



# National Electric Power Regulatory Authority

Islamic Republic of Pakistan

2nd Floor, OPF Building, G-5/2, Islamabad

Ph: 9206500, 9207200, Fax: 9210215

E-mail: registrar@nepra.org.pk

Registrar

No. NEPRA/TRF-133/KESC-2009/4822-4825

June 30, 2011

Subject:- **Decision of the Authority in the matter of Monthly Fuel Cost Adjustment of Karachi Electric Supply Co. Ltd. due to changes in Fuel Prices for the Month of March 2011 [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 herewith the Decision of the Authority (05 pages) regarding monthly fuel cost adjustment of Karachi Electric Supply Company Ltd. due to changes in fuel prices for the month of March 2011 in Case No. NEPRA/TRF-133/KESC-2009(6).

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. Please note that paras 17 – 18 of the Authority's Decision are required to be notified in the official Gazette.

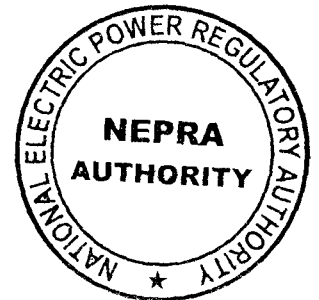
Enclosure: As above

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.

  
( Syed Safer Hussain )





**DECISION OF THE AUTHORITY IN THE MATTER OF  
MONTHLY FUEL COST ADJUSTMENT OF KARACHI ELECTRIC SUPPLY COMPANY LIMITED  
DUE TO CHANGES IN FUEL PRICES FOR THE MONTH OF MARCH, 2011**

1. Pursuant to the amendment made in section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (hereinafter referred to as the "NEPRA Act") through the Finance Act, 2008, National Electric Power Regulatory Authority (herein after referred to as "the Authority") is required to review the fuel charges on monthly basis in the approved tariff on account of any variation in the fuel prices. 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 (herein after referred to as "KESCL") determined by the Authority in case No. NEPRA/TRF-133/KESCL-2009(6) dated December 23, 2009, duly notified by the Government of Pakistan vide S.R.O No. 11(I)/2010 dated January 01, 2010. As per the said mechanism, KESCL is allowed monthly adjustment in fuel cost component for its own generation as well as power purchase cost from external sources on account of fuel price variation without taking in to account the effect of transmission and distribution losses (hereinafter referred to as "T & D losses"). The aforesaid variation in cost is to be passed on to the consumers in their monthly bills as fuel cost adjustment (hereinafter referred to as "FCA").
2. KESCL submitted its request of monthly adjustment due to fuel price variation for the month of March, 2011 vide letter CMF/NEPRA/071/679 dated April 22, 2011. In accordance with the directions of the Authority, KESCL had 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 and also certified vide letter CMF/NEPRA/071/720 dated May 17, 2011 that it didn't get any subsidy from Government of Pakistan (herein after referred to as "GoP") on the purchase price of furnace oil for the month of March, 2011. The summary of the requested adjustment is tabulated below:

<b>Tariff Adjustment Summary</b>	<b>March -11 Requested</b>
<b>Variation in Fuel Price</b>	
Own Generation (Million Rs)	611.239
External/PPP (Million Rs)	1,266.889
<b>Total (Rs. in Million)</b>	<b>1,878.128</b>
Total Units Sent Out (GWh)	1,212.190
<b>Total Variation Ps/kWh</b>	<b>154.937</b>

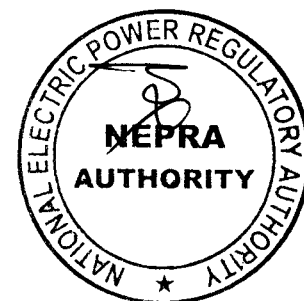
AK AL Q





3. Notice of hearing of the above mentioned KESCL's request was advertised by the Authority in the leading daily newspapers on May 07, 2011. The Authority also sent notices to the main stakeholders on the same date inviting thereby their comments/objections in order to reach an informed and just decision. Hearing in this matter was held on May 16, 2011 at National Institute of Management, NIPA, Karachi.
4. During the hearing, KESCL submitted that the fuel cost of KESCL's own generation has increased due to the following reasons:
  - a. Cost of furnace oil consumed by KESCL has increased from Rs. 44,781 per metric ton for the month of December 2010 i.e. reference month to Rs. 56,579 per metric ton for the month of March, 2011.
  - b. Its generation on furnace oil has increased from 101 GWh in the month of December, 2010 to around 200 GWh in the month of March, 2011.
5. KESCL further submitted that its power purchase cost has increased mainly due to increase in the unit price of electric power purchased from NTDC. KESCL elaborated that it had purchased around 75% of its total power purchases from external sources for the month of March 2011 from NTDC whose unit price has increased from Rs. 5.705/kWh for the month of December, 2010 to Rs. 7.165/kWh for the month of March, 2011 i.e. an increase of Rs. 1.46/kWh.
6. During the hearing, Member S&P observed that power purchased by KESCL from external sources (648 GWh) was more than its own generation (563 GWh) whereas around 484 GWh of energy was purchased from NTDC. He said that under-utilization of KESCL own power plants is forcing NTDC to purchase expensive electricity generated on High Speed Diesel (HSD). He further observed that generating electricity on HSD by NTDC is far more expensive than the electricity that could be generated on RFO based units of KESCL.
7. KESCL submitted that gas, as per the decided allocation, isn't being provided to it. It added that additional generation needs to be done on furnace oil which costs it around Rs. 14/kWh and this cost increases with the increase in oil prices. KESCL submitted that there is sufficient gas available in the country, the only thing that needs to be done is to prioritize this gas allocation to the power sector. Currently in gas allocation priority, power sector ranks at bottom. Although, KESCL is also working on the proposal of using imported LNG but its price again will be 2 to 2.5 times higher than the domestic natural gas price.
8. In this regard, Member (S&P) suggested that KESCL should meet with the Central Power Purchasing Agency (CPPA) and work out some arrangement of selling the electricity generated on RFO, which is currently not being utilized, to NTDC. He said by making this arrangement, underutilized capacity of KESCL will be fully utilized and NTDC won't have to buy units generated on HSD which are much costlier than units generated on RFO. KESCL replied that it will surely discuss this matter with CPPA in the coming days.

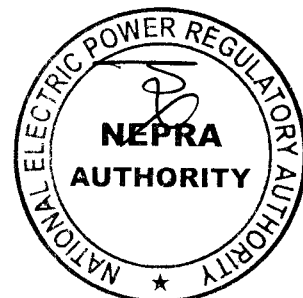
*Handwritten initials and a circled number 2*





9. Mr. Abdul Bari, the representative from Karachi Nuclear Power Plant (KANUPP), submitted that current payable amount to KANUPP by KESCL is around Rs. 1.9 billion. He said that KANUPP is selling electricity to KESCL at Rs. 6/kWh, which makes it one of the cheapest source for procuring electric power for KESCL. He further submitted that currently KANUPP is on major overhaul for which it needs a lot of money and it is continuously asking KESCL to pay its dues. KANUPP requested the Authority to direct KESCL to pay its arrears so that KANUPP can generate electricity and contribute to soothe this load shedding issue in Karachi. KESCL replied that as KANUPP is a government entity therefore its dues form a part of the circular debt. KESCL submitted that it will request the GoP to pay subsidy amount of KESCL in order to settle previous energy dues of KANUPP.
10. Mr. Nisar Shaikhani, representing S.I.T.E Association of Industries, submitted that while going through the request submitted by KESCL, he found out that KESCL is also claiming General Sales Tax (GST) as its cost which is incorrect as GST is a pass through item. In this regard, KESCL representatives submitted that GST has not been included in the cost being claimed for adjustment and it was also confirmed by NEPRA professionals.
11. Mr. Nisar Shaikhani also submitted that KESCL has the policy of carrying out more load shedding in those areas where theft is high. He raised the question whether KESCL can do it unilaterally without approval of the Authority. Further, he submitted that KESCL should be directed to publish the schedule of load shedding being carried out by it as it is an international practice. In this regard, the Authority directed KESCL to publish the schedule of load shedding on daily basis.
12. Mr Arif Bilwani, representing consumers, asked KESCL about the order of allocation of gas to its power plants. With reference to the request submitted for adjustment by KESCL, he said that the generation results for the month of March, 2011 reveal that 53 GWh were sent out on KGTPS-II and only 58GWh were sent out on Korangi CCPP despite the huge difference between the generating capacity of the two power plants, i.e. 88MW of KGTPS-II and 220MW of Korangi CCPP. In this regard, KESCL vide its letter No. CMF/NEPRA/071/722 dated May 17, 2011 submitted its reply to the Authority while stating the following technical reasons for the difference in generating figures of the two power plants.
  - I. Since November 2010, Gas Turbine-2 of Korangi CCPP has been in planned outage due to bearing failure of rotor.
  - II. Since March 01, 2011 Gas Turbine-4 of Korangi CCPP has not been available due to problem in the generator gear box.
  - III. During March, 2011 the average load of CCPP has been 86MW against the capacity of 220MW whereas the average load at KTGPS-II during the month was 73MW against the capacity of 88MW.

AK M Q

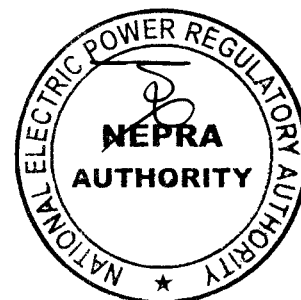


13. Mr. Qazi Ahmed Kamal, representing Karachi Chambers of Commerce, highlighted several issues. He submitted that in the case of KESCL, it has been laid down in the Authority's decisions that the Authority will allow only the burden of such costs that are outside the control of KESCL to be passed on to the end users in the shape of an increased tariff and rest of the burden will be borne by the KESCL itself, i.e. costs which are in control of KESCL. In the light of above, he submitted that the impact of variation in international oil prices is not in KESCL's control and should be borne by the end users but line losses are not uncontrollable and their impact should be borne by KESCL itself. He said NEPRA has allowed KESCL a cushion of 23% line losses which means regular payers of KESCL are paying for those consumers who are not paying their bills or who are involved in theft. In this regard, the Authority is of the view that the target of losses for KESCL was determined by the Authority in its determination dated December 23, 2009 at 25% after due consideration which reduces by 2% every year, however, the actual losses are not allowed to KESCL.
14. The generation data, rates etc. of KESCL (both from self generation and power purchased from external sources) for the month of March, 2011 were scrutinized with respective invoices and other relevant documents. The Authority observed that NTDC/CPPA for the month of March, 2011 charged Rs. 7.165/kWh to KESCL as energy transfer rate against the energy transfer rate of Rs.7.123/kWh approved by the Authority for monthly fuel cost adjustments of XWDISCOs. The Authority in its decision dated September 29, 2008 had directed that NTDC/CPPA shall treat KESCL at par with XWDISCOs for the purpose of sale of power and shall charge KESCL on the basis of similar mechanism as approved for XWDISCOs. Accordingly the Authority has allowed Rs. 7.123/kWh for the power purchased from NTDC for the month of March, 2011.
15. In view of the above, the fuel cost variation of KESCL's own power generation and power purchases from external sources for the month of March, 2011 works out to be Rs. 1,857.398 million (Ps 153.227/kWh), as per the details tabulated hereunder:

Tariff Adjustments Summary	March -11	March -11
	Requested	Allowed
<b>Variation in Fuel Price</b>		
Own Generation (Million Rs)	611.239	611.239
External/PPP (Million Rs)	1,266.889	1,246.159
<b>Total (Rs In Million)</b>	<b>1,878.128</b>	<b>1,857.398</b>
Total Units Sent Out (GWh)	1,212.190	1,212.190
<b>Total Variation Ps/kWh</b>	<b>154.937</b>	<b>153.227</b>

16. In order to allow KESCL for variation in fuel cost of its own generation as well as power purchased from external sources for the month of March 2011, the Authority has therefore decided to pass on Ps.153.227/kWh to the consumers of KESCL as fuel cost adjustment. The paisa per kWh, rounded off after taking into account its effect on the consumption of life line

AK M3





consumers, to be charged by KESCL from each consumer works out to be Ps. 154 /kWh.

17. The Authority has noted that:

- according to the schedule for recovery of FCA for the period April 2010 to February 2011 presented by the Authority to the Honorable Sind High Court on its directions, net figure of minus Ps. 49 / kWh on account of FCA is adjustable by KESCL in the consumer billing month of July 2011; and
- the FCA allowed by the Authority for the month of March 2011 as detailed in the preceding paragraph is plus Ps. 154 /Kwh;

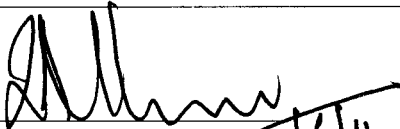
After consideration of the above figures of FCA, the Authority considers it appropriate that for reducing the burden of increase of Ps. 154 /kWh for the month of March 2011 on consumers, FCA allowed for the month of March 2011 should be charged in monthly consumer bills of July 2011 together with the figure of minus Ps. 49/kWh as detailed above. The FCA shall be charged by KESCL according to the following schedule:


FCA to be calculated on the basis of billing for the month of	Ps/kWh	To be charged in Monthly Consumer bill of
March 2011	154.00	July 2011


18. The adjustment as referred to in para 17 above:

- shall be applicable to all the consumer categories except lifeline consumers of KESCL; and
- shall be shown separately in the consumer bills of July, 2011 on the basis of units billed for the month of March, 2011.

Authority:

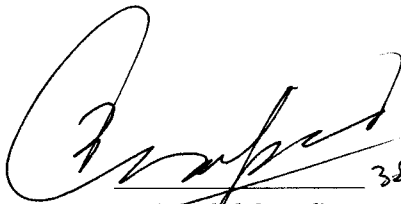
  
 (Zafar Ali Khan)  
 Member  
 21/6/11

  
 (Maqbool Ahmad Khawaja)  
 Member

  
 (Ghiasuddin Ahmed) 22/6  
 Member

*Authority must take a serious note of the Director's of Authority not being followed by KESCL*  
 (Shaukat Ali Kundi)  
 Member/Vice Chairman

*Shaukat Ali Kundi*  
 30.06.2011

  
 (Khalid Saeed)  
 Chairman



*In March 2011, KESCL's gas price was less than 15% from its available plants as per my opinion is a violation of direction of Authority for ~~regulation~~ of Fuel adjustment as such. I dissent from decision of Authority, non-availability of its own capacity available is against direction of Authority.*

*(M. A. KHAWAJA)  
 MEMBER (I)*