



LAHORE ELECTRIC SUPPLY COMPANY LIMITED
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No.// /CEO/LESCO

Dated: 15 - January - 2021

Registrar
 National Electric Power Regulatory Authority
 NEPRA Tower Attaturk Avenue (East),
 Sector G-5/1,
 Islamabad, Pakistan.

SUBJECT: PETITION FOR MODIFICATION OF RE-DETERMINATION DATED 18.09.2017 OF THE NATIONAL ELECTRIC POWER REGULATORY AUTHORITY REGARDING MULTI-YEAR CONSUMER-END TARIFF OF LAHORE ELECTRIC SUPPLY COMPANY LIMITED

Dear Sir,

1. The instant modification petition is being filed by Lahore Electric Supply Company Limited ("LESCO") against determination of the National Electric Power Regulatory Authority (the "Authority") dated 08.03.2016 (the "Determination"), whereby the Authority determined LESCO's consumer-end multiyear tariff ("MYT") for financial years 2015-16 to 2019-20 (the "Initial Control Period"). The Determination was later on re-determined by the Authority, *vide* decision dated 18.09.2017 (the "Re-determination"), on the request for reconsideration filed by the Federal Government. Subsequently, the control period of the Re-determination was changed to financial years 2018-19 to 2022-23 (the "Tariff Control Period") *vide* decision dated 31.08.2018 (the "First Adjustment Decision"). The background of the proceedings in connection with the subject matter of the petition is given in Annex - A.

[Copy of the Board Resolution is attached as Annex - 'B']

2. The instant petition is being instituted under Section 7 read with Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the "NEPRA Act"), Rule 3(1) of the NEPRA (Tariff Standards and Procedure) Rules, 1998 (the "Tariff Rules"), NEPRA Guidelines for determination of Consumer End tariff (Methodology and Process), 2015 (the "Tariff Guidelines") and all enabling provisions of law for kind consideration and decision of the Authority. *Vide* the instant petition, LESCO requests the Authority to modify: (a) the transmission and distribution losses (the "T&D Losses") prescribed for LESCO by the Authority from 11.75% to 8% over the term of the Tariff Control Period; and (b) the target for reduction of such losses i.e. 3.75% prescribed by the Authority (the "Reduction Target").
3. On account of following reasons, it is submitted that the T&D Losses prescribed by the Authority be revised:

NEPRA P&D Section
 19-1-2021

(i) The Tariff Control Period commenced in 2018. As per the data available for this period of two (2) years, the actual T&D Losses of LESCO have been much higher as compared to those prescribed by the Authority i.e. 1.41% higher for FY 2018-19 and 1.52% higher for FY 2019-20. This is despite LESCO's efforts to substantially reduce the administrative losses. Due to these variations, LESCO has been suffering huge financial losses, which has led to building up of the circular debt. Accordingly, it is requested that the T&D Losses prescribed for LESCO be modified in view of the above-noted actual figures.

(ii) While prescribing the T&D Losses, the Authority assumed ambitious sales growth targets for LESCO. Whereas, the LESCO's actual sales growth during this period remained far less. This significantly impacted LESCO's ability to achieve the prescribed T&D Losses. In this respect, following statistics may be considered:

YEAR	Dom.	Comm.	GEN. SERV.	IND	T/well	Bulk	Other	Actual Sales	MYT Target
2016-17	8160	1578		6173	1197	572	103	17783	16289
% AGE INC/ DEC	13.0	12.5		-10.5	-0.6	11.3	-3.2	2.5	-
2017-18	9021	1792		7587	1260	661	127	20449	16960
% AGE INC/ DEC	10.6	13.6		22.9	5.3	15.5	24.0	15.0	-
2018-19	9043	1685	318	8154	1147	667	119	21133	23785
% AGE INC/ DEC	0.2	-6.0		7.5	-8.9	0.9	-6.4	3.3	-12.54%
2019-20	9259	1563	538	7381	1116	627	127	20611	22,151
% AGE INC/ DEC	2.4	-7.2	69.2	-9.5	-2.7	-6.0	6.7	-2.5	-07.47%

(iii) It is evident from the above that the expected sales of LESCO were assumed at 16,960 GWh for FY 2017-18. The target sales were increased by 40% to 23,785 GWh for the FY 2018-19. Whereas, the actual sales of LESCO during FY 2018-19 were 21,133 GWh. This over estimations of expected sales impacted ability of LESCO to achieve the prescribed T&D Losses.

(iv) Furthermore, one of the most significant aspect evident from the above is that there has been considerable increase in consumption of electricity in high loss consumers of LESCO, which includes domestic consumers, tube wells etc. (the "High Loss Consumers"). Whereas, the sales growth on commercial, industrial and bulk side has remained largely negative. In this respect, it is pertinent to note that the commercial consumers, industrial consumers and bulk power consumers are generally regarded

as 'zero loss consumers' (the "Zero Loss Consumers"). Due to this negative growth trend in the consumption of the Zero Loss Consumers, particularly in the FY 2019-20, the target of the T&D Losses prescribed for LESCO cannot be achieved. This is evident from the following illustration:

Category	Units Received	Units Sold	Units Lost	%age Loss
Mix Consumers	300	290	10	3.3
Zero Loss Consumers	100	100	0	0
Total	400	390	10	2.5

- (v) Additionally, during the past few months, there has been reduced industrial and commercial activity due to COVID-19 led lockdowns, which has further reduced the consumption of the zero loss units. Therefore, it is requested that the Authority may take into account the same and modify the T&D Losses. In this respect, it may be noted that clause 53 of the Tariff Guidelines allow adjustments in tariff due to consumer mix variance.
- (vi) In context of shift in the consumer-mix, it may be noted that the Authority assumed the expected growth in the number of consumers over the term of the Initial Tariff Control Period as follows:

Years	Domestic	Commercial	Industrial	Tube well
2015-16 to 2019-20	692,189	120,711	17,728	13,506

Whereas, as per the actual data for this period, the consumer growth of LESCO has been as follows:

Years	Domestic	Commercial	Industrial	Tube well	Others
2015-16 to 2019-20	1,162,316	100,507	8,861	5,289	359
Percentage increase	67.92%	-16.74%	-50.02%	-60.84%	-

- (vii) It is evident from the above that there has been considerable increase in domestic consumers of LESCO i.e. 67.92% more than the expected numbers, and on the other hand, there has been negative growth in the commercial consumers (-16.74%) and industrial consumers (-50.02%). Due to lesser than expected growth in the Zero Loss Consumers and substantial growth in the High Loss Consumers, the percentage T&D Losses prescribed for LESCO cannot be achieved.
- (viii) Furthermore, it is also submitted that the Authority has not taken into account existence of hard areas in service territory of LESCO, and T&D Losses sustained by LESCO due to difficult access to these areas. The Authority has previously prescribed the T&D Losses for various distribution companies, including K-Electric, on account of hard areas in their territory. It is of paramount importance that ground realities and actual position be considered in assessing the T&D Losses and prescribing reduction targets thereto. In light thereof, it is requested that the Authority may revise the T&D Losses given to LESCO in light of hard areas in its service territory.

4. The Reduction Targets set in the Re-determinations may be revised keeping in view the variations in the investments allowed to LESCO. It may be noted that:

- (i) The Authority allowed investments amounting to Rs. 93 billion (approximately) to LESCO. On the basis of these investments, the Authority gave Reduction Targets for the T&D Losses to the tune of 3.75% during the term of the Tariff Control Period. Out of Rs. 93 billion investments, Rs. 30 billion was marked for the AMI project.
- (ii) As per the Review Decision, the Authority accounted 2% reduction in the T&D Losses on account of implementation of the AMI project. However, due to various reasons, including impact of COVID-19, the AMI project has not been implemented yet, and the same is under technical bid evaluation stage. As per re-scheduled timelines for the project, the AMI projects is expected to be completed by financial year 2022-23, and its benefits will yield after the Tariff Control Period.
- (iii) Therefore, it is requested that the Authority may revise the Reduction Targets set to LESCO after taking into account the fact that its benefits will yield after the Tariff Control Period.
- (iv) Additionally, due to this unprecedented growth in the number of consumers (as discussed above), major portion of the investments allowed to LESCO had to be spent on management of consumer growth and to prevent load shedding. Therefore, the Reduction Targets set for LESCO need to be modified keeping in view the consumer growth in LESCO's service territory.

5. In view of the submissions made above, it is requested that the Authority may modify the Re-determination in the following manner:

- (i) The baseline / benchmark of T&D Losses and T&D Losses prescribed for LESCO for financial years 2018-19 to 2022-23 be modified by the Authority;
- (ii) The Reduction Target of 3.75% set for LESCO over a term of the Tariff Control Period be revised after taking into account the rescheduled timeline of the AMI project's implementation; and
- (iii) Additionally, the investment amount utilized by LESCO in meeting the load growth be accounted for in setting the reduction targets.

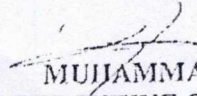
6. LESCO requests to modify the T&D Losses and Reduction Targets in the following manner:

MYT Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
T&D Losses	13.83	13.17	12.4	12.07	11.75	11.42
Reduction / year	-	-	0.77	0.33	0.33	0.33
					Total Reduction	1.75%

7. LESCO reserves its right to raise any other ground in the instant review at any appropriate stage in the future.



In light of the above, it is requested that Re-determination may kindly be modified in light of submissions made above. It is requested that a hearing be provided for the purposes of providing detailed submissions, including session with the technical professional team of the Authority prior to hearing.


MUJAMMAT AMIN
CHIEF EXECUTIVE OFFICER
LESCO

Enclosed please find:

1. Annex-A. (Back grounds of the proceedings)
2. Annex-B. (Copy of the Board Resolution)
3. Demand Draft of Rs. 1,121,664/- Bearing No. 16790292 dated: 15-Jan-2021

The background of the petition is as follows:

- (i) LESCO filed its petition on 21.01.2016 (the "MYT Petition") for determination of consumer end multiyear tariff for the Initial Control Period. *Vide* the MYT Petition, LESCO requested to fix the benchmark of T&D Losses at 13.85% for FY 2015-16, with gradual reduction to 11.85% for FY 2019-20. The figure of 13.85% was proposed in line with the estimated reduction in the T&D Losses from previous year's (2014-15) actual losses of 14.1%.
- (ii) In the Determination, the Authority assessed the T&D Losses for financial year 2014-15 as 11.75% as baseline / benchmark. Additionally, the Authority prescribed the Reduction Target to the tune of 3.75%. As a result thereof, LESCO was given a tough and unrealistic target of 8% in lieu of the T&D Losses *vis-a-vis* last year of the Initial Control Period i.e. financial year 2019-20. It may be noted that the Authority allowed total investments amounting to Rs. 93 billion in the Determination that would help in reducing the T&D Losses. Out of Rs. 93 billion, Rs. 30 billion comprised of Advanced Metering Infrastructure ("AMI") project.
- (iii) Being aggrieved of the Determination, LESCO filed a review motion on 18.03.2016 (the "Review Motion"). *Vide* the decision dated 19.05.2016 in the matter of the Review Motion (the "Review Decision"), the Authority rejected the LESCO's Review Motion. With respect to the Reduction Target, the Authority noted that LESCO's statement "*of controlling only the administrative losses of 1.5% by the implementation of AMI project of Rs. 30 billion is imprudent when compared with PC-1 of the project (submitted with the tariff petition of FY 2014-15), which clearly mentions that the AMI project along-with other benefits will also result in overall energy saving by 2% as a whole...*" and "*...the remaining amount of Rs. 63 billion is quite sufficient to achieve that targeted level of T&D losses i.e. 1.75% (3.75 less 2% with the help of the AMI project)...*"
- (iv) Subsequent to the Review Decision, the Federal Government filed reconsideration request under Section 31(4) of the NEPRA Act against the Determination (the "Reconsideration Request"). The Authority rejected the Reconsideration Request *vide* decision dated 01.07.2016 (the "Reconsideration Decision").
- (v) Subsequently, *vide* the First Adjustment Decision, the Authority revised the Initial Control Period of the Re-determination to the Tariff Control Period i.e. financial years 2018-19 to 2022-23.

