC for the month of October 2010. KESCL's first request was advertised on November 27, 2010 in the leading daily newspapers. Notices to the main stakeholders were also sent inviting thereby their comments/objections before or at the time of the hearing. The summary of the proposed adjustments based on actual rates of NTDC is tabulated below:

Tariff Adjustments Summary	October -10 Requested
Variation in Fuel Price	
Own Generation (Million Rs)	396.173
External/PPP (Million Rs)	445.439
Total (Rs. in Million)	841.612
Total Units Sent Out (GWh)	1374.024
Total Variation Ps/kWh	61.252



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4. In response to the advertisement, no comments were received by the Authority till the date of hearing. In order to consider the proposed adjustments the Authority held a public hearing at NEPRA Main Office, Islamabad on December 06, 2010.

5. During the hearing the Authority inquired about the mechanism of calculating number of units produced on RFO as well as on Gas at KESCL's owned dual fuel fired Bin Qasim Power Plant and whether KESCL has installed properly calibrated separate flow meters for accurate measurement of energy on each source of applicable fuel, i.e. Gas and RFO.

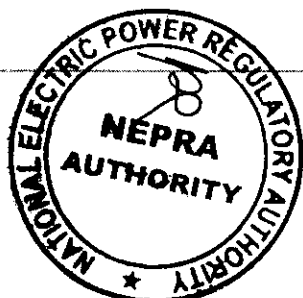
6. In response KESCL submitted that currently no separate flow meters are installed at Bin Qasim power plant. KESCL further submitted that generation at Bin Qasim power plant on gas as well as on RFO is calculated on prorata basis on gas consumption and RFO usage at respective dual fired units of Bin Qasim. The Authority while showing dissatisfaction on the arbitrary method of calculating generation on dual fuel, directed KESCL to install separate flow meters at Bin Qasim power plant on immediate basis so that a true picture of the number of units being produced on RFO as well on Gas could be reflected.

7. During the hearing, the Authority also inquired about the status of Heat Rate test of KESCL recently commissioned power plants such as Korangi combined cycle, Korangi Gas Turbine-2 and Site Gas Turbine-2. KESCL replied that it has not carried out Heat Rate tests of these plants, however, if the Authority agrees then KESCL professionals along with NEPRA professionals may conduct the Heat Rate test as per the international standards. The Authority directed KESCL to get Heat Rate test conducted for these three plants from a reputable independent consultant within three months time from the date of hearing, i.e. by March 06, 2011 and submit consultant report in the matter to the Authority. Till such time, the Authority has decided to use the following Heat Rates for calculation of KESCL fuel price adjustments on provisional basis subject to adjustment based on report of Heat Rate test:

- Korangi Combined Cycle 9110 Btu/kWh
- Korangi Gas Turbine-2 9500 Btu/kWh
- Site Gas Turbine-2 9500 Btu/kWh

8. The generation data, rates etc. of KESCL (both from self generation and power purchased from external sources) for the month of October 2010 was scrutinized with respective invoices and other underlying documents. After detailed scrutiny of both self and external generation data, the Authority observed that NTDC/CPA had charged a different rate to KESCL by not revising its invoice in accordance with the energy transfer rate approved by the Authority for monthly fuel adjustments of DISCOs. The Authority noticed that NTDC/CPA, for the month of October 2010, charged Rs. 4.79/kWh as against the Authority's approved energy transfer rate of Rs. 4.61/kWh in the monthly fuel price adjustment for DISCOs. The Authority in its decision dated September 29, 2008 had directed that NTDC/CPA shall treat KESCL at par with XWDISCOs for the purpose of sale of power and shall charge on the basis of similar mechanism as approved for XWDISCOs.

9. In view of decision of the Authority referred hereinabove, the Authority has decided to apply the same energy transfer rate to KESCL as approved by the Authority for XWDISCOs for the month of October 2010. The Authority has also directed NTDC to explain the reason of the violation of Authority's directives through separate communication. Consequently, the fuel cost variation of KESCL's own power generation and power purchases from external sources for the month of October 2010 works out to be Rs. 794.043 million (Ps. 57.789/kWh), as per the details tabulated hereunder:



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Tariff Adjustments Summary	October -10 Requested	October -10 Allowed
Variation in Fuel Price		
Own Generation (Million Rs)	396.173	387.151
External/PPP (Million Rs)	445.439	406.892
Total (Rs In Million)	841.612	794.043
Total Units Sent Out (GWh)	1374.024	1374.024
Total Variation Ps/kWh	61.252	57.789

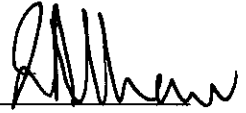
10 In order to allow KESCL for variation in fuel cost component of its own generation as well power purchased from external sources for the month of October 2010, the Authority has therefore decided to pass on Ps.57.78/kWh to be charged by KESCL from the consumers as Fuel Surcharge Adjustment. The paisa per kWh, rounded off after taking into account its effect on consumption of life line consumers, to be charged by KESCL in the prospective billing month of February-2011 from each consumer works out to be Ps. 58/kWh and shall be charged by KESCL according to the following schedule:

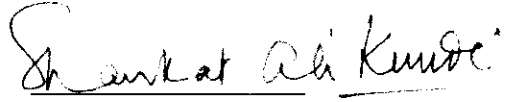
Fuel surcharge Adjustment (FSA)	Ps/kWh	Monthly Consumer bill
October 2010	58.00	February 2011


11. The adjustment as referred to in para 10 above;

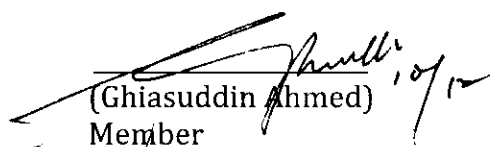
- shall be applicable to all the consumer categories except lifeline consumers of KESCL; and
- shall be shown separately in the consumer bills on the basis of consumption for the month of October, 2010.

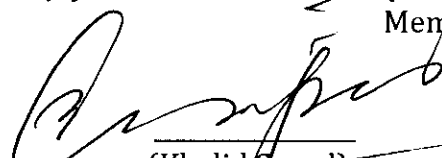
Authority:


(Zafar Ali Khan) 8/12/10
Member

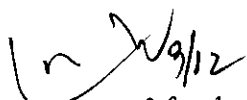

(Shaukat Ali Kundi) 15.12.2010
Member/VC

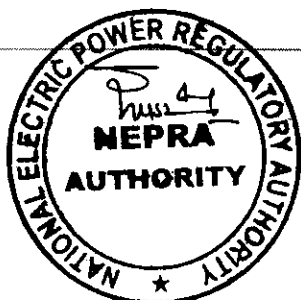

(Maqbool Ahmad Khawaja)
Member


(Ghiasuddin Ahmed) 10/12
Member


(Khalid Saeed)
Chairman

* My dissenting note attached


MAQBUL AHMAD KHAWAJA
7(5)



**NOT OF DISSENT OF MAQBOOL AHMAD KHAWAJA, MEMBER
(S) ON THE DECISION OF THE AUTHORITY IN THE MATTER
OF: MONTHLY ADJUSTMENT OF FUEL PRICE VARIATION IN
KESCL'S TARIFF FOR THE MONTH OF OCTOBER-2010**

In spite of clear direction of Authority in the tariff determination NEPRA/TRF-133/KESCL-2009 dated 23-12-2009 (6) where it was specifically emphasized that:


A. "KESCL shall not be allowed any adjustment in tariff on account of Fuel Price Variation till approval of heat-rate" (para-vii) of the order of the Authority." (Page-34 of 60)

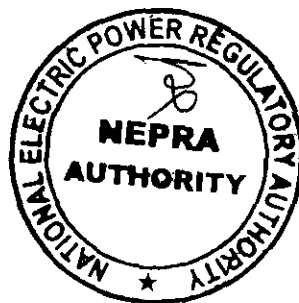
B. "While approving monthly adjustment of the tariff the Authority shall ensure that KESCL has dispatched its all generation units in the economical merit order." (Para-8 Page 42 of 60: Mechanism for adjustment in tariff due to variation in purchase price) ~~ref~~ (Para III(b) of the order of Authority referring Annex B).

Both the directives have not been complied with up till-now as such in my view KESCL does not qualify for monthly adjustment as per the determination directives of Authority dated 23-12-2009.

Moreover it is also confirmed that KESCL is not utilizing / generating fully from its available plants. Not only it has stopped / decommissioned its 7 units of gas without approval from NEPRA but also even the remaining units which could generate more are not being fully utilized. This may also be worth mentioning that without proper / separate metering of gas and oil, the consumption calculations on prorata basis shall not be acceptable.

I therefore on the basis of above, dissent from the decision of the Authority.

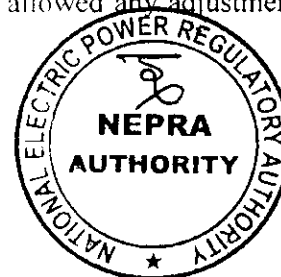

Maqbool Ahmad Khawaja
Member (S)
9-12-2010



ORDER OF THE AUTHORITY
IN CASE NO. NEPRA/TRF-133/KESCL-2009
TO BE NOTIFIED IN THE OFFICIAL GAZETTE

The decision taken in the aforementioned paragraphs are summarized and recapitulated in the following Order:

- (I) KESCL is allowed an increase of Rs 0.15/kWh in the consumer end tariff as indicated in the revised schedule of tariff annexed to this Determination as Annexure-F;
- (II) The period for the multi-year tariff (MYT) has been extended with effect from July 1, 2009 to be applicable for a period of next seven years i.e. June 30th, 2016;
- (III) The consumer end tariff shall be capped for a period of next seven years subject to the following adjustments whichever are applicable at the time of adjustment and aggregated together:
- a) Adjustment in tariff on account of fuel price/cost variation according to the mechanism prescribed as Annexure-A;
 - b) Adjustment in tariff on account of power purchase cost variation according to the mechanism prescribed as Annexure-B; and
 - c) Annual CPI-X adjustment in tariff on account of inflation according to mechanism prescribed as Annexure-C.
- (IV) KESCL request for deferral/suspension of claw-back mechanism is not allowed and the same shall continue to remain in the field during the next seven years as prescribed in Annexure-D;
- (V) KESCL's request for exemption from "X" factor on CPI indexation is not allowed and the same shall continue to remain in the field till expiry of next seven years tariff period as prescribed in Annexure-C;
- (VI) KESCL's request for modification in the terms and conditions of supply is accepted and the same are modified in line with the terms and condition of supply for other DISCOs as prescribed in Annexure-E;
- (VII) KESCL is directed to perform heat rate (efficiency) test for all its upcoming power plants at the time of commissioning and submit the same to the Authority for approval. KESCL shall not be allowed any adjustment in tariff on account of fuel price variation till approval of heat rates of such power plants;
- (VIII) KESCL is directed to obtain approval of the Authority for power acquisition alongwith the agreed rate and other terms and conditions for purchase of power from external sources. KESCL shall not be allowed any adjustment in



tariff on account of power purchase cost variation in respect of those power sources for which prior approval of the Authority has not been obtained. For this purpose KESCL is directed to submit its request for power acquisition alongwith the rationale, relevant documents, Agreements etc. for consideration and approval of the Authority within thirty (30) days of this determination.

- (IX) KESCL has not been allowed any provision for adjustment in tariff on account of its future investments in the system.
 - (X) KESCL is directed to place all documentary record of its additional investment decisions on its official website for the information of consumers.
 - (XI) KESCL's request for resetting tariff on the basis of actual T&D losses is not accepted. The T&D loss targets as provided in the Previous Determination of the Authority shall continue to be applicable for the next seven years control period.
 - (XII) KESCL's request for modification in the security deposit rates shall be decided later on alongwith those of other DISCOs to be uniformly applicable all across the country.
 - (XIII) KESCL is directed to establish separate cost centers for each function of the Utility i.e. generation, transmission and distribution within a period of six months and submit its report to the Authority, and
 - (XIV) The Authority shall review the tariff applicable to each class of consumers for rationalization or modification in the tariff structure from time to time as deemed appropriate.
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