



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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Registrar

No.NEPRA/TRF-40/FESCO-2005/7832-35
June 3, 2008

Subject: **Decision of the Authority on Federal Government's Request for the Reconsideration of Faisalabad Electric Supply Company Ltd. (FESCO) Decision Dated 10th January, 2008 (Case No. NEPRA/TRF-40/FESCO-2005)**

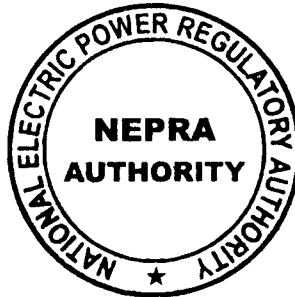
Reference: *Ministry of Water & Power letter No. PI-4(14)/07 dated 24.01.2008.*

Dear Sir,

In continuation of this office letter No. NEPRA/TRF-40/FESCO-2005/5589-92 dated 10.01.2008 whereby decision of the Authority was sent. Please find enclosed herewith decision of the Authority (04 pages) in the matter of request for reconsideration made by Ministry of Water & Power regarding decision of the Authority dated 10.01.2008 in the case of Faisalabad Electric Supply Co. Ltd. (Case No. NEPRA/TRF-40/FESCO-2005) for information and further necessary action.

Enclosure: As above

The Secretary
Cabinet Division
Government of Pakistan
Cabinet Secretariat
Islamabad



Mahjoob Ahmad Mirza
03.06.08
(Mahjoob Ahmad Mirza)

CC:

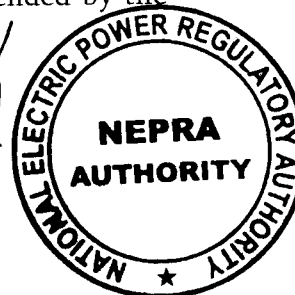
1. Secretary, Ministry of Water & Power, Islamabad.
2. Secretary, Ministry of Finance, Islamabad.
3. Secretary, Privatization Commission, Islamabad.

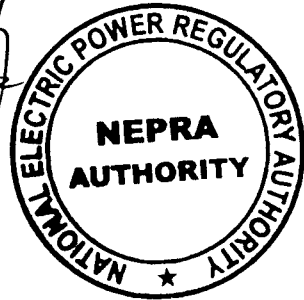


**DECISION OF THE AUTHORITY REGARDING FEDERAL GOVERNMENT'S REQUEST FOR THE
RECONSIDERATION OF FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO) DECISION
DATED 10TH JANUARY 2008**

Ministry of Water & Power vide letter No. PI-4(14)/07 dated January 24, 2008 required NEPRA to reconsider its determination dated January 10, 2008 regarding Eight Distribution Companies including FESCO vide letter No. 9184-85/FD/FESCO/CPC dated 23rd January 2008, addressed to PEPCO, against the decision of the Authority under the NEPRA Act XL-1997 Clause 31-Tariff (4). Reconsideration request also included a proposal of PEPCO for rationalization/simplification of residential tariff structure and the application of single tariff to the end-consumers applicable in the slab of consumption w.e.f. January 2008.

2. The Authority required certain clarifications from the Ministry of Water & Power vide this office letter No. NEPRA/TRF-35-42/6096 dated February 6, 2008 involving legal implications in the matter of combined reconsideration request before initiating the process under Rule 16(12). The Ministry of Water & Power vide U.O. No.PI-4(14)/07 dated February 11, 2008 clarified that separate reconsideration requests (comments by Discos addressed to PEPCO as referred in para 1) of each distribution company were annexed/forwarded through Ministry's letters of even number dated 24th, 25th and 26th January 2008. The Authority decided to process the case under Rule 16(12) of NEPRA Tariff Rules.
3. The Authority decided not to consider the proposal prepared by PEPCO for rationalization/simplification of residential tariff structure and the application of single tariff to the end-consumers on the ground that PEPCO was not NEPRA's licensee and any reconsideration can be with respect to Authority's specific decisions pertaining to its licensees. PEPCO's proposal in its present form cannot be processed further even if the Authority, considering PEPCO's proposal as Government's request for reconsideration decides to proceed further. The tariff for each consumer category is assessed in a manner to ensure the overall revenue requirement, which means that any additional revenue resulting from rationalization/simplification of residential tariff would have to be adjusted through corresponding reduction in tariff of other consumer categories; therefore the proposal cannot be considered in isolation. In order to evaluate PEPCO's proposal a detailed and comprehensive study is required for which monthly slab-wise consumer data and information regarding the impact on other consumer classes will be required.
4. A hearing in the matter was held on February 21, 2008. The hearing was attended by the Ministry of Water and CPPA, Distribution Companies and other stakeholders.





5. FESCO sought reconsideration in the following:
- i) T&D Losses
 - ii) Recovery Target
 - iii) Schedule of Electricity Rates and Other Terms & Conditions of Tariff
 - iv) Power Purchase Price
 - v) Distribution Margin
 - vi) Investment Program

T&D Losses

6. According to FESCO, NEPRA has determined 132KV losses for the year 2007-08 as 2.03% and distribution losses as 9.40% with total 11.43% against earlier allowed losses of 3.0%, 9.60% and 12.60% respectively. FESCO was of the view that due to following factors, the technical losses were increasing day by day:
- i) Numbers of consumers under all categories of tariff are increasing resulting into increase of load and thereby increase in technical losses.
 - ii) Due to change in living standards of the citizens, the load of presently running consumers is increasing, which also contributing towards increase in technical losses.
7. In view of above, FESCO requested not to revise earlier allowed losses of 12.60%. According to FESCO its losses level was already very low as compared to other DISCOs. In case these targets were further reduced resultantly, it might tantamount to exaggerated billing. Consequently litigations, complaints and consumer's unrest would increase bringing bad name to FESCO and thereby increasing non recoverable receivables.
8. The Authority considers that FESCO's contention for allowing 3% 132 kV losses for the year 2007-08 is not valid because in the determination the estimated 3% losses were to be replaced with the actual losses. The adjustment in this account is according to the Authority's determination therefore requires no reconsideration.

Recovery Target

9. According to FESCO, in the present scenario of excessive load shedding/management, there were remote chances to achieve the recovery targets set by NEPRA because of expected decrease in unit sold level. If the present scenario continued to prevail, the recovery status would be disturbed further which would definitely adversely affect the achievement of

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recovery targets. FESCO suggested rationalizing the recovery targets according to the ground realities.

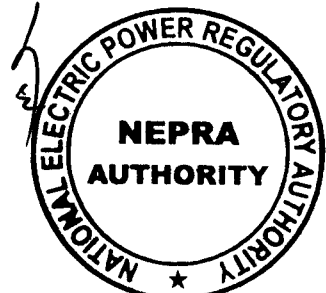
10. FESCO's contention regarding reduction in recovery target due to decrease in unit sold is not understandable because recovery is linked with the amount billed not units sold. Since FESCO's contention in this regard is not clear therefore needs no reconsideration.

Schedule of Electricity Rates and Other Terms & Conditions of Tariff

11. FESCO submitted as follows:
- Electricity tariff rates under tariff B-1, B-2 (400Volt), B-2 (TOU), B-3 & B-4 have been reduced considerably in both Categories of rate i.e. Fixed charges & variable charges which would adversely effect the financial viability of the company. FESCO suggests that said rates determined in the tariff dated 24.02.07 should remain intact.
 - The fixed minimum charges given at the foot note of industrial supply tariff rates for B-1, B-2, B-3 & B-4 are ambiguous because it has not been clarified under what status these charges are to be recovered. In the tariff applicable w.e.f. 24.02.07, it had been clearly laid down that minimum monthly charges per KW per month were required to be recovered even if the consumer does not consume any energy. It is further observed that new tariff rates given on the foot note are quite irrational as the said rates are at the lowest level which would also adversely affect the financial viability of the company in addition to the hard ships for the consumers. For example the consumer under categories B-1 having load 2KW or 20KW has to pay Rs.350/- per month. Similarly for B-2 consumer having load 21 KW or 500KW has to pay Rs.2000/- per month and for B-3 consumer having load 501KW or 5000KW has to pay same amount of Rs.50,000/- per month.
 - The addition have been made in tariff B-1 (Supply at 400 Volts three phase and / or 230 Volts single phase) that "that the existing consumer having load up to 20KW can opt for T.O.U metering arrangements and B-1(b) tariff" but in the schedule of tariff (Ann-II) tariff rate have not been determined for tariff B-1(b).
12. The Authority assessed FESCO's revenue requirement after taking into account all the abovementioned changes therefore in Authority's opinion FESCO's concerns has no sound basis at this point of time. In case of any shortfall in revenue on account of abovementioned changes FESCO can submit request for consideration of the Authority on the basis of authentic documentary evidence i.e. annual audited accounts.

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Power Purchase Price

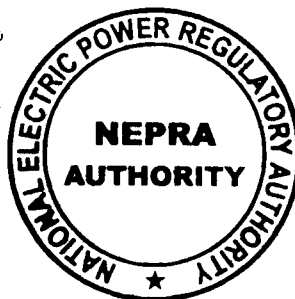
13. FESCO requested through review motion dated 27.04.2007 to allow adjustments for actual PPP on a monthly or quarterly basis which has been accepted by NEPRA on quarterly basis.
14. The Authority considers that FESCO's concern has already been addressed through its decision of dated 10th January 2008, which will be implemented subsequent to the notification by the GoP. The Authority therefore considers that this issue does not require reconsideration of the Authority.

Distribution Margin

15. According to FEASCO the Distribution margin of Rs.0.6943 per kWh was allowed for financial year 2006-07 by NEPRA in the Tariff Determination dated Feb-23rd 2007 whereas after review motion it was revised as Rs.0.6231 per kWh by NEPRA. The detail of adjustment is as follows:

<u>Head of Account</u>	<u>From</u>	<u>To</u>
Operation & Maintenance Cost	0.3924	0.3912
RORB	0.3280	0.2634
Depreciation	0.0969	0.0915

16. The Authority in the original determination assessed Rs.6,004 million as Distribution Margin for FY 06-07. The assessment was based on the actual information available at that time and estimations for FY 2006-07 keeping in view the past trend. At the time of review motion, the revised its earlier assessment based on the actual financial results for FY 2006-07 with respect to O&M, RORB and depreciation. According to the Authority's decision the Distribution margin is subject to annual adjustment in the month of July during control period. The Authority therefore considers that FESCO's concerns will automatically be addressed at the time of annual adjustment of the distribution margin components. The Authority further considers that since most of the components of Distribution Margin are fixed and per unit distribution margin would be misleading. The FESCO should be concerned about the overall Distribution Margin Revenue Requirement and not per unit. In view of aforementioned the FESCO's request at this point of time does not merit reconsideration.

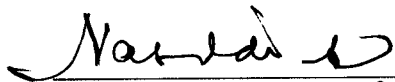


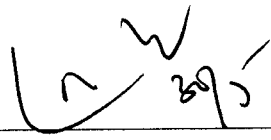



Investment Program

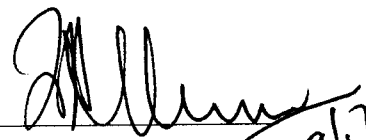
17. As per the previous Determination dated February 23rd 2007, investment as per ECNEC had been incorporated by NEPRA for the calculation of tariff components. The same investment has entirely been acceded i.e. Rs.8944.089 (Million) up to financial year 2010.
18. Since FESCO has not requested for any reconsideration on the issue of investment program therefore need not any consideration.
19. Having considered all the relevant aspects and the discussion in the preceding paragraphs the Authority has decided to maintain its earlier decision.

AUTHORITY


Nasiruddin Ahmed 29/5/08
Member


Maqbool Ahmed Khawaja
Member


Abdul Rahim Khan 30/5
Member


Zafar Ali Khan 28/5/08
Vice Chairman



