

# National Electric Power Regulatory Authority

## Registrar Office

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No. NEPRA/TRF-36/GEPCO-2005/7722

May 30, 2008

Subject: **Decision of the Authority on Federal Government's Request for the Reconsideration of Gujranwala Electric Power Company Ltd. (GEPCO) Decision Dated 10<sup>th</sup> January, 2008 (Case No. NEPRA/TRF-36/GEPCO-2005)**


Please find enclosed a copy of subject Decision sent to Cabinet Division along with copies to Secretary Ministry of Water & Power and Secretary Ministry of Finance vide letter No. 7717-19 dated 30.05.2008.

2. The above mentioned Decision has also been sent to petitioner & intervenor as listed below vide letters No. 7720-21 dated 30.05.2008. Copies of the same are also enclosed for information, please.

- i) Chief Executive Officer, GEPCO,
- ii) Chairman, All Pakistan Textile Mills Association

Petitioner  
Intervenor

Enclosure: As above

  
( Mahjoob Ahmad Mirza )  
Registrar

### Director (Tariff) - I

For information:

- 1. Chairman
- 2. Vice Chairman / Member (T)
- 3. Member (S)
- 4. Member (L)
- 5. Member (P)

Distribution:

- 6. Director General (Standards)
- 7. Director (IS & P)
- 8. Director (CAD & Coord)
- 9. Deputy Director (L) – I
- 10. Deputy Director (I.T.) [Please place it on the NEPRA Website for the
- 11. Assistant Director (I.T.) information of general public. Scanned copy has been sent
- 12. Assistant Director (Library) through e-mail.]
- 13. Assistant Director (Tariff-Record)



Registrar

# National Electric Power Regulatory Authority

## Islamic Republic of Pakistan

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No.NEPRA/TRF-36/GEPCO-2005/7717-19  
May 30, 2008


**Subject: Decision of the Authority on Federal Government's Request for the Reconsideration of Gujranwala Electric Power Company Ltd. (GEPCO) Decision Dated 10<sup>th</sup> January, 2008 (Case No. NEPRA/TRF-36/GEPCO-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-36/GEPCO-2005/5546-48 dated 10.01.2008 whereby decision of the Authority was sent. Please find enclosed herewith decision of the Authority (06 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 Gujranwala Electric Power Co. Ltd. (Case No. NEPRA/TRF-36/GEPCO-2005) for information and further necessary action.

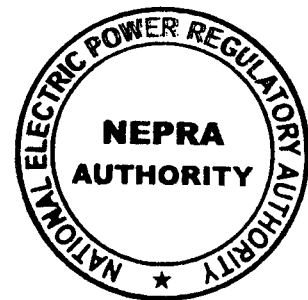
Enclosure: As above

  
30.05.08  
( Mahjoob Ahmad Mirza )

The Secretary  
Cabinet Division  
Government of Pakistan  
Cabinet Secretariat  
Islamabad

CC:

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

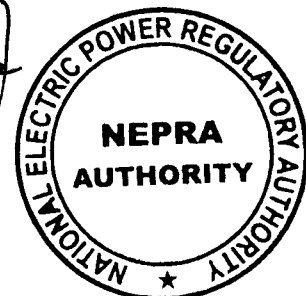




**DECISION OF THE AUTHORITY REGARDING FEDERAL GOVERNMENT'S REQUEST FOR THE  
RECONSIDERATION OF GUJRANWALA ELECTRIC POWER COMPANY (GEPCO) DECISION DATED  
10TH JANUARY 2008**

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 GEPCO vide letter No. FD/CPC/NEPRA/TRF-36/4903 dated January 21<sup>st</sup>, 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 consume 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. GEPCO sought reconsideration in the following:
  - i) Loss of Revenue
  - ii) T&D Losses
  - iii) PPP Adjustment





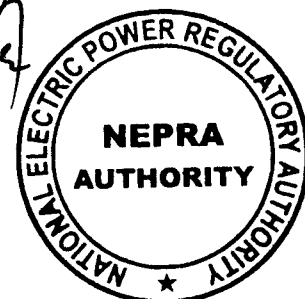
- iv) Rate Base
- v) Rate of Return
- vi) Tax Calculation
- vii) Distribution Margin
- viii) Additional Tariff

**Loss of Revenue**

6. According to GEPCO, tariff has been allowed prospectively (yet subject to notification by GOP) whereas the base figures are for FY 2007-08; more than half of which has already elapsed.
7. The Authority considers that there no ambiguity regarding the applicability of the tariff. The tariff is determined on the basis of data of one whole year and shortfall in revenue if any should be compared with the revenues of one whole year from the date notification of tariff. Expected revenue loss as per GEPCO claim pertains to the FY 2007-08, which can not be validated till the time GEPCO's Audited Accounts are available. The Authority can consider for any compensation if established on the basis of documentary evidence i.e. final audited accounts for FY 2007-08. The Authority therefore considers that GEPCO's contention in this regard is not valid and is not maintainable.

**Annual T&D Losses**

8. According to GEPCO, tariff has been determined prospectively; the energy losses have been adjusted retrospectively quenching the drive for better than required performance. The same is in total contravention of Rule 17(3)(iii) & (iv) GEPCO has been penalized, yet retrospectively, for efficiency achieved on energy losses. This has also demoted GEPCO's endeavor to invest more in system and facilities for improved and efficient service. By reduction of losses from 13.06% to 11.5%, GEPCO has been deprived of Rs. 444 million approximately.
9. In the original petition, GEPCO proposed to set its benchmark distribution losses at 14.8% for the first year (FY 06) of the proposed Multi-year period (control period). GEPCO's request was not consistent with the actual results of FY 05 according to which the actual losses recorded during FY 05 were 10.6%. Justifying its request to set high benchmark losses for FY 06, GEPCO stated that the losses level achieved during FY 05 was mainly due to favourable weather conditions and might not be achievable during FY 06. GEPCO further stated that the losses were expected to go up rather than going down because most of the expansion was expected in the rural areas. The Authority did not agree with GEPCO's argument and in view of company's envisaged investments for Energy Loss Reduction (ELR) the Authority set losses reduction target by 0.53% during FY 06 and 1.01% during FY 07. Accordingly a level of 9.06% distribution losses other than 132 kV system was set for FY 07. The overall target of losses for FY 2006-07 including 4% 132 kV losses was set as 13.06%.





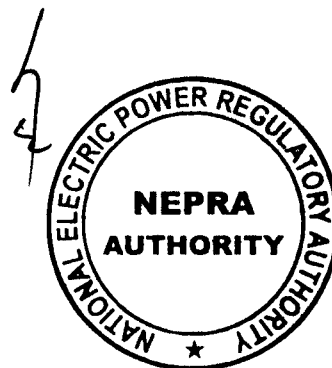
10. At the time of tariff determination actual information regarding 132 kV system losses were not available. In the absence of any reliable information, the Authority considered 4% as a reasonable level of losses for 132 kV system. This was subject to adjustment as per the actual losses recorded at 132 kV for 12 consecutive preceding months based on the documentary evidence. No formal tariff petition will be required for such adjustment.
11. At the time of review GEPCO provided the information regarding actual losses recorded during FY 06-07 i.e. 11.63%. Accordingly the Authority decided to reassess GEPCO losses on the basis of actual results. The Authority did not make any adjustment in the revenue requirement for FY 2006-07 on this account; therefore GEPCO's contention for penalizing GEPCO for efficiency improvement is not valid and justified. The Authority considers that the target of 11.5% set for FY 2007-08 with a loss reduction target of only 0.13% is reasonable. In Authority's opinion it would be unfair to set higher losses level against the actual losses of 11.63%.

#### PPP Adjustment

12. GEPCO requested that adjustment on account of PPP has been calculated in contradiction of formula given at Annex-7 of the Authority determination dated 09.03.2007. The amount of  $\Delta$ PP comes to Rs.-0.02499 or Paisa -2.499 whereas the  $\Delta$ PP mentioned at paragraph 41 of decision dated 10-01-2008 is Rs. -0.0951 i.e. approximately 7 paisa more than required. This would have adverse effect of approximately Rs. 200 million on GEPCO's finances.
13. According to GEPCO, simple reverse calculation of determined tariff (i.e. Rs.4.6877/kWh) shows that Rs.0.6273/kWh has been allowed for Distribution Margin (reference paragraph 13 & 14 of determination) and so the tariff allowed for PPP comes out to Rs.4.0604/kWh sold. Further reverse calculation shows that the said Rs.4.0604 comes out to Rs.3.5934/kWh. This is not in line with calculation shown at paragraph 41 and 42 of the determination (Rs.3.6128-.0951=Rs.3.5177).
14. GEPCO further stated that notwithstanding the methodology adopted by NEPRA for calculation of average PPP charge for FY 2007-08, the fact remains that up to December 2007 the average PPP charge has increased to Rs.3.7425/kWh purchased, i.e. 4.3% higher than the average PPP charge.
15. The Authority considers that the adjustment was made according to the prescribed mechanism therefore does not require any reconsideration..

#### Rate Base

16. According to GEPCO detailed calculation of rate base has not been provided in the decision (Ref: paragraph 12 of decision dated 10.01.2008). As per actual audited financial statement of 2006-07, and in line with calculation methodology of NEPRA (Ref: paragraph 39 of determination dated 09.03.2007) the





actual rate base comes out to Rs.6,174.666 million. As such the return, using 17.38% rate determined by Authority, comes to Rs.1,073.157 million of Rs. 993.352 million.

17. In the detailed tariff determination dated 9<sup>th</sup> March 2007, rate base was estimated as Rs. 8,319 million on the basis of average regulatory asset base as on 30-06-2007 and mechanism was given for annual adjustment on actual basis. In the tariff determination dated 10<sup>th</sup> January 2008, return on rate base was adjusted on account of actual average regulatory asset base as on 30-06-2007 as per following:

Description	Estimated Rate Base		Actual Rate Base	
	FY 06	FY 07	FY 06	FY 07
<b>Gross Fixed Assets In Operation</b>				
Opening Fixed Assets in Operation	12,337	14,433	12,324	13,985
Transferred During the Year	2,096	2,499	1,661	1,739
<b>Closing Fixed Assets in Operation (1+2)</b>	<b>14,433</b>	<b>16,932</b>	<b>13,985</b>	<b>15,724</b>
Cumulative Depreciation	5,019	5,606	4,946	5,450
<b>Net Fixed Assets in Operation (3-4)</b>	<b>9,413</b>	<b>11,326</b>	<b>9,039</b>	<b>10,273</b>
Closing Capital Work in Progress	166	150	380	782
<b>Total Assets (5+6)</b>	<b>9,579</b>	<b>11,476</b>	<b>9,418</b>	<b>11,055</b>
Less Deferred Credit	3,880	4,389	4,162	4,880
<b>Regulatory Rate Base (7-8)</b>	<b>5,699</b>	<b>7,087</b>	<b>5,256</b>	<b>6,175</b>
<b>Average Regulatory Rate Base</b>		<b>6,393</b>		<b>5,715</b>

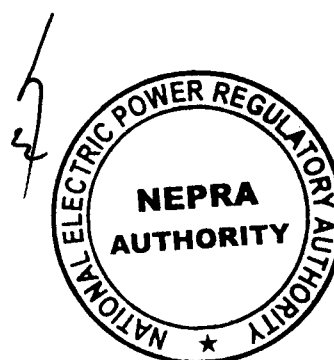
18. The Authority considers that the actual return on the base on the basis of actual rate base can only be determined when the annual audited accounts are available. The exact amount of any shortfall or variation from the amount assessed by the Authority determined at this point of time. Any variation in return on account of variation in rate base can be adjusted at the annual review on the basis of GEPCO audited accounts.

#### Rate of Return

19. According to GEPCO, No basis / reference for the rate of return on assets of 17.38% has been mentioned.
20. The same basis was maintained at the time of review which was used in the detailed determination of 9<sup>th</sup> March 2007.

#### Tax Calculation

21. According to GEPCO, there is another logical disconnects appearing in paragraph 12 and 13. The prevailing corporate tax rate is 35%. As such, if the pre-tax return of Rs.993.352 is used for arguments

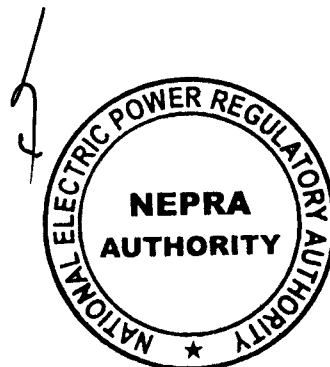


sake, the post-tax return (after deduction the tax Rs. 347.673 million) would come to Rs. 645.679 million instead of Rs. 798.694 million.

22. The Authority considers that the GEPCO did not account for the impact of tax shield on interest expense because tax rate is applied after deduction of interest from Earning before Interest & Tax (EBIT). In the instant case Earning before Tax (EBT) comes to Rs. 556 million (Rs. 993 million - Rs. 437 million). Applying 35% to EBT, tax liability works out as Rs. 194 million and ROE Rs. 362 million. ROE & interest together comes to Rs. 798 million. In Authority's opinion since there is no calculation error therefore no reconsideration in this regard is required.

**Distribution Margin**

23. GEPCO stated that distribution margin calculated at paragraph 13 of decision dated 10.01.2008 had inherent contradictions. A comparison of distribution margin for FY 2006-07 determined by NEPRA as per determination dated 09.03.2007, distribution margin determined by NEPRA for FY2007-08 as per decision dated 10.01.2008 and legitimate requirement is given as below:
- a) In view of general inflation and rising maintenance costs (in line with expansion program) the increase in "other O&M expenses" need to be kept at 15%; thus determined O&M cost at Rs.3,298 million for FY 2006-07.
  - b) The actual depreciation for FY 2006-07 has been Rs. 510.3 million and, in view of aggressive investment in all spheres of development areas, the depreciation of FY 2007-08 is expected to increase beyond Rs.700 million. The required adjustment should be allowed.
  - c) The "other income" at Rs.970 million has been based on actual results for FY 2006-07. May please be noted that other income for FY-2006-07 included Rs.212.55 (FY 2006-06: Rs.84.84 million) millions "gain on installation of new connections / deposit works". This was a one time event appearing due to clearance of old pending balances. As such, the amount of "other income" may please be reduced to Rs.842 million.
  - d) The return on assets, determined at Rs.798.964 million, has astonishingly been reduced even below the value determined for FY 2006-07 i.e. Rs.893.412 million. In view of remarks for rate base already given, the ROA merits to be revised appropriately
24. The Authority's considers that all the above mentioned points have already been addressed in the determination because O&M cost and other income was determined keeping in view the past trend and incorporating 15% increase in Salaries & wages and 10% increase in other O&M costs on account of inflation. In view of aforementioned, the Authority considers that no reconsideration on account of Distribution margin is required.





**Additional Tariff**

25. According to GEPCO the total of additional revenue requirements as per the above paragraphs worked out to Rs. 2,040 million, thus justifying additional tariff of Rs.0.3339/kWh.
26. In view of discussion in the preceding paragraphs the Authority considers that there is no additional revenue requirement therefore no ~~further reconsideration~~ <sup>modification of increase is</sup> required in this regard.

**AUTHORITY**

Nasiruddin Ahmed  
Member

Maqbool Ahmed Khawaja  
Member

Abdul Rahim Khan  
Member

Zafar Ali Khan  
Vice Chairman

