



Registrar

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Islamic Republic of Pakistan

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No.NEPRA/TRF-206/KWSB-2012 /10151-10153  
December 19, 2012

Subject: **Determination of the Authority in the Matter of Tariff Petition filed by Karachi Water and Sewerage Board (KW&SB) for Prescribing Separate Tariff Structure and Reduction in Electricity Rates [Case # NEPRA/TRF-206/KWSB-2012 ]**

Dear Sir,

Enclosed please find the Determination of the Authority (08 pages) in the matter of Tariff Petition .filed by Karachi Water & Sewerage Board for prescribing separate tariff structure and reduction in electricity rates in Case No. NEPRA/TRF-206/KWSB-2012, for information please.

Encl: 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, 'Q' Block, Pak Secretariat, Islamabad.

( Syed Safer Hussain )



**NATIONAL ELECTRIC POWER REGULATORY AUTHORITY  
(NEPRA)**

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Case No. NEPRA/TRF-206/KW&SB-2012

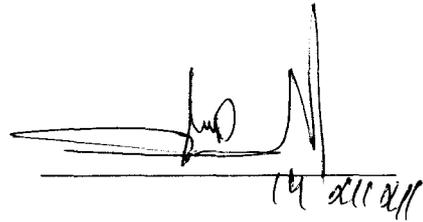
Dated December 19<sup>th</sup>, 2012

**Petitioner**

Decision of the Authority in the matter of Tariff Petition filed by Karachi Water & Sewerage Board (KW&SB)

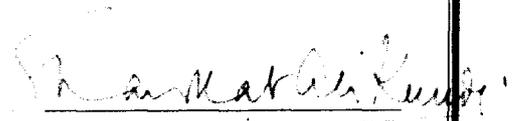
**Authority**

Khawaja Muhammad Naeem  
Member (Tariff)



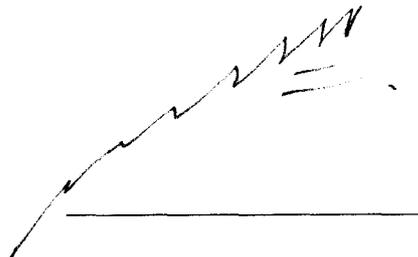
Handwritten signature of Khawaja Muhammad Naeem, dated 19 Dec 2012.

Shaukat Ali Kundi  
Member



Handwritten signature of Shaukat Ali Kundi.

Habibullah Khilji  
Chairman



Handwritten signature of Habibullah Khilji.



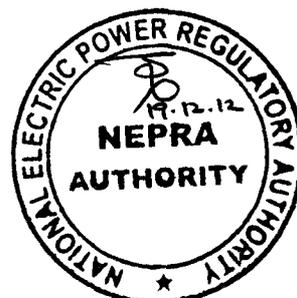
**Determination of the Authority in the matter of tariff petition filed by Karachi Water and Sewerage Board (KW&SB) for prescribing separate tariff structure and reduction in electricity rates**

**Background**

1. Karachi Water & Sewerage Board (hereinafter referred to as "KWSB" or the "Petitioner") filed a tariff petition (the "Petition") on February 28, 2012 with the National Electric Power Regulatory Authority (hereinafter referred to as "Authority") for determination of change in Karachi Electric Supply Company Limited (hereinafter referred to as "KESCL") rates for KWSB (from commercial or industrial to separate special tariff) under Rule 3(1) of NEPRA Tariff Standards and Procedure Rules, 1998 (Tariff Rules).
2. The Authority considered the petition and decided to conduct a pre-admission hearing on April 18, 2012. Accordingly, the pre-admission hearing was held on April 18, 2012 in Islamabad. During pre-admission hearing, the representatives of KWSB made a detailed presentation to the Authority on their petition for the determination of change in the tariff/rates of KESCL for KWSB and requested the Authority to admit the petition for regular hearing and further consideration.
3. In pursuance of Rule 4 of the Tariff Rules, the Authority issued an advertisement for the public hearing in the leading newspapers on May 30, 2012 and the notices were also sent to the stakeholders considered to be affected/interested/concerned inviting thereby comments/objections from them in opposition or in support of the petition and to make the process of hearing more meaningful and to arrive at an informed and just decision.
4. In response thereto, five intervention requests that is from KESCL, Mr. Arif Bilwani, Karachi Chambers of Commerce & Industry (KCCI), Cantonment Boards of Karachi and Finance Department, Government of Khyber Pakhtunkhwa were filed and leave to intervene was granted by the Authority.
5. A hearing in this regard was held on June 12, 2012 (Tuesday) at National Institute of Management (NIM), University Road, Block 11, NIPA Chowrangi, Gulshan-e-Iqbal, Karachi. The hearing was attended by the aforementioned interveners, commentators, the Petitioner and general public.

**Submissions of the Petitioner**

6. The petitioner submitted that KWSB is not a commercial or industrial entity but a public sector civic agency providing the basic necessities and amenities of life and therefore should not be charged under these categories by KESCL. The distinguished topography, peculiar location and vast area of Karachi makes the production, transmission distribution of water as well as disposal of sewage a huge task for it as compared to other utilities performing the same functions in the country.
7. The petitioner further submitted that water charges cannot be increased in the same ratio as electricity rates due to the socio-economic factors. The electricity charges have



increased manifold which is a major cost component for the petitioner and creating a financial gap in the revenue and expenditure leaving the petitioner unable to carry out various development projects, rather expenditure on Operations and Maintenance had to be curtailed, due to which machines and the overall system is becoming obsolete and redundant. The petitioner prayed the Authority to declare that KWSB is not a commercial or industrial entity but a public sector civic agency providing the basic necessities and amenities of life and should not be charged under these categories by KESCL. The petitioner further prayed to prescribe separate special tariff for the utility by reducing the existing determined tariff for KESCL by 50%.

### **Comments of Interveners**

8. The main comments/objections as submitted by each intervener through intervention requests and during the hearing, in a summarized form are given hereunder;

9. Intervener No. 1: Karachi Electric Supply Company Limited:

9.1 KESCL submitted that the main ground relied upon by KWSB in its petition is that it is unable to meet its cost of service, i.e. cost of electricity is so high which KWSB cannot pass on in water rates as it is not allowed to pass through its costs to its consumers. Under section 4 of the KWSB Act of 1996, the provincial government has the power to increase water rates therefore if for any reason KWSB is unable to meet its cost of service then it may apply to the provincial government for increase in its water rates. KESCL submitted that KWSB is providing a service to the general public and if it is unable to meet its cost of service then there is a prescribed procedure for that and it should go on to follow that procedure.

9.2 KESCL further submitted that presently there is a two-tariff regime which prevails in the country. There is a determined tariff that NEPRA works out and there is an applied rate which the Federation of Pakistan notifies and actually being charged from consumers. He submitted that the tariff proposed by the petitioner in its petition is simply 50% reduction in the rates determined by the Authority which are not actually being charged. KWSB, along with other consumers, are already subsidized due to aforementioned differential tariff regime and the difference is borne by the GoP in shape of tariff differential subsidy, however, if KWSB is seeking further subsidy then it should approach the federation of Pakistan instead of filing petition before the Authority.

9.3 KESCL submitted that KWSB constitutes around 4% of the total monthly billing of KESCL and the current arrears of more than Rs. 17.5 billion is tantamount to almost two months total billing of KESCL, i.e. a burden which is being borne for the last so many years by the company. KESCL submitted that being a strategic consumer, KWSB connections are not being load shed by KESCL as water shortage can lead to law and order and other problems in the city which not at all means that KWSB does not pay its monthly electricity bills.

9.4 KESCL submitted that the petition filed by KWSB regarding separate tariff structure, if allowed by the Authority, would result in the reduction of revenue of KESCL. Resultantly, the tariff of KESCL will have to be adjusted accordingly to the extent of revenue reduction which makes it around Rs. 2.2 billion or average paisa 22 per kWh.



As such the burden of such reduction proposed through this petition will be transferred to KESC's other consumers.

10. Intervener No. 2: Mr. Arif Bilwani

10.1 Mr. Arif Bilwani commenting on the shortcomings of the petition submitted that the petition lacks the numerical data/statistics such as how much water is transmitted by the petitioner, how much water is being distributed, how much amount is billed and how much it recovers. If petitioner is saying that it is incurring expenses of around Rs. 125 crores per month so what is the breakup of those expenses.

10.2 With reference to the petitioner's plea of reduction in tariff, he said if the tariff is reduced and the deficit is going to be transferred to other categories of the consumers then it should not be done, however, it can be looked into if the deficit is borne by the provincial government or the federal government or any local authority.

10.3 Lastly, while giving reference of the NEPRA Licensing (Distribution Rules) 1999 and Tariff (Standards and Procedures) Rules 1998, Mr Bilwani submitted that it should be very much clear that the instant petition, if entertained by the Authority, will be dealt by making amendments in tariff or terms and conditions of tariff as both are entirely different things.

11. Intervener No. 3: Karachi Chambers of Commerce & Industry

11.1 Mr Qazi Ahmed Kamal, representing Karachi Chamber of Commerce and Industry, submitted that the application of commercial and industrial tariff on KWSB is totally unacceptable as this category does not have any correlation to the nature of work being done by KW&SB. KW&SB does not have retail clients, does not have sales staff, does not manufacture anything, does not have a brand name, not engaged in profit making i.e. by any statutory imagination it is not a commercial organization as much as an industrial organization.

11.2 By referring to section 17.3 (xii) of tariff rules which says "Tariff should seek to provide stability and predictability for customers", Mr. Kamal submitted that being an industrial consumer I cannot predict whether water will be available or not. I do not have any idea that whether I will have enough water tomorrow to process my processing mill. Therefore, as per the mentioned clause, there exists a genuine reason for the KWSB to ask for reduction because if the rates remain the same its supply becomes unpredictable and being the consumer of KW&SB if I am unstable then the ultimate clause comes into effect because this is the clause under which they have a right to reduce the rates.

11.3 Suggesting the other avenues of rate reduction, if tariff is not reduced, Mr. Kamal submitted that Federal Board of Revenue can be requested to exempt KWSB from general sales tax that is being applied on their electricity bills raised by KESCL. Further, provincial government may be asked to direct KESCL not to recover provincial taxes from KWSB.



12. Intervener No. 4: Cantonment Boards of Karachi

12.1 Mr. Ashraf Ali, representing Cantonment Board of Karachi, submitted that there are six cantonments in Karachi which receive bulk supply water from KWSB and it is distributed amongst the residents on a cheaper rate. None of the cantonment board receives any subsidy from any government and all the expenses are borne by the cantonment from the taxes collected by it. The amount which is collected from the people in supply of water is quite less which is to be paid by cantonment to KWSB. Therefore, the tariff imposed by KWSB is not proper and it does not meet the expenses of the cantonment and hence should be reduced.

13. Intervener No. 5: Energy Monitoring Cell, Finance Department, Government of Khyber Pakhtunkhwa

13.1 Mr. Shumail Butt, representing energy monitoring cell, finance department, Government of Khyber Pakhtunkhwa, submitted that the issue being discussed here is a very important as it does not pertain to KESCL only but for all other ex-WAPDA distribution companies (hereinafter referred to as XW-DISCOs) as well. He requested the Authority to introduce a separate tariff category for the utilities providing water supply and sewerage services. With respect to his request, he informed the Authority that in each power distribution utility of the country, one of the major defaulters are municipal administrations which if trickled down would show that these are water supply utilities who are not paying their bills. He informed the Authority that in our neighboring country in which there are around seventeen (17) state regulatory commissions, each commission has a separate category under which water supply utilities are charged by them. He further submitted that it can be studied from all over the world that water utilities are highly subsidized, their rate of recovery is not more than 60-70% and in our country these figures are almost 16-20% only, therefore, charging these under industrial or commercial tariff is something which is actually beyond the mandate of laws.

**Issues Arising Out of the Proceedings:**

14. Based on submissions of the petitioner, comments received from the Interveners and other commentators, following issues have been framed/deliberated upon for decision of the Authority.

15. **Whether or not the request of the petitioner for prescribing a separate category of tariff for KWSB should be accepted by the Authority?**

15.1 KWSB submitted that it is being charged by KESCL under nine (09) different categories of tariff. The data regarding number of meters and yearly consumption on each meter from 2007-2011 as submitted by KWSB reflects that around 80% of the consumption is billed under industrial and commercial categories by KESCL.

15.2 The petitioner submitted that as per the terms and conditions approved by the Authority, the definition of industry is a bona fide undertaking or establishment engaged in manufacturing, value addition and/or processing and KWSB does not undertake any of these three activities; i.e. it is neither a manufacturer nor it undertakes any value addition, nor it processes any goods, therefore, the application of industrial



tariff/rate is not a right practice. Secondly KW&SB is a non-profit organization; it is a public utility provider to the biggest metropolis of the country. The intention is not to make money but to supply the public amenity, i.e. the most basic necessity of life which is water; therefore, this excludes KW&SB from being a commercial entity or a commercial organization. In view of the aforementioned, the petitioner requested the Authority that a separate category of tariff may be introduced for KW&SB in the existing approved schedule of tariff for KESCL.

- 15.3 The intervener Mr. Qazi Ahmed Kamal, representing Karachi Chamber of Commerce and Industry, supported the Petitioner while submitting that the application of commercial and industrial tariff on KWSB is totally unacceptable as this category does not have any correlation to the nature of work being done by KW&SB. Mr. Shumail Butt, representing energy monitoring cell, finance department, Government of Pakhtunkhwa, requested the Authority to introduce a separate tariff category in the whole country for the utilities providing water supply and sewerage services owing to their low recovery and high percentage of default in meeting their expenses
- 15.4 The Authority also sought information from other distribution companies (Ex-WAPDA DISCOs) which revealed that most of the XWDISCOs are charging water & sewerage agencies in agriculture category under tariff D-1 (Agriculture Scarp) for the water supply pumps whereas industrial tariff is being charged for the sewerage connections.
- 15.5 The Authority has considered the request of KWSB and the submission of the interveners in relation thereto and has observed that the functions and activities being performed by KWSB does not strictly fit into the definition of Industrial and Commercial Consumers given in the Authority's approved terms and conditions of tariff for supply of electric power to consumers of KESCL. The Authority, however, observed that under the Bulk Supply Category (Category C) in the existing Schedule of Tariff, there is a provision that the consumers who have mixed load (at different voltage level) and who do not fall under any other category of consumers can be charged under this category. Nonetheless, the Authority is of the opinion that charging water and sewerage utilities under industrial or commercial categories is not a correct exercise as these utilities are non-profit government agencies with prime objective of providing essential service of drinking water and sewerage.
- 15.6 The Authority further considers that there is no uniformity in application of electricity rates and tariff categories being charged by the distribution companies for the civic agencies all across the country. Therefore, in order to bring in clarity and uniformity in the tariff to be charged by distribution companies and KESCL to civic agencies as well as KW&SB, the Authority concurs with the petitioner and opinion of some interveners that there is a need for application of tariff on uniform basis all across the country including the petitioner and if required a separate category in the existing schedule of tariff may be introduced specifically for the government owned civic agencies..
- 15.7 In view of the above, the Authority has therefore decided that the issue of whether or not a separate category of tariff for KW&SB and other such civic agencies is required in the existing approved schedule of tariff may be decided separately after consultation with all the distribution companies including KESCL. For this purpose, after consultation process and detailed deliberations, the Authority may initiate suo moto proceedings under Rule 3(1) of the NEPRA Tariff (Standards and Procedure) Rules



1998 for prescribing a separate category of tariff for the civic agencies including KW&SB.

16. **Whether or not KW&SB's request for reduction in its tariff should be accepted by the Authority?**

16.1 The Petitioner in the tariff petition has proposed that the existing tariff determined by the Authority for all the categories under which KWSB is being charged be reduced to half.

16.2 KESCL, intervener No.1, in this regard submitted that if tariff is reduced by the Authority, as per the petitioner's request, it would result in the reduction of revenue of KESCL. Resultantly, the tariff of KESCL will have to be adjusted accordingly to the extent of revenue reduction which makes it around 2.2 billion or average paisa 22 per kWh. As such the burden of such proposed reduction will be transferred to KESCL other consumers. Mr. Arif Bilwani, intervener No.2, with reference to the petitioner's plea of reduction in tariff, submitted that if the tariff is reduced and the deficit is going to be transferred to other categories of the consumers then it should not be done, however, it can be looked into if the deficit is borne by the provincial government or the federal government or any local authority. Mr. Qazi Ahmed Kamal, intervener No.3, while giving his arguments in favor of the petition submitted that he as a consumer wants predictability for supply of water at his premises which can be done only when KW&SB has sufficient funds to operate its water pumps.

16.3 The Authority after due deliberation on the issue is of the opinion that petitioner's plea of reducing tariff to half is not backed with any justification or rationale. The Authority considers that the justification and rationale submitted by the Petitioner with regard to reduction in electricity rates is not sufficient to decide on the issue. In the opinion of the Authority, KW&SB can improve its revenue position through the following measures.

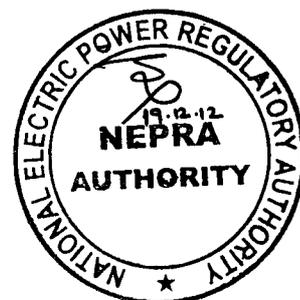
- i. The gap between revenue collection and billing should be reduced.
- ii. Stoppage of theft, leakage of water.
- iii. Improvement in efficiency and cost reduction

16.4 The Authority observed that it has approved a multi-year tariff for KESCL on December 23, 2009 having applicability for seven years, i.e. till June, 2016 wherein revenue requirement of the company from each category of tariff was fixed by the Authority. The Interveners and other commentators while offering their comments in the hearing of the petition have suggested that the burden of reduced tariff should not be passed on to the other consumers. KESCL in its comments has also submitted that KWSB's request for reduction in tariff may be accepted if KESCL's revenue requirement is ensured by the Authority.

16.5 The Authority notes that at present KW&SB is already being charged by KESCL at subsidized rates on the basis of applicable tariff under Schedule-II notified by GoP from time to time whereas the differential between the NEPRA approved tariff (Schedule-I) and GoP approved tariff is borne by the federal government as tariff differential subsidy for all category of consumers including KW&SB.

*M.*

*S.*



- 16.6 The Authority considers that KESCL and KW&SB are two separate legal entities having their own tariffs to recover their respective operating cost for provision of essential utility services to the consumers of Karachi. In the opinion of the Authority the petitioner has not been able to justify its request for the proposed reduction in electricity rates either in its petition or through subsequent communications to the Authority. In view of the Authority it would be unfair to accept the petitioner's request for reduction in electricity rates merely on the ground that it cannot increase water charges due to socio-economic reasons to match its costs with revenues, despite the fact that the petitioner can adopt other measures to meet cost & revenue gap by following proper procedure as per its applicable law.
- 16.7 Further, the Authority does not find any justification for shifting shortfall in revenue of KESCL on account of proposed reduction in electricity rates for KE&WB to other categories and consumers of KESCL in order to ensure revenue requirement of KESCL.
- 16.8 The Authority considers that KW&SB under its Act can seek increase in water charges to meet its prudent costs or if necessary, the provincial government may provide additional funds from its own sources to meet KW&SB's budgetary requirements. Further, it may seek exemption of taxes and electricity duty from its monthly electricity bills at the right forum from the Federal/Provincial Governments as the case may be.
- 16.9 The Authority therefore holds that the reduction in electricity rates on account of inability of KW&SB to meet its cost of service at the existing water charges as proposed by the Petitioner is not justified and therefore not accepted.
17. In the light of above discussion and after consideration of all relevant facts and circumstances of the case, the Authority is of view that the request of the petitioner cannot be accepted, therefore, the tariff petition filed by the petitioner is dismissed.
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