



Registrar

National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-133/KESC-2009/ *11207-12*

July 27, 2015

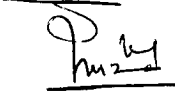
Chief Executive Officer
K-Electric Limited (KEL)
KE House, Punjab Chowrangi,
39 – B, Sunset Boulevard, Phase-II
Defence Housing Authority
Karachi.

Subject: **Decision of the Authority in the matter of Fuel Charges Adjustment for the Month of March 2015 for K-Electric Limited and Notification (S.R.O. 697(I)/2015 dated 24.07.2015) Thereof**

Enclosed please find herewith a copy of decision of the Authority (06 pages) in the matter of fuel charges for the month of March 2015 in respect of K-Electric Limited (formerly Karachi Electric Supply Company Ltd.), along with Notification (S.R.O. 697(I)/2015 dated 24.07.2015) 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)


27.07.15
(Syed Safer Hussain)

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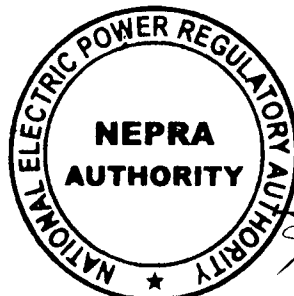
1. Secretary, Ministry of Water & Power, Islamabad.
2. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
3. Secretary, Ministry of Finance, Islamabad.
4. Secretary, Privatization Commission, Islamabad.
5. The Registrar, Supreme Court of Pakistan, Islamabad.



DECISION OF THE AUTHORITY IN THE MATTER OF FUEL CHARGES ADJUSTMENT FOR THE MONTH OF MARCH 2015 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 initially submitted its request with regards to adjustment in fuel cost component for the month of March, 2015 vide letter No. RA&SP/NEPRA/071/1330 dated April 24, 2015, based on previous month's rates for the power purchased from NTDC, as power purchase invoice from NTDC for March 2015 was not received by K-Electric till the time of submission of the request. K-Electric, submitted its revised request, based on actual invoice for the power purchased from NTDC for March 2015, vide letter No. RA&SP/NEPRA/071/1334 dated May 26, 2015. The summary of the revised adjustment request submitted by K-Electric is tabulated below;

Tariff Adjustments - Summary	March-15
Variation in Fuel Price	Requested
Own Generation (Million Rs.)	(286.175)
External/PPP (Million Rs.)	(191.840)
Total (Millions Rs.)	(478.015)
Total Units Sent Out (GWh)	1217.875
Total Variation Ps/kWh	(39.250)





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. Further, K-Electric also submitted that it dispatches power as per Economic Merit Order from its own generation units (with the available fuel resources) and import from external sources.
4. Since the impact of Fuel Charge Adjustment (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 June 11, 2015 at Marriot Hotel Karachi; notice thereof was published in the daily newspapers on June 05, 2015 and separate notices were also sent to the major stakeholders on June 05, 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 is decrease in the prices of Furnace Oil which decreased from Rs. 47,146 per metric ton in the month of December 2014 to Rs. 41,641 per metric ton in the current month although generation on furnace oil has increased from 92.252 GWh in the reference month of December 2014 to 144.256 GWh 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 furnace oil based sources from which K-Electric purchases power i.e. per unit cost of Tapal and Gul Ahmed decreased from Rs. 11.358/ kWh and Rs.11.488/ kWh in December 2014 to Rs.8.271/ kWh and Rs.9.498/kWh in March 2015 respectively. However, cost of NTDC increased from Rs. 6.290/kWh in the reference month of December 2014 to Rs. 6.333/kWh in the current month of March 2015.
7. During the hearing and in written form various commentators raised several issues. The issues relevant to monthly FCA are discussed hereunder:
8. Mr. Abu Bakar Usman, Director Public Issues, PASBAN submitted that actual FCA for March 2015 should be minus Rs.1.93415/ kWh instead of minus Ps.39.250/ kWh, as claimed by K-Electric owing to:





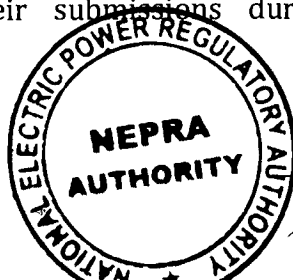
- i. Price of Furnace Oil (FO) taken by K-Electric for March 2015 is not correct. The market price of FO of BYCO is Rs. 37,506/MT as against Rs. 41,641/MT shown by K-Electric in its calculations, so Rs. 4,135/ MT (11.025%) exaggerated charged is liable to be added back in calculations of FCA proposed for March 2015.
- ii. K-Electric Generated 144.256 M/kWh (25.43%) on FO in its total self generation sent out of 567.188 M/ kWh and money spent on FO is Rs. 1585.832 Million, so exaggerated amount of Rs. 174.74 Million is liable to be distributed among generated / sent out 144.26 GWh based on Furnace Oil, which results in Rs. 1.21/ kWh decrease.
- iii. NEPRA allowed FCA for February 2015 as minus Rs. 1.71168 / kWh due to FO price of Rs. 36,603/MT. In March 2015 price of FO of BYCO was Rs. 37,506/MT, comparatively higher than February 2015 by Rs. 903/MT. Power Generated on FO is more or less the same in February and March 2015 and Heat rate is also constant and same. In view thereof, benefit of minus Ps. 56.633/ kWh due to lowered fuel price be transferred to consumers on account of variation in cost of power generation on FO instead of Ps. 23.498/ kWh as claimed by K-Electric.

9. Mr. Abu Bakar Usman further submitted that in view of his above workings, total relief in FCA for March 2015 comes as follow;

By way of re-assessment of FO Price as per BYCO price list	(Rs. 1.210/ kWh)
Cost of Power generation in view of FO price over Feb. 2015	(Rs. 0.5663/ kWh)
Power Purchase Variation	(Rs. 0.1575/ kWh)
Total Relief in FCA of March 2015 (Decrease)	(Rs. 1.9314/ kWh)

10. The Authority noted that the commentator has banked his arguments/ calculations on the presumption that price of Furnace Oil taken by K-Electric, while working out the FCA for March 2015, is incorrect. The Authority observed that furnace oil is purchased by K-Electric from two sources i.e. PSO and BYCO and its per Metric Ton cost is worked out by using the monthly weighted average method, whereby, the opening stock of fuel as well as purchases made during the period from both these sources, are taken into account to work out the rate. Moreover, the prices quoted by oil refineries are ex-refinery prices which are exclusive of OMC margin and freight charges. A plain comparison of ex-refinery price of FO taken by Mr. Usman in his calculations, with the weighted average price which includes the OMC margin and freight charges, is not logical.

11. Qazi Ahmed Kamal, Mr. Arif Bilwani and Mr. Anil Mumtaz also attended the hearing as commentators and made their submissions during the hearing, on the issues of



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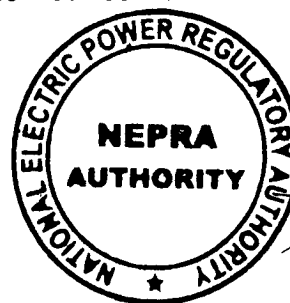


underutilization of own as well as external power generation sources by K-Electric, Economic Merit Order, delay in submission of petitions, Load shedding and approval of heat rates. The Authority observed that all these issues have time and again been addressed by the Authority in its previous monthly / quarterly adjustments and need not to be addressed again.

12. 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 14 & 15 below.
13. The fuel cost variation of K-Electric's own power generation and power purchases from external sources for the month of March, 2015 works out to be minus Rs. 627.418 million or minus Ps. 51.517/kWh, as per the details tabulated hereunder:

Tariff Adjustments - Summary	March-15	March-15
Variation in Fuel Price	Requested	Allowed
Own Generation (Million Rs.)	(286.175)	(287.084)
External/PPP (Million Rs.)	(191.840)	(340.334)
Total (Million Rs.)	(478.015)	(627.418)
Total Units Sent Out (GWh)	1217.875	1217.874
Total Variation Ps/kWh	(39.250)	(51.517)

14. 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.
15. In the fuel component of the power purchase cost, it was noticed that NTDC/CPPA, for the current month invoiced K-Electric at Rs. 6.333/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 of March 2015 comes out to be Rs. 6.0144/kWh, which is the reason for the difference between the claimed and allowed figure of power purchase cost variation.

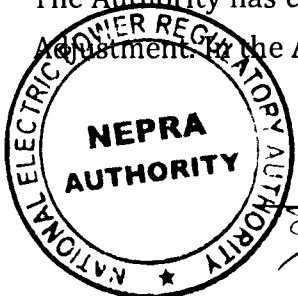




16. Based on analysis of data as submitted by K-Electric, the Authority has noted with grave concern that K-Electric is subjecting its consumers to undue and unauthorized load shedding by continuously underutilizing the available energy of its system (own + external). Moreover it was also noted that K-Electric is keeping its available generation capacity idle and relying more on the energy purchased from NTDC. 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 to eliminate/reduce the load shedding in its territorial jurisdiction and in the whole country.
17. 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 March 2015, the Authority has decided to pass on minus Ps. 51.517 /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.
18. The paisa per kWh, after rounding off, to be charged by K-Electric in the prospective billing month of August 2015 works out to be minus Ps. 52/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
March, 2015	(52)	August, 2015

19. MoWP vide its letter No.5-PF/02/2013-Subsidy dated May 21, 2015 has issued the policy guidelines under Section 31 (4) of the NEPRA Act, 1997 with regard to the Fuel Charge Adjustments and subsidy rationalization of Ex-WAPDA Distribution Companies.
20. MoWP in its policy guidelines, *inter alia*, mentioned that Economic Coordination Committee (ECC) of the Cabinet has been pleased to approve the issuance of the following Policy Guidelines under Section 31 (4) of the NEPRA Act, 1997 on 21.05.2015 i.e. that
- "Any negative adjustment on account of monthly FCA will not be passed on to the Domestic consumers who have subsidized electricity tariff."*
21. The Authority has considered the policy guidelines of the GoP with respect to the Fuel Charge Adjustment. In the Authority's opinion the instant policy guidelines of GoP are consistent with



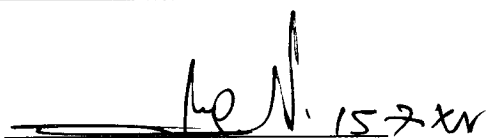
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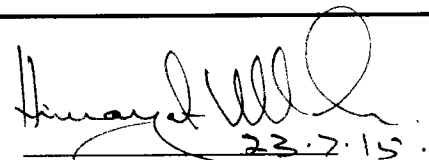


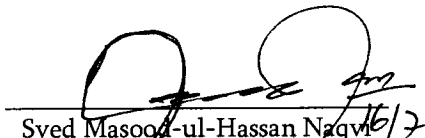
the GoP Policy for phasing out the subsidy and are also consistent with the standards and guidelines as per Rule 17 of Tariff Standards and Procedure Rules, 1998. The Authority has also noted that in the case of XWAPDA DISCOs, negative FCA is not being passed on to the consumers consuming up-to 300 units and agriculture consumers, therefore same is not passed to the consumers of K-Electric consuming up-to 300 units and agriculture consumers.

22. In view of the foregoing, the adjustment as referred to in para 18 above:
- shall be applicable to all the consumer categories except lifeline consumers, domestic consumers consuming up-to 300 units and Agriculture Consumers of K-Electric; and
 - shall be shown separately in the consumer bills of August 2015 on the basis of units billed for the month of March, 2015.
23. Since the impact of FCA of **minus PS. 52/ kWh** for March 2015 is not being passed on to the life line consumers, agriculture consumers and domestic consumers, consuming up-to 300 Units, as per the policy Guidelines of GoP therefore, K-Electric is directed to provide the actual detail of units billed to each of these consumer categories in March 2015 along-with the amount of FCA not being passed on to these consumer categories so that same could be adjusted through K-Electric's quarterly adjustment for the quarter Apr-Jun 2015, to ensure reduction in GoP subsidy to that extent.

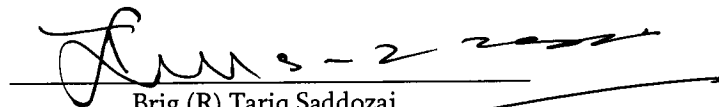
AUTHORITY


Khawaja Muhammad Naeem
Member


Himayat Ullah Khan
Member

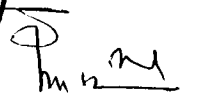

Syed Masood-ul-Hassan Naqvi
Member

On tour abroad
Maj (R) Haroon Rashid
Vice Chairman


Brig (R) Tariq Saddozai
Chairman

23/7/15




24.07.15

**To Be Published in
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National Electric Power Regulatory Authority



NOTIFICATION

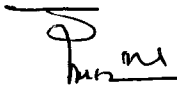
Islamabad, the 24th day of July 2015

S.R.O. 697 (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 March 2015 in respect of K-Electric 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
March 2015	(52)	August 2015

2. The above adjustment of **minus** Ps.52.00/kWh shall be applicable to all the consumer categories except lifeline consumers, domestic consumers consuming up-to 300 units and Agricultural Consumers of K-Electric Ltd. The said adjustment shall be shown separately in the consumer bills of August 2015 on the basis of units billed for the month of March 2015.

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


24.07.15
(Syed Safer Hussain)
Registrar

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