



# National Electric Power Regulatory Authority

## Islamic Republic of Pakistan

Registrar

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No. NEPRA/TCD 09/ 2 83 2

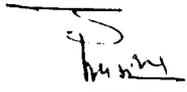
13-3-2015

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 regarding Bank Collection Charges of Rs.8/- Charged by K-Electric Limited (formerly KESC)**

Please find enclosed herewith the decision of NEPRA in the subject matter for necessary action and compliance within 30 day of the receipt of decision.

Encl: As above

  
13-3-15  
( Syed Safer Hussain )



**NATIONAL ELECTRIC POWER REGULATORY AUTHORITY**  
**(NEPRA)**

**Date of Hearings:** March 11, 2014  
March 27, 2014

**Subject: DECISION OF THE AUTHORITY REGARDING BANK COLLECTION CHARGES OF RS.8/- CHARGED BY K-ELECTRIC LIMITED (FORMERLY KESC)**

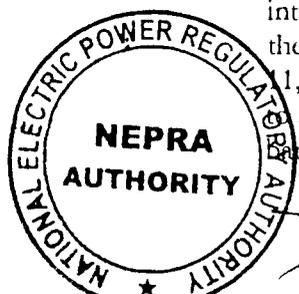
**Decision**

1. National Electric Power Regulatory Authority (hereinafter referred to as the "Authority") is established under Section 3 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (hereinafter referred to as the "Act").
2. The Authority granted distribution licence to K-Electric Limited (KE), formerly Karachi Electric Supply Company Limited, to engage in distribution business vide licence No. 09/DL/2003, and being a licensee, it is required to charge rates, tariff and charges as approved by the Authority and to follow the provisions of the Act and rules / regulations made there-under.
3. KE was given multi-year tariff by the Authority in the year 2002. Prior to grant of multi year tariff to KE in 2002, all DISCOs including KE were collecting bank collection charges @ Rs.2/- from their consumers through tariff under revenue requirements/distribution margin. After grant of multi year tariff to KE in 2002, the practice remained the same as these charges were merged in KE's multi year tariff. Accordingly KE did not claim these charges from its consumers by reflecting in electricity bills as the same were part of KE's tariff. The bank collection charges were part of expenses of KE and were duly considered by the Authority while giving multi-year tariff 2002. As per spirit of multi-year tariff, the tariff was locked for certain period of time and during that locked period, KE cannot claim any other expense or charge, any other cost in any head to the consumer and it can only claim certain pre-determined adjustments and variations as expressly provided in the multi-year tariff determination and its adjustment mechanisms.
4. A complaint was received in Consumer Affairs Division, NEPRA regarding illegal recovery of Rs.8/- as bank collection charges by KE. As per the procedure, proceedings were initiated and report was sought from KE. A public hearing was also held at Karachi, thereafter KE was directed to apply formally to the Authority for approval of bank collection charges. Accordingly, KE submitted a formal request dated November 15,



2007. However, further proceedings in the matter were suspended as a suo-moto case No.4 of 2006 was pending before the Supreme Court of Pakistan regarding facilities provided by banks to consumers for deposit of the utility bills. Meanwhile, KE, on change of management, filed a tariff petition and its multi-year tariff was modified in year 2009 and was extended till 2016 to bring in line with the amended implementation agreement signed between new management of KE and Government of Pakistan however, KE did not request for merger of bank collection charges in its tariff petition. Importantly, no permission/authorization was granted by the Authority to KE to charge separately an additional amount of Rs. 8/- over and above the already determined bank collection charges in the multi-year tariff determinations and its adjustment mechanisms. Upon disposal of the suo moto case by the Supreme Court of Pakistan, further proceedings in the matter were initiated. Accordingly, considering the request and record given by KE, the Authority allowed it to charge bank collection charges and final approval was accorded by the Authority to KE on July 21, 2010 for bank collection charges @ Rs.8/-. While submitting formal request for approval of bank collection charges, KE concealed the facts and did not disclose that the bank collection charges were already part of overall O&M cost of KE.

5. The Authority received numerous complaints against KE in 2013 regarding bank charges collected by KE. Considering the request of different consumers, the Authority decided to consider the issue afresh. In the light of multi-year tariff of KE and other applicable documents, the Authority scrutinized all relevant information/documents and it was transpired that KE made false and misleading statements and on the basis of those statements it got approved bank collection charges from the Authority. The Authority has noted with deep concern for the irresponsible attitude of KE by drawing certain financial benefits which cannot be expected and ought not to be done by KE as a responsible and prudent utility company. The bank collection charges were part of KE's multi-year tariff allowed to it through Authority's determination dated September 10, 2002 and KE is collecting bank collection charges in duplication i.e. through tariff and through electricity bills. Considering these facts, the Authority decided to initiate the proceedings in terms of section 7(2)(g) of the Act read with regulation 3(1) of NEPRA (Review Procedure) Regulations, 2009 to review its decision dated July 21, 2010 and accordingly, the case was taken up with KE vide letter dated December 3, 2013. In response, KE submitted unsatisfactory reply vide its letter dated December 20, 2013 and informed that bank collection charges were not part of KE's overall O & M cost. The case was again taken up with KE wherein it was directed to respond/clarify that if bank collection charges were not part of KE's multi year tariff then why KE was not collecting bank collection charges of Rs. 2/- from its consumers prior to revision of these charges by State Bank of Pakistan in June 2006 i.e between September 2002 to June 2006. It was also enquired from KE that as per the financial statements, KE was paying Bill collection charges to banks for collection of bills prior to revision of rates by State Bank of Pakistan in 2006. If KE was not collecting bank collection charges from its consumers prior to June 2006 then where these charges were taken into account/accounted for. In response, KE did not reply to these queries/questions and requested for a meeting on the subject matter vide its letter dated February 3, 2014.
6. KE was directed through an interim order dated February 6, 2014 to stop collecting additional bank collection charges @ Rs. 8/- from its consumers till decision on the case by the Authority. In response, KE vide its letter dated February 10, 2014 termed the interim order as illegal and refused to implement the decision of the Authority. KE was inter-alia, of the view that hearing opportunity was not provided to it before issuance of the interim order. Request of KE was considered and a hearing was scheduled for March 1, 2014 and KE was directed to depute concerned officials well conversant with the case to attend the hearing along with complete evidence with respect to contentions of KE that bank collection charges were not part of KE's multi-year tariff. KE was also directed that



the interim order will remain in-force till final decision on the subject matter by the Authority.

7. KE vide its letter dated March 4, 2014 approached NEPRA and informed that the interim order of NEPRA is against NEPRA Act, Rules and Regulations and is not legally enforceable against KE at present. Further, KE requested that hearing scheduled for March 11, 2014 may be re-scheduled. However, the request of KE was not considered and the hearing was held on March 11, 2014 at NEPRA Head Office, Islamabad as per schedule which was attended by KE officials. During the hearing, KE officials again requested that they may be allowed 10 days time so that they could prepare the case and present the same before the Authority in detail and also requested for suspension of the interim order. The request of KE was considered upto the extent of hearing and the hearing was adjourned as requested by KE.
8. Accordingly, another hearing was held on March 27, 2014 at NEPRA Head office Islamabad. KE representatives presented their case before the Authority. However, representatives of KE failed to submit satisfactory response to the queries and questions raised by the Authority. KE's representatives also failed to submit proper response that why KE was not collecting bank collection charges prior to revision of bank collection charges i.e between September 2002 to June 2006. Moreover, KE representatives could not provide any evidence in support of their contention that bank collection charges were not part of KE's multi year tariff.

9. **Findings of the Authority**

The issue of bank collection charges and stance of KE has been examined in the light of Multi-Year Tariff Determination of KE and other applicable documents and the findings of the Authority on the issue are as under;

- (i) All Distribution Companies including KE had been paying bank collection charges to banks. These charges were allowed to the distribution companies and KE in their tariff. Bank collection charges were revised by the State Bank of Pakistan in June 2006 from Rs.2/- to Rs.8/-. Other distribution companies approached the Authority through the tariff petitions for revision of bank collection charges and the same were approved by the Authority. On the contrary, KE instead of approaching the Authority, started collection of bank collection charges @ Rs.8/- at its own by reflecting these in electricity bills. Later, KE was directed by the Authority to apply formally for approval of Rs.8/- as bank collection charges. Accordingly, KE applied for the same. However, KE concealed the facts from the Authority regarding presence of bank collection charges in its multi-year tariff.
- (ii) There is no force in arguments of KE that bank collection charges were not part of KE's overall O&M cost. The fact remains that bank collection charges were part of KE's tariff, therefore, these charges were not reflected in electricity bills of KE prior to revision of bank collection charges from Rs.2/- to Rs.8/- by the State Bank of Pakistan in June 2006. Further, the bank collection charges were reflected in financial statements and annual report of KE as expense, which confirms that KE had been paying bank collection charges to banks for collection of electricity bills and receiving these charges in tariff. If bank collection charges were not part of KE's overall O&M cost then where were these charges accounted for.
- (iii) KE should have collected these charges through electricity bills prior to June, 2006 if these were not part of KE's multi year tariff. Bank collection charges

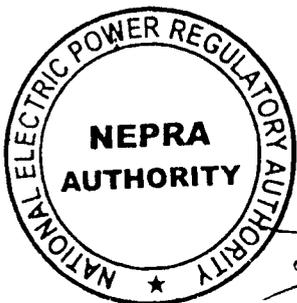


were also part of KE's tariff prior to grant of multi year tariff to KE in September 2002. The same can be seen in the 90<sup>th</sup> Annual Report showing accounts for the year ended June 30, 2002 wherein these charges have been shown as expenses and the same were accounted for while determining the multi-year tariff in September 2002. If these charges were not part of KE's tariff, it should have approached the Authority or started charging through electricity bills as done later in 2006.

- (iv) The record available with NEPRA reveals that the costs for the financial year 1998-1999 used as basis for the tariff petition for increase in tariff w.e.f. May 1, 1999 included "bank collection charges" of Rs.24 Million, appearing in the statement of costs for the year 1998-99, projected to increase to Rs.28.8 Million for FY 1999-00, and Rs.33.60 Million in FY 2000-01 prior to the period of signing of Data Processing Agency Agreement with Citi Bank. The financial statements of KE for years ended on June 30, 2001 and June 30, 2002 show Rs.36.023/- million and Rs.44.217/- million respectively on account of Bank collection charges which has been shown as expense of KE under the head of Consumer 'Service and Billing Expense' in its books of account. Further it is also clear from financial statements of KE for FY 2003, FY 2004, FY 2005 and FY 2006 that KE was paying bank collection charges to the banks for collection of monthly bills. Bill collection charges at Rs.2/- per bill were part of the overall O&M cost allowed to KE through Authority's determination dated September 10, 2002. Considering increase in O&M cost component allowed to KE since 2002, the impact on rate of Rs.2/- on year to year basis on account of CPI indexations has further been enhanced as per the following details:

O&M Cost Component (Financial Year ended June 30)	O&M Distribution Ps/kWh	Bank Collection Charges Rs/bill
Year 2002-03	32.00	2.00
Year 2003-04	33.14	2.07
Year 2004-05	34.46	2.15
Year 2005-06	37.99	2.37
Year 2006-07	40.62	2.53
Year 2007-08	43.74	2.72
Year 2008-09	49.91	3.10
Year 2009-10	57.93	3.59
Year 2010-11	81.64	5.06
Year 2011-12	90.00	5.58
Year 2012-13	98.36	6.10
Year 2013-14	100.46	6.23

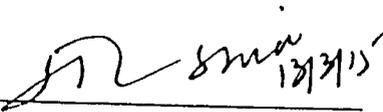
- (v) Most importantly, KE has been granted multi- year tariff and as per spirit of multi-year tariff, the tariff was locked for certain period of time and during that locked period, KE cannot claim any other expense or charge, any other cost in any head to the consumer and it can only claim certain pre-determined adjustments and variations as expressly provided in the multi-year tariff determination and its adjustment mechanisms.



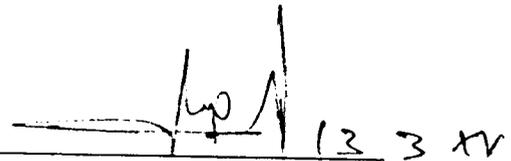
10. Decision of the Authority

The Authority is convinced that bank collection charges of Rs.2/- were part of K-Electric's multi-year tariff. This fact was concealed by K-Electric from the Authority while submitting the request for approval of bank collection charges in 2007. At present, K-Electric is charging bank collection charges in duplication i.e. through tariff as cost of O&M which was Rs.2/bill in multi-year tariff determination in the year 2002 and the same has been indexed through CPI indexation and has become Rs. 6.23/bill (applicable during FY 2013-2014) and through electricity bills @ Rs. 8/- per bill per month. Foregoing in view, K-Electric Limited is hereby directed as under:

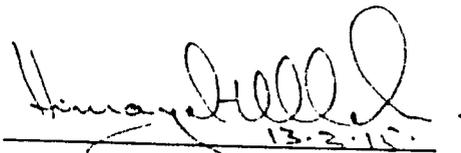
- i) Immediately stop charging of Rs.8/- as bank collection charges from its consumers being illegal, unlawful and unjustified.
- ii) Workout and intimate the amount so far collected in duplication on account of bank collection charges @ Rs.8/- from its consumers since 2006 for adjustment and refund to the consumers.
- iii) Submit compliance report within 30 days.

  
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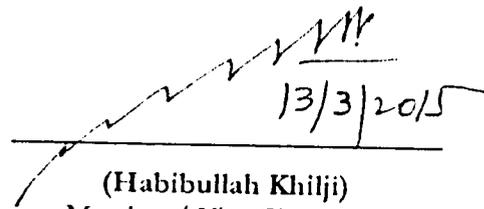
(Maj (R) Haroon Rashid)  
Member

  
13/3/15

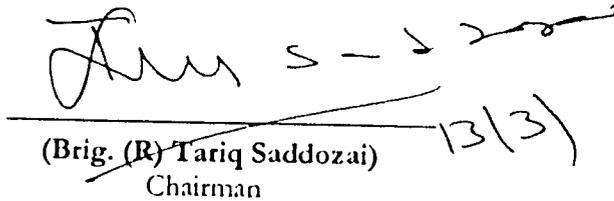
(Khawaja Muhammad Nacem)  
Member

  
13.3.15

(Himayat Ullah Khan)  
Member

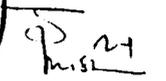
  
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(Habibullah Khilji)  
Member / Vice Chairman

  
13/3/15

(Brig. (R) Tariq Saddozai)  
Chairman



  
13.03.15