



**National Electric Power Regulatory Authority**  
Islamic Republic of Pakistan

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Registrar

No. NEPRA/R/TRF-51/KESC-2006/7435-38  
November 14, 2006

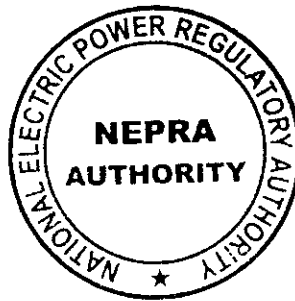
Subject: **Decision of the Authority in the matter of KESC Tariff Petition for Waiver of 4% Price Cap – Request filed by Government of Pakistan through the Ministry of Water & Power for Reconsideration of its Decision (Case No. NEPRA/TRF-51/KESC-2006)**

Dear Sir,

The Authority has considered all relevant aspects of the case. The Authority has decided to maintain its earlier determination on the subject matter communicated to the Government of Pakistan vide letter no. NEPRA/TRF-51/KESC-2006/6671-74 dated 14.09.2006. The decision of the Authority is enclosed for information please.

DA/As above.

Secretary  
Cabinet Division,  
Government of Pakistan  
Cabinet Secretariat  
Islamabad



*Mahjoob Ahmad Mirza*  
14.11.06.  
(Mahjoob Ahmad Mirza)

CC:

1. Secretary, Ministry of Water & Power, Islamabad.
2. Secretary, Ministry of Finance, Islamabad.
3. Secretary, Privatization Commission, EAC Building, Islamabad.

**Decision of the Authority RM No 06-333 dtd 6-11-06 in the matter of KESC tariff petition for waiver of 4% price cap. Request filed by Government of Pakistan through the Ministry of Water & Power for reconsideration of its decision.**

The Authority intimated its decision on the petition filed by KESC for waiver of 4% price cap on fuel price variation to the Government vide No. NEPRA/TRF-51/KESC 2006/6680 dated 14.09.2006 for notification in the official Gazette.

Government of Pakistan through Ministry of Water & Power filed a request for reconsideration under Section 31 of the NEPRA Act to review its decision for the removal of 4% cap on fuel price variation and change in the mechanism for gas price adjustment on September 30<sup>th</sup>, 2006. The Authority considered the request of the Government of Pakistan and decided to hold a meeting in the matter on 17.10.2006 for determination anew under the afore-mentioned provision of the Act.

The Authority invited the Ministry of Water & Power along with the Privatization Commission & KESC for the hearing. The main issues presented during the proceedings were:

- 1) Financial implications of removal of cap of 4% on fuel price variation
  - 2) Government of Pakistan's (GoP) Policy on subsidy
  - 3) Effect of price cap on the privatization of KESC
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- 1) **Financial Implications of removal of cap of 4% on fuel price variation**

The Ministry of Water & Power explained about the additional burden that the GoP will have to bear if the cap is removed. The Authority in its earlier determination noted that KESC is a privatized entity and has to be treated at par with other generating companies. As no price cap is



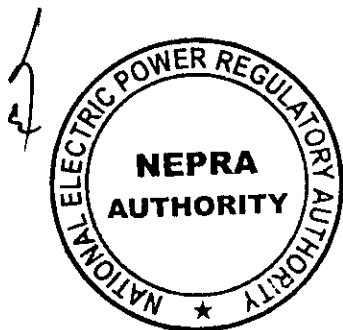
applicable to any of the GENCOs or IPPs therefore KESC should not be discriminated due to the application of a price cap. Privatization Commission also demanded equal treatment for this newly privatized entity.

KESC invited the attention of the Authority towards the financial repercussion of 4% cap on its cash flow and requested the Authority to maintain its earlier decision.

KESC further emphasized that being a privatized commercial entity its interests should not be allowed to be affected due to the social obligations/responsibilities of the GoP.

## **2) Government of Pakistan's (GoP) Policy on subsidy**

The subsidy policy of the Government as communicated to NEPRA vide Ministry of Water & Power letter No. DS (P)Misc/04 dated 05.11.2004 clearly states that "In accordance with the policy guidelines , NEPRA will determine tariff, based on cost of supply and without any cross-subsidies between various power sector entities for all categories of electricity suppliers, i.e generation, transmission and distribution. In line with the Federal Government's intent to gradually move towards a fully differentiated tariff regime for WAPDA's successor companies and KESC, consumer-end-tariff will be separately notified by the Federal Government. The difference, if any, between the tariff notified by NEPRA on the basis of cost of supply for consumers of any Disco and that notified by the Federal Government, would be borne by the Federal Government." The impact on consumers and the obligations of the regulator to determine a cost of service based tariff have been adequately covered under the above referred subsidy policy of the GoP. The policy clearly provides for the possibility to isolate consumers from any undesirable increase in tariff that the GOP wishes to carry vide notification of the tariff different from the one determined by NEPRA.




The Authority therefore observes that the earlier decision of the Authority for removal of 4% cap on fuel price variation was in accordance with the above mentioned subsidy policy of the Government.

### 3) Effect of price cap on the privatization of KESC

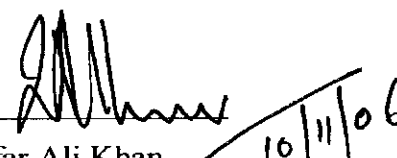
The earlier determination of the Authority for removal of cap in the Multi Year Tariff of KESC was arrived at due to its negative impact on the financial stability of the newly privatized entity as the legitimate costs of KESC were not being recovered in a timely manner.

In order to safe KESC from any drastic financial set back, the Authority considered the decision of removal of 4% of cap under fuel price adjustment mechanism. The decision does not in any way change the basis of multi-year tariff granted to KESC for a period of 7 years. However it is expected that Authority's decision to remove 4% cap would help KESC to achieve its performance levels determined under the multi-year tariff determination for KESC.

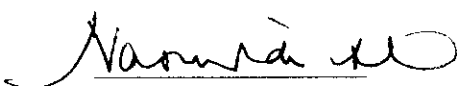
After considering above issues the Authority decides to maintain its earlier determination in the matter communicated to the Government of Pakistan vide No NEPRA/TRF-51/KESC-2006/6680 dated 14-09-2006.

  
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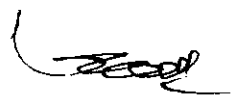
Abdul Rahim Khan  
(Member)

  
10/11/06

Zafar Ali Khan  
(Member)



Nasiruddin Ahmed  
(Member)



Lt Gen ® Saeed uz Zafar  
(Chairman)



