



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

Registrar

NEPRA Tower, Ataturk Avenue(East), G-5/1, Islamabad
Ph: +92-51-9206500, Fax: +92-51-2600026
Web: www.nepra.org.pk, E-mail: registrar@nepra.org.pk

No. NEPRA/TRF-133/KESC-2009/ 4355-60

March 30, 2015

Chief Executive Officer
K-Electric Limited (KEL)
KE House, Punjab Chowrangi,
39 – B, Sunset Boulevard, Phase-II
Defence Housing Authority
Karachi.

Subject: **Decision of the Authority in the matter of Fuel Charges Adjustment for the Month of December ²⁰¹⁴ ~~2015~~ for K-Electric Limited and Notification (S.R.O. 249(I)/2015 dated 27.03.2015) Thereof**

Enclosed please find herewith a copy of decision of the Authority (10 pages) in the matter of fuel charges for the month of December ²⁰¹⁴ ~~2015~~ in respect of K-Electric Limited (formerly Karachi Electric Supply Company Ltd.), along with Notification (S.R.O. 249(I)/2015 dated 27.03.2015) thereof. This is for information and further necessary action.

2. While reflecting the Fuel Adjustment Charges, K-Electric Ltd. shall keep in view and strictly comply with the orders of the court(s), if any, notwithstanding this order.

Enclosure: As above (Decision along Notification is also available on NEPRA's website)


(Syed Safer Hussain)

CC:

1. Secretary, Ministry of Water & Power, Islamabad.
2. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
3. Secretary, Ministry of Finance, Islamabad.
4. Secretary, Privatization Commission, Islamabad.
5. The Registrar, Supreme Court of Pakistan, Islamabad.

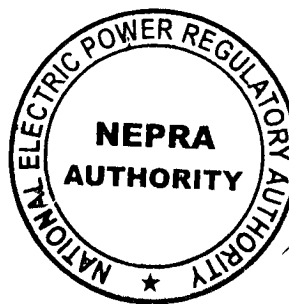


**DECISION OF THE AUTHORITY IN THE MATTER OF FUEL CHARGES ADJUSTMENT FOR THE MONTH OF
DECEMBER 2014 FOR K-ELECTRIC LIMITED (FORMERLY KARACHI ELECTRIC SUPPLY COMPANY LIMITED)**

1. Pursuant to the provisions of Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act 1997, (XL of 1997) and as per the mechanism for monthly fuel price adjustment prescribed by National Electric Power Regulatory Authority (herein after referred to as "the Authority") for K-Electric Limited (herein referred to as "K-Electric") (formerly Karachi Electric Supply Company Limited) in case No. NEPRA/TRF-133/KESCL-2009(6) dated December 23, 2009, duly notified in the official Gazette vide S.R.O No. 11(I)/2010 dated January 01, 2010, the Authority has to review and revise the approved tariff on account of any variation in the fuel charges on monthly basis. As per the mechanism prescribed by the Authority, K-Electric 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 into account the effect of transmission and distribution losses (hereinafter referred to as "T & D losses").
2. K-Electric submitted its request with regard to adjustment in fuel cost component of its tariff for the month of December, 2014 vide letter bearing reference No. RA&SP/NEPRA/071/012 dated January 26, 2015. The summary of the adjustment request submitted by K-Electric is tabulated below;

| Tariff Adjustment - Summary | December-14 |
|------------------------------------|--------------------|
| Variation in Fuel Price | Requested |
| Own Generation (Million Rs) | (340.695) |
| External/PPP (Million Rs) | (758.288) |
| Total (Rs In Million) | (1098.983) |
| Total Units Sent Out (GWh) | 1061.676 |
| Total Variation Ps/kWh | (103.514) |

3. K-Electric, in its aforementioned request, certified that cost of fuel and power purchase claimed by it did not include any amount of late payment surcharge/mark-up/interest.

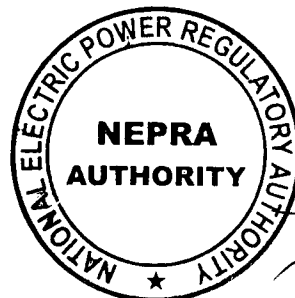


[Handwritten signature]



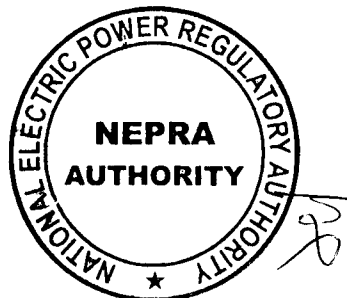
Further, K-Electric also submitted that it dispatches power as per Economic Merit Order from its own generating units (with the available fuel resources) and from external sources.

4. Since the impact of FCA, if any, is passed on to the consumers of electricity, therefore, in order to meet the ends of natural justice, the Authority decided to provide an opportunity of hearing to all the concerned while reviewing the fuel charges. Hearing for the aforesaid purpose was held on March 06, 2015 at Marriot Hotel Karachi; notice thereof was published in the daily newspapers on February 26, 2015 and separate notices were also sent to the major stakeholders on February 26, 2015, informing thereby the general public/concerned stakeholders about the date and venue of the hearing and inviting their comments/objections to make the process of hearing more meaningful and to reach at an informed and just decision.
5. During the hearing, K-Electric submitted that in its own generation, major reasons for the claimed variation was due to decrease in the prices of Furnace Oil which decreased from Rs. 68,383 per metric ton in the month of September 2014 to 47,221 per metric ton in the current month.
6. In the fuel cost component of power purchase cost, K-Electric submitted that major reason of the claimed variation is decrease in per unit cost of power purchased from oil based IPPs i.e. Tapal and Gul Ahmad which decreased from Rs. 14.111/kWh and Rs.15.396/kWh in the reference month of September 2014 to Rs. 11.358/kWh and Rs.11.488/kWh respectively in the month of December 2014 due to decrease in the oil prices. Furthermore, reduction in per unit cost of NTDC from Rs. 6.767/ kWh in September 2014 to Rs.6.589/kWh in December 2014, also resulted in the negative variation.
7. The Authority observed that K-Electric's own generation from gas based power plants decreased from 635.270 GWh in September 2014 to 395.580 GWh in December 2014. K-Electric on this point submitted that its gas supply reduced to 112 MMCFD in December 2014 as compared to 195 MMCFD in September 2014, which was the reason for low generation on gas.





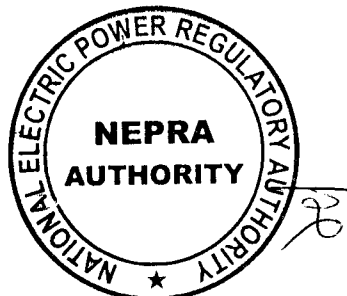
8. The Authority also noted that K-Electric did not fully utilize its Bin Qasim-I Power Plant, rather opted for expensive generation from the oil based IPPs i.e. Tapal and Gul Ahmed.
9. K-Electric in this regard submitted that Bin Qasim-I is a dual fuel plant, using both Gas and Furnace Oil and its per kWh fuel cost is worked out by taking weighted average of the cost of units generated on both gas and furnace oil. K-Electric further submitted that per kWh fuel cost of Bin Qasim-I, on furnace oil, is higher as compared to Tapal and Gul Ahmed.
10. During the hearing and in written form, various commentators raised several issues. The issues relevant to the monthly Fuel Charges Adjustment (FCA), are discussed hereunder;
11. Mr. Abu Bakar Usman, Director Pasban, while referring the numbers as presented by K-Electric in its request, submitted that out of total 1,061.676 units sent out during December 2014, around 46% were generated by K-Electric's from its own sources and 54% were purchased from external sources i.e. NTDC, IPPs etc. K-Electric, from its own generation, generated around 81% units on Gas and around 19% on furnace oil. Mr. Usman submitted that had K-Electric generated more units on Furnace Oil through its own generation, the impact of increased Capacity and O&M costs of IPPs in December 2014 as compared to September 2014 would not have been passed on to the consumers. He further submitted that price of furnace oil decreased in December 2014 by 14% i.e. Rs. 7,715/- as compared to November 2014. The Authority in its decision regarding FCA for November 2014, allowed a decrease of minus Rs. 1.73/ kWh, therefore, as per his analysis, FCA for December 2014 should have been minus Rs. 1.73/ kWh plus % change in the price of Furnace Oil in December 2014 over November 2014, which comes to a total decrease of around minus Rs.1.97/kWh.
12. Although payment of Capacity and O&M costs are not relevant to the monthly FCA, the Authority, however, noted that O&M costs of IPPs i.e. Tapal and Gul Ahmad are adjusted on six monthly basis, in January and July every year, as per the provisions of their respective PPAs and there was no change in their per kWh rate of O&M cost in December 2014 over November 2014. The Authority also observed that capacity payments to IPPs i.e. Tapal and Gul Ahmad





are adjusted on quarterly basis as per the provisions of their respective PPAs and are based on their dependable capacities and not on the quantum of energy delivered. Thus, any increased generation on furnace oil by K-Electric through own generation, would not have affected the O&M and Capacity costs of IPPs. The Authority also observed that as per the approved mechanism, adjustment in K-Electric's Tariff due to change in fuel price and generation mix, with respect to its own generation, is allowed based on the variation in the weighted average cost of each power station in the current month over the reference month. A comparison of current month's fuel price with previous month's price without taking into consideration the impact of generation mix and reference prices as submitted by the commentators, will not be in line with the approved mechanism.

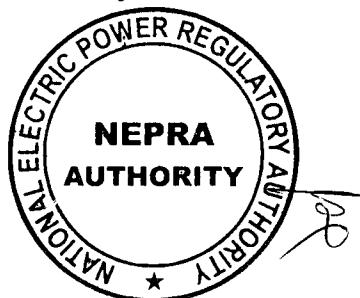
13. Mr. Arif Bilwani, another commentator, submitted that per Metric Ton rate of furnace oil purchased by K-Electric from PSO and BYCO are different for the same dates. Mr. Bilwani in support of his claim cited examples for the oil purchased by K-Electric on December 8 and 23 2014, both from PSO and BYCO and submitted that price charged by BYCO was higher than PSO. He requested the Authority to investigate whether these transactions are being done at arm's length or otherwise.
14. A careful analysis of the issue raised by Mr. Bilwani was carried out and it has transpired that Mr. Bilwani, while working out the per MT price of oil purchased from BYCO, included Cost of Fuel, GST and Financial charges, whereas, for oil purchased from PSO, financial charges were ignored and only cost of fuel and GST were considered. The Authority also noted that while calculating the monthly FCA, only cost of Fuel, exclusive of GST and Financial charges, is taken into account, which in case of BYCO is lower.
15. Syed Adil Gilani of Whistle Blower Pakistan, through his written comments, raised several issues, , however, the issues relevant to the instant adjustment are discussed hereunder;
 - i. On the issue of provision of transcripts and audio recordings of all hearings conducted by NEPRA with regard to K-Electric's monthly FCA, the Authority observed that K-





Electric had also requested for provision of transcripts of hearing conducted by the Authority in respect of its monthly and quarterly adjustment requests. The Authority, however, did not provide the same to K-Electric on the ground that in terms of Rule 13 read with rule 2(j) of NEPRA Tariff (Standards & Procedures) Rules, 1998, any party can obtain the transcript if it has requested for recording the hearing or the Authority has recorded the same on its own but only where the proceedings have been initiated under rule 3(I) of Tariff Rules by filing of tariff petition by the licensee or by the Authority on its own. In the instant case, no proceedings as such were initiated and no transcript was recorded within the meaning and scope of Tariff Rules, therefore the copy of recordings, if any, cannot be provided as in monthly and quarterly adjustments cases, no proceedings, as such, were initiated and no transcript was recorded within the meaning and scope of Tariff Rules.

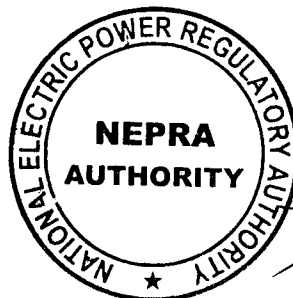
- ii. Regarding delay in deciding the monthly or the quarterly adjustments, creating adverse impact on the stakeholders, whether it be the consumers or the Utility, the Authority noted that FCA request is normally submitted by K-Electric by the end of third week of the following month. K-Electric claims that it receives invoice for the power purchased from NTDC on 21st day of the subsequent month (*December 2014 invoice was received by K-Electric on January 26, 2014*) and therefore it is unable to submit its monthly adjustment request within a week. NTDC representatives in this regard have submitted that due to operational difficulties, they are unable to raise invoice in the first week of the succeeding month. Subsequent to the receipt of FCA request from K-Electric, a public hearing is conducted by the Authority inviting the general public to file any comments in respect of the claim of the petitioner. Although, there is no specific requirement to conduct hearing for FCA in the applicable rules but the same is done in pursuance of the Order of the Honorable Lahore High Court and to reach at an informed decision. For hearing, an advertisement is published in the daily newspapers normally giving notice period of about one week to the general public to file comments in respect thereof. Afterwards, all the claims of the petitioner are verified from the relevant documentary evidences to authenticate them. Hence, the





late receipt of the request, verification exercise and the compliance of the orders of the court to make the proceedings participative are the main reasons for not issuing the decisions within prescribed time period. However, the last two steps, as mentioned above, enable the Authority to reach at an informed and just decision.

- iii. With regard to uploading of the monthly Fuel Charges and quarterly tariff adjustment requests of K-Electric on NEPRA's website, the Authority noted that petitions/requests as filed by K-Electric remain uploaded on website of NEPRA. However, the commentator may submit its request to the Authority for any specific petition/request as filed by K-Electric.
- iv. The Authority, on the point of carrying out detailed technical and financial audit of the data submitted by K-Electric and uploading of the Audit Reports prepared by NEPRA so far on its website, noted that NEPRA team, as per the directions of the Authority, carries out verification of the energy data, rates, etc. submitted by K-Electric with all the relevant underlying documents. While doing verification, following is the list of activities performed by the team;
- Verification of K-Electric's own generation energy data from the generation statistics sheets produced on each power station of the generation fleet of K-Electric.
 - Verification of the quantity of gas purchased and consumed on each power station from the gas bills for the relevant month/quarter as raised by the Sui Sothern Gas Company Limited. The rates as applied by K-Electric are also verified from gas bills.
 - Verification of the quantity of furnace oil purchased from two different sources, i.e. Pakistan State Oil and Byco from the invoices as raised by the mentioned entities. The amount as billed by the oil marketing companies is verified from invoices raised by these companies as well as from the bill sticker/payment invoices in respect thereof, if generated by K-Electric.

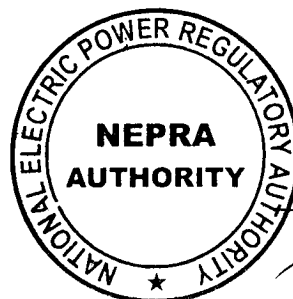




- Verification of the quantity and rates of energy purchased from each source by K-Electric from the invoices as raised by the power producers and payment invoices if generated by K-Electric.

The observations/discrepancies, if any, found while performing verification exercise are taken into account by NEPRA and the reasons of the same are explained in detail in the monthly and quarterly decisions. The monthly and quarterly decisions of K-Electric duly reflect the fact that NEPRA had disallowed many of the claimed costs of K-Electric, with explanation, owing to the differences found while doing verification.

- v. Regarding the issue of underutilization of power plants by K-Electric, despite having surplus power, and subjecting its consumers to load shedding and purchasing of electricity from NTDC whose cost of generation is much higher than K-Electric's own power plants, the Authority has already taken cognizance of under-utilization and undue load shedding by K-Electric and lastly issued Show Cause Notice under NEPRA (Fines) Rules, 2002 to K-Electric by following due process of law, however, K-Electric filed Civil Suit against issuance of Show Cause Notice and the Honorable High Court of Sindh at Karachi has suspended the operation of Show Cause Notice.
- vi. On the issue of observance of the Economic Merit Order by K-Electric, the Authority noted that issue of Economic Merit Order is already under consideration of the Authority and is being dealt by the Authority separately.
- vii. Regarding the issue of revisiting K-Electric's auxiliary consumption, after induction of new Gas based power plants and non-operation of steam thermal power plants, the Authority noted that under the multi-year tariff regime, set performance targets are used for allowing adjustments in tariff and benefit/loss of operations at lower/higher than the set targets is availed/suffered by the utility itself. Nevertheless, it has been noted from the figures and corresponding documentary evidences, as submitted by K-Electric, that it is underperforming as compared to the overall set benchmark of 6.1% auxiliary consumption.

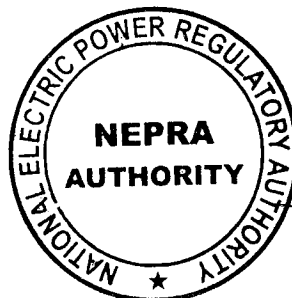




16. The information (both of self generation and power purchased from external sources) as submitted by K-Electric in its FCA request for the current month was checked with respective invoices and other relevant documents by the Authority and few discrepancies were found as explained at paras 18 & 19 below.
17. The fuel cost variation of K-Electric's own power generation and power purchases from external sources for the month of December, 2014 works out to be minus Rs. 1286.691 million or minus Ps. 121.203/kWh, as per the details tabulated hereunder:

| Tariff Adjustments - Summary | December-14 | December-14 |
|-------------------------------------|--------------------|--------------------|
| Variation in Fuel Price | Requested | Allowed |
| Own Generation (Million Rs) | (340.695) | (401.086) |
| External/PPP (Million Rs) | (758.288) | (885.605) |
| Total (Rs In Millions) | (1098.983) | (1286.691) |
| Total Units Sent Out (GWh) | 1061.676 | 1061.602 |
| Total Variation Ps/kWh | (103.514) | (121.203) |

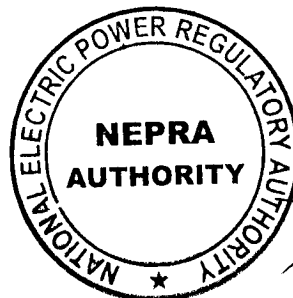
18. The difference between the requested and approved variation in fuel cost of own generation is due to inconsistency in the working of furnace oil rate (Rs/M.Ton) at K-Electric's end. The Authority has consistently been using monthly weighted average method to work out the furnace oil rate and has used the same for calculation of fuel charges variations of the current month.
19. In the fuel component of the power purchase cost, it was noticed that NTDC/CPPA, for the current month invoiced K-Electric at Rs. 6.589/kWh and the same was used by K-Electric in its request, whereas, the Authority's approved fuel cost component of NTDC/CPPA, applicable to all XWDISCOs and K-Electric, for the current month is Rs. 6.2902/kWh, which is the major reason of the difference between the claimed and allowed figure of power purchase cost variation.





20. Based on the analysis of the data as submitted by K-Electric, the Authority has noted with grave concern that K-Electric is subjecting its consumers to undue and unauthorized load shedding by continuously underutilizing the available energy of its system (own + external). Moreover it was also noted that K-Electric is keeping its available generation capacity idle and relying more on the energy purchased from NTDC in violation of the terms of the power purchase agreement signed between the mentioned utilities. By doing so, K-Electric is necessitating the operations of the most expensive power plants in NTDC system as well as aggravating the menace of load shedding in the whole country. In view thereof, K-Electric is hereby directed to prudently utilize the available energy of its system and strictly comply with the terms of the aforementioned power purchase agreement to eliminate/reduce the load shed in its territorial jurisdiction and in the whole country.
21. In order to allow K-Electric variation in fuel cost of its own generation as well as power purchased from external sources for the month of December 2014, the Authority has decided to pass on minus Ps. 121.20/kWh to the consumers of K-Electric as FCA. The current month's variation is being allowed on provisional basis subject to adjustments if it is found that K-Electric, while dispatching power from the generation sources of its system, has not followed the Economic Merit Order, the matter which is being dealt with K-Electric separately.
22. The paisa per kWh, rounded off after not allocating its effect on the consumption of life line and agriculture consumers, to be charged by K-Electric in the prospective billing month of April 2015 works out to be minus Ps. 123/kWh and shall be charged by K-Electric according to the following schedule;

| FCA to be calculated on the basis of billing for the month of | Ps/kWh | Charged in consumer bills to be issued in the month of |
|--|---------------|---|
| December, 2014 | (123) | April, 2015 |

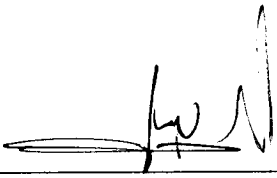




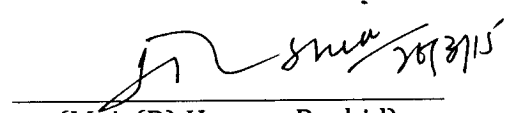
23. The adjustment as referred to in para 22 above:

- i. shall be applicable to all the consumer categories except lifeline and agriculture consumers of K-Electric; and
- ii. shall be shown separately in the consumer bills of April 2015 on the basis of units billed for the month of December, 2014.

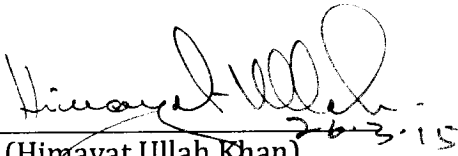
Authority


25/3/15

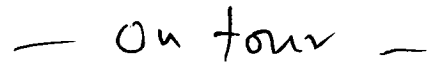
(Khawaja Muhammad Naeem)
Member


28/3/15

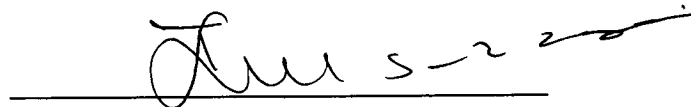
(Maj. (R) Haroon Rashid)
Member


26/3/15

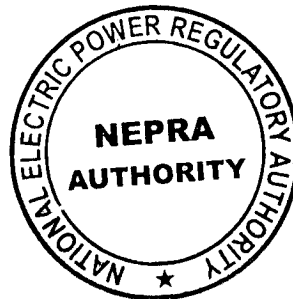
(Himayat Ullah Khan)
Member

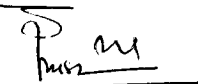

On tour

(Habibullah Khilji)
Vice Chairman


26/3/15

Brig. (R) Tariq Saddozai
(Chairman)




27.03.15

National Electric Power Regulatory Authority



NOTIFICATION

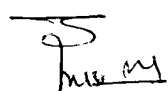
Islamabad, the 27th day of March 2015

S.R.O. ²⁴⁹ (I)/2015.- Pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 as amended through Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act 2011 and as per the mechanism for monthly fuel price adjustment prescribed and determined by the Authority vide Determination dated December 23, 2009 for K-Electric Ltd. (formerly Karachi Electric Supply Company Limited), as notified vide SRO 11(I)/2010 dated January 01, 2010, National Electric Power Regulatory Authority (NEPRA) makes and notifies the following adjustment in the approved tariff on account of variation in fuel charge for the month of December 2014 in respect of K-Electric Limited (formerly Karachi Electric Supply Company Limited).

| FCA to be calculated on the basis of billing for the Month of | (Ps/kWh) | Charged in Consumer Bills to be issued in the Month of |
|---|----------|--|
| December 2014 | (123) | April 2015 |

2. The above adjustment of **minus** Ps.123.00/kWh shall be applicable to all the consumer categories except lifeline and agriculture consumers of K-Electric Ltd. The said adjustment shall be shown separately in the consumer bills of April 2015 on the basis of units billed for the month of December 2014.

[Case No. NEPRA/TRF-133/KESCL-2009(6)]


(Syed Safer Hussain)
Registrar

27.03.15

Mati. 