



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/TRF-133/KESC-2009/ 9639-44

July 1, 2016

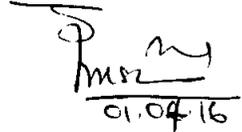
Chief Executive Officer  
K-Electric Limited (KEL)  
KE House, Punjab Chowrangi,  
39 – B, Sunset Boulevard, Phase-II  
Defence Housing Authority  
Karachi.

Subject: **Decision of the Authority in the matter of Fuel Charges Adjustment for the Month of April 2016 for K-Electric Limited and Notification (S.R.O. 583(I)/2016 dated 30.06.2016) Thereof**

Enclosed please find herewith a copy of decision of the Authority (08 pages) in the matter of fuel charges adjustment for the month of April 2016 in respect of K-Electric Limited, along with Notification (S.R.O. 583(I)/2016 dated 30.06.2016) 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)

  
01.07.16  
( 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.

**To Be Published in  
Official Gazette of Pakistan Part-II**

**National Electric Power Regulatory Authority**



**NOTIFICATION**

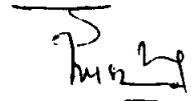
Islamabad, the 30<sup>th</sup> day of June 2016

S.R.O. 583 (I)/2016.- 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 charges for the month of April 2016 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
April 2016	(32.661)	July 2016

2. The above adjustment of **minus** Ps.32.661/kWh shall be applicable to all the consumer categories except lifeline consumers, agriculture consumers and domestic consumers consuming up-to 300 Units of K-Electric Ltd. The said adjustment shall be shown separately in the consumer bills of July 2016 on the basis of units billed for the month of April 2016.

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

  
( Syed Safer Hussain )  
Registrar







**DECISION OF THE AUTHORITY IN THE MATTER OF FUEL CHARGES ADJUSTMENT FOR  
THE MONTH OF APRIL, 2016 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 (hereinafter referred to as the "Act") and as per the mechanism for monthly Fuel Charges Adjustment (hereinafter referred to as "FCA") prescribed by National Electric Power Regulatory Authority (hereinafter referred to as the "Authority") for K-Electric Limited (hereinafter referred to as the "K-Electric"), in case No. NEPRA/TRF-133/KESCL-2009(6) dated December 23, 2009, notified in the official Gazette vide S.R.O No. 11(I)/2010 dated January 01, 2010, the Authority reviews and adjusts the approved tariff of K-Electric on account of variation in the fuel charges on monthly basis. These adjustments are allowed in the fuel cost component of K-Electric's own generation as well as its power purchases from external sources without taking into account the effect of allowed Transmission and Distribution losses (hereinafter referred to as "T&D losses").
2. K-Electric submitted its FCA request for the month of April, 2016 (hereinafter referred to as the "current month") vide letter dated May 19, 2016 based on the provisional power purchase rate of Central Power Purchasing Agency Guarantee Limited (hereinafter referred to as "CPPA-G"). Subsequently, K-Electric submitted the revised request for the current month dated May 24, 2016 based on the actual invoice of CPPA-G. The summary of the revised adjustment request submitted by K-Electric is tabulated below:

<b>Tariff Adjustments – Summary</b>	<b>April-16</b>
<b>Variation in Fuel Charges</b>	<b>Requested</b>
Own Generation (Million Rs.)	175.807
External/PPP (Million Rs.)	(403.540)
<b>Total (Millions Rs.)</b>	<b>(227.733)</b>
Total Units Sent Out (GWh)	1,434.875
<b>Total Variation Ps/kWh</b>	<b>(15.872)</b>

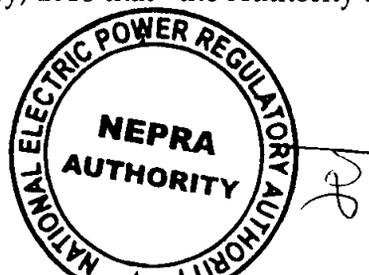


3. K-Electric, in its aforementioned FCA request, certified that cost of fuel and power purchase claimed by it does not include any amount of late payment surcharge/mark-up/interest. Further,



K-Electric also submitted that it dispatches power as per Economic Merit Order (hereinafter referred to as "EMO") from its own generation units (with the available fuel resources) and import from external sources.

4. Since the impact of FCA, if any, directly affects the consumers of K-Electric, therefore, in order to arrive at an informed and just decision, the Authority decided to provide an opportunity of hearing to all the concerned stakeholders. The hearing on the subject matter was held on June 09, 2016 at NEPRA Tower, Islamabad. Public notice thereof was published on June 03, 2016 in two newspapers with nationwide circulation. Separate notices were also sent to the major stakeholders informing thereby the general public/concerned stakeholders about the date and venue of the hearing and inviting their comments/objections.
5. During the hearing K-Electric submitted that in its own generation, the claimed variation is due to the increase in per unit weighted average fuel cost of generation in Bin Qasim Power Station-I (BQPS-I) from Rs. 5.446/kWh in reference month of March, 2016 to Rs. 5.815/kWh in April, 2016. The said increase has occurred due to rise in weighted average price of furnace oil from Rs. 19,376 metric ton in March, 2016 to Rs. 21,386/ metric ton in April, 2016. Further, according to notification dated April 28, 2016 by Oil and Gas Regulatory Authority, gas price has also been revised from Rs. 600/MMBTu to Rs. 613/ MMBTu; applicable from April 01, 2016 onwards. This revision in gas price has also resulted in an upward fuel price variation not only in BQPS-I but all the other power stations in K-Electric's own generation fleet as well. In the fuel component of power purchase cost, major reason of the claimed variation is the decrease in per unit cost of CPPA-G from Rs. 5.261/KWh in the reference month of March, 2016 to Rs. 3.957 /kWh in April, 2016.
6. Comments in writing were received from Anwar Kamal Law Associates (AKLA) regarding the subject hearing. K-Electric was directed to submit its response to the comments of AKLA which was received on June 20, 2016.
7. AKLA submitted that the Authority has mentioned in the FCA decision of K-Electric for the month of February, 2016 that "the Authority has been repeatedly directing K-Electric to prudently utilize



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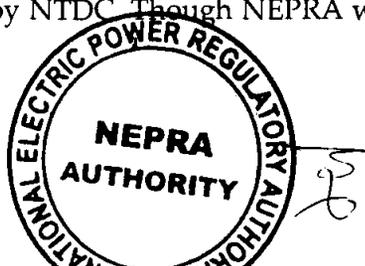
the available capacity of its system to eliminate load shedding in its service territory and the whole country. In addition to that, K-Electric has been issued multiple explanations/ show cause notices for underutilizing its system and violations of Power Purchase Agreement (PPA) with National Transmission & Despatch Company Limited (NTDC) but the same were challenged by K-Electric in Sindh High Court. Further, a show cause notice was also issued to K-Electric for the events occurring in June, 2015 and K-Electric after proceedings was fined. Furthermore, explanation notices have been issued to K-Electric and NTDC for continual of purchase/ sale of 650 MW even after expiry of PPA between aforesaid parties, matter which is under proceedings with the Authority”.

8. AKLA also submitted that it is also mentioned in the aforementioned decision that” FCA is being allowed to K-Electric on provisional basis and can be subjected to adjustments if it is found that, while dispatching power from the generation of its system it has not followed the economic merit order or has failed to utilize its power stations prudently, which would have resulted in undue and unauthorized load shedding.”
9. While referring to the aforesaid and the relevant provisions of the NEPRA Act, 1997 and NEPRA Fine Rules, 2002, AKLA submitted that not deciding the long pending matter of Economic Dispatch Order (EDO) and utilization factor and issuing provisional decisions instead is not in consumer interest as the non-prudent operations of power plants by K-Electric is resulting in financial, economic and social loss. The commentator presented certain statistics related to generation data of K-Electric and submitted that despite low fuel cost, the generation plants of K-Electric were not utilized prudently and to supply 650 MW to K-Electric, plants with comparatively higher cost were operated in NTDC’s system. The commentator also submitted that NEPRA should inform all the decision making forums like (Economic Coordination Committee) ECC, Council of Common Interests (CCI) and the Courts about the adversity of the supply of 650 MW from NTDCs system and must request urgent hearings by explaining to the courts the quantum of huge losses on monthly basis incurred due to this arrangement. AKLA asserted that after import of Regasified Liquefied Natural Gas (RLNG), gas availability may not be an issue then why K-Electric’s gas-based power plants are not utilized to their full load capacity. AKLA also



asked that why the heat rates of K-Electric's power plants have not yet been notified by NEPRA as yet. K-Electric while responding to the issue of heat rates of power plants responded that all heat rates are approved by NEPRA and the cost of fuel is being passed on to the consumers accordingly.

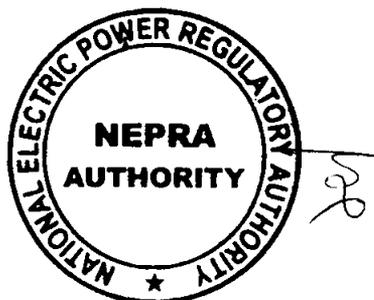
10. For the submissions of AKLA regarding the matters related to EDO and Utilization Factor, K-Electric submitted that it intends to maximize the utilization of gas based power plants, the gas provided is of such low pressure that it hinders the full utilization of K-Electric's gas power plants. According to K-Electric the commentator has stated the February, 2016 data to substantiate low utilization. It is a known fact that issue of low pressure of gas is magnified during winter season and the gas supply is reduced to a considerable extent, thus gas plants are less utilized due to this and it is beyond control of K-Electric. The Authority noted that K-Electric was issued an explanation dated July 24, 2012 regarding its non-adherence to Economic Dispatch Order. K-Electric vide its letter dated August 07, 2012 submitted its response stating gas supply constraints as the prime reason. Subsequently, after analysis of generation data and utilization factor from July 2012 to June 2013, again proceedings were initiated against K-Electric under NEPRA Fines Rules by issuing a show-cause notice for imposition of penalty of up to Rs. 100 Million and necessary corrective/remedial actions, however, KE challenged the actions of NEPRA before High Court of Sindh ("Court") at Karachi. The Court suspended the show cause notice and also restrained NEPRA from passing final order without permission of the Court. For that purpose, NEPRA filed application for permission to pass final order in terms of interim orders of the Court which could not be taken in spite of filing of urgent hearing application by NEPRA. The mentioned proceedings are still sub-judice before the Court.
11. It has also been noted that for drawing high capacity from NTDC while keeping its own and external resources idle, legal proceedings were initiated against K-Electric under NEPRA Fines Rules, 2002 for violation of Article 2.1 and 6.1 of the Power Purchase Agreement executed between K-Electric and NTDC for withdrawal of 650 MW from National Grid. However, K-Electric and some other entities approached the Court and obtained orders for un-interrupted supply of 650 MW to K-Electric by NTDC. Though NEPRA was not made party to those proceedings, however,



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in order to ensure equitable distribution of electric power and to bring the correct facts in the knowledge of the Court, NEPRA filed an application for becoming a party to all those proceedings and also submitted details of financial impact/undue benefit drawn by K-Electric as a result of withdrawal of 650 MW from National Grid at subsidized rates as well as non-generation of electricity by K-Electric through its own resources. In addition to that, NEPRA issued directions to K-Electric and NTDC to strictly observe the applicable provisions of their PPA for withdrawal of 650 MW and also wrote an advisory vide letter No. NEPRA/CM/10/13/7044-47 dated June 20, 2013 to Secretary Ministry of Water and Power, Government of Pakistan (GoP) to take necessary remedial and corrective measures. Then in 2015, a show cause notice was also issued to K-Electric for the events occurring in June, 2015 and K-Electric after proceedings was fined, however, that matter has also been challenged in the Court by K-Electric which is being followed up regularly by NEPRA. Lastly, explanation notices have been issued to K-Electric and NTDC for continual of purchase/ sale of 650 MW even after expiry of PPA between aforesaid parties, matter which is under proceedings with the Authority. In view thereof, it can be noted that the Authority from time to time has been taking actions against K-Electric for its violation of the applicable documents. Not only that, NEPRA has also been informing the relevant authorities and courts the consequences and impacts of these violations.

12. For the submissions of the commentator regarding the heat rate tests, the Authority noted that K-Electric vide Multi Year Tariff (MYT) determination dated December 23, 2009 was directed to conduct heat rate tests of its all newly commissioned and other upcoming own generation power plants by an independent consultant. In pursuance of the aforementioned directions of the Authority, K-Electric after fulfilling all the requisites engaged M/s Pakistan Engineering Services (PES) for conducting the heat rate tests of its power plants. Following tabulated figures show the comparison between the heat rates arrived at after the test results and the ones provisionally allowed heat rates;



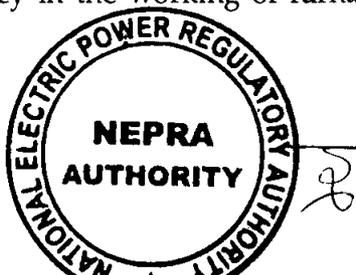


	Site Gas-II	Korangi Town Gas-II	Korangi CCPP	560 MW BQPS-II
NEPRA	9,500 (HHV)	9,500 (HHV)	9,100 (HHV)	7,213.5
PES	9,646.89 (HHV)	9,646.89 (HHV)	9,292.718 (HHV)	7,382.98 (LHV)

13. Keeping in view the interest of the consumers, the adjustments on these power stations have been allowed based on earlier approved more efficient figures even when compared with the figures resulted in tests. In case of BQPS-II, the Authority directed K-Electric to have the heat rate test conducted again as certain observations were raised regarding the earlier conducted test. It is pertinent to mention here that no adjustments on account of fuel price variations on BQPS-II have yet been allowed to K-Electric. It is also important to mention that NEPRA has directed K-Electric to re-conduct the heat rate test of all power stations again which will be used in cost assessment for new tariff of K-Electric.
14. The information (both of self-generation and power purchased from external sources) submitted by K-Electric vide FCA request for the current month was verified with respective invoices and other relevant documents. Few deviations were noticed which are explained at para 16 below.
15. The fuel cost variation of K-Electric's own power generation and power purchases from external sources for the month of April, 2016 works out to be around minus Rs. 468.650 million or minus Ps. 32.661/ kWh, as per the details tabulated hereunder:

Tariff Adjustment – Summary Variation in Fuel Charges	April-16 Requested	April-16 Allowed
Own Generation (Million Rs.)	175.807	144.158
External/PPP (Million Rs.)	(403.540)	(612.808)
<b>Total (Million Rs.)</b>	<b>(227.733)</b>	<b>(468.650)</b>
Total Units Sent Out (GWh)	1,434.875	1,434.874
<b>Total Variation Ps/kWh</b>	<b>(15.872)</b>	<b>(32.661)</b>

16. 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./metric ton) by K-Electric. The Authority



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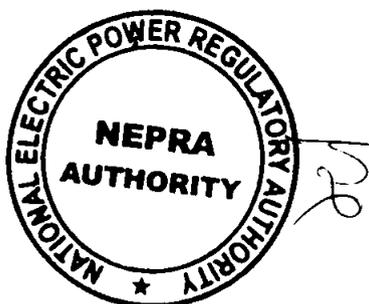


consistently uses monthly weighted average method to work out the rate of furnace oil consumed in BQPS-I and the same has been used in calculation of fuel charges variations of the current month. Further, K-Electric has claimed variation in gas price for BQPS-II which has not been allowed due to non-finalization of its heat rate. The reason for the difference between requested and allowed fuel cost of the power purchase is that K-Electric in its instant FCA request has used the fuel component invoiced by CPPA-G whereas the allowed variation in power purchase has been worked out using the fuel cost component of CPPA-G approved by the Authority for Ex-WAPDA distribution companies.

17. In view of the discussion in preceding paragraphs, the Authority has decided to pass on minus Ps. 32.661/kWh to the consumers of K-Electric as FCA for the month of April, 2016. It is to be noted that the aforementioned FCA is being allowed on the provisional basis and can be subjected to adjustments if it is found that K-Electric, while dispatching power from the generation sources of its system, has not followed the EMO or has failed to utilize its power stations prudently, which would have resulted in undue and unauthorized load shedding.
18. The worked out amount of FCA i.e. minus Ps. 32.661/ kWh will be charged by K-Electric in the prospective billing month of July, 2016 according to the following schedule:

<b>FCA to be calculated on the basis of billing for the month of</b>	<b>Ps/kWh</b>	<b>Charged in consumer bills to be issued in the month of</b>
April, 2016	(32.661)	July, 2016

19. In accordance with the policy guidelines issued by Government of Pakistan ("GoP") vide letter dated May 21, 2015, the impact of aforementioned FCA of minus Ps. 32.661/ kWh for April, 2016 shall not be passed on to the life line consumers, agriculture consumers and domestic consumers, consuming up-to 300 Units. K-Electric is hereby directed to provide the details of units billed to each of these consumer categories in April, 2016 so that the same amount could be adjusted in K-



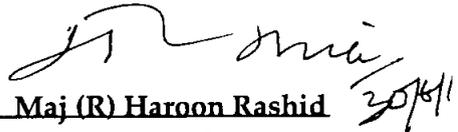
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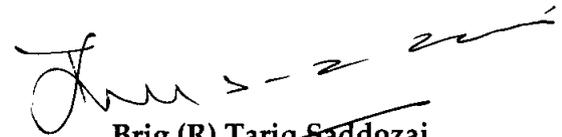
Electric's schedule of tariff through quarterly adjustment for the quarter April-June, 2016, to ensure reduction in GoP subsidy to the extent of that amount.

**AUTHORITY**

  
Masood ul Hassan Naqvi 30/6/16  
Member

  
Maj (R) Haroon Rashid 30/6/16  
Member

  
Himayat Ullah Khan 30.6.16.  
Vice Chairman/Member

  
Brig (R) Tariq Sadozai  
Chairman



  
Mus  
30.06.16