



Registrar

National Electric Power Regulatory Authority Islamic Republic of Pakistan

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad
Ph: +92-51-9206500, Fax: +92-51-2600026
Web: www.nepa.org.pk, E-mail: registrar@nepa.org.pk

No. NEPRA/R/Consultant(RE/Tech)/TRF-337/LESCO-2015/2293-2295

February 15, 2022

Subject: Decision of the Authority in the matter of Petition filed by Lahore Electric Supply Company Ltd. (LESCO) for Modification of Re-determination dated 18.09.2017 of the National Electric Power Regulatory Authority regarding Multi-year Consumer-end-Tariff of LESCO [Case # NEPRA/TRF-337/LESCO-2015]

Dear Sir,

Enclosed please find herewith the subject Decision of the Authority (06 Pages) in the matter of Petition filed by Lahore Electric Supply Company Ltd. (LESCO) for Modification of Re-determination dated 18.09.2017 of the National Electric Power Regulatory Authority regarding Multi-year Consumer-end-Tariff of LESCO in Case # NEPRA/TRF-337/LESCO-2015 for information.

Enclosure: As above

(Iftikhar Ali Khan)

Secretary
Ministry of Energy, Power Division,
'A' Block, Pak Secretariat
Islamabad

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.

Decision of the Authority in the matter of Petition filed by Lahore Electric Supply Company Limited (LESCO) for Modification of Re-determination dated 18-09-2017 of the National Electric Power Regulatory Authority regarding Multi-year consumer end Tariff of LESCO

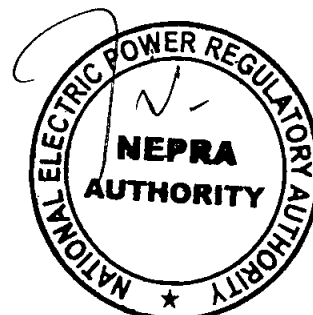
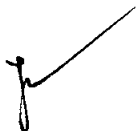
Introduction of the Case:

1. Lahore Electric Supply Company Limited (herein referred to as "LESCO" or "the petitioner") filed a petition dated 15-01-2021 for modification T&D losses targets as determined by the Authority in Multi Year Consumer End Tariff (Re-determination) dated 18-09-2017. The instant petition was filed by LESCO under the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the "NEPRA Act") and NEPRA (Tariff Standards and Procedure) Rules, 1998 ("the Tariff Rules").
2. LESCO in its petition has pleaded that NEPRA allowed an investment of Rs. 93 billion and set a target of 3.76% overall reduction in T&D losses during 5 years tariff control period. The allowed investment also included Rs. 30 billion for installation of AMR/AMI infrastructure which would have resulted into substantial reduction in T&D losses.
3. LESCO further apprised that due to administrative reasons the implementation of AMI project got delayed and Ministry of energy vide letter dated 1.11.2021 has requested Economic Affairs Division to inform ADB to cancel loan of LESCO for AMI project as time remaining under ADB's financing is not sufficient to re-invite bidding.
4. In addition to AMI project's cancellation, LESCO took stance that during the past few years, there has been drastic shift in consumer mix of LESCO. There has been continuous increase in consumption of high loss consumers in LESCO's territory i.e. residential consumers, etc. Whilst, there has been negative growth or less than expected growth in Zero Loss Consumers of LESCO i.e. industrial consumers and commercial consumers. LESCO requested for revision of T&D losses in following manner:

Sr	MYT Determined Years	MYT Effective Years	NEPRA Determined T&D Losses%	Request of LESCO for revision of T&D Losses %
1	2015-16	2018-19	11.76	13.17
2	2016-17	2019-20	10.88	12.40
3	2017-18	2020-21	10.03	12.07
4	2018-19	2021-22	9.08	11.75
5	2019-20	2022-23	8.00	11.42

Proceeding:

5. The Authority admitted the subject petition and decided to provide an opportunity of hearing to the petitioner and other stakeholders. Individual notices to the concerned parties including general public, chamber of commerce, energy department of provincial governments, Ministries, power companies, etc were issued on November 18, 2021. As per procedure, the advertisement of hearing was published in national daily on November 17, 2021 and also uploaded on NEPRA's website.

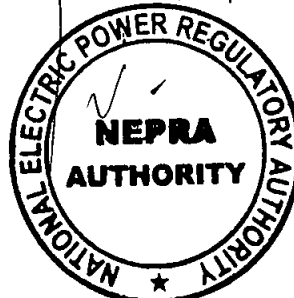


6. Hearing in the matter was held on December 01, 2021 through zoom link which was attended by the representatives of LESCO.
7. Subsequent to hearing written comments on the petition were received from Ministry of Planning, Development and Special Initiatives on December 08, 2021 and LESCO on December 8, 2021 which are reproduced in the relevant section of this decision. No intervention request was received from any party.
8. For the purpose of hearing, and based on the pleadings, following issues were framed to be considered during the hearing and for presenting written as well as oral evidence and arguments.
 - i. Whether, the request of LESCO for revision in its targeted T&D losses for MYT control period is justified.
 - ii. What are the reasons for non-implementation of Advanced Metering Infrastructure (AMI) project against claimed cost of Rs. 30 Billion?
 - iii. Whether LESCO has quantified the impact of non-implementation of AMI project on reduction in T&D losses? If yes, LESCO should share the loss in figures?
9. The issue wise submissions, discussion and decision of the Authority is given hereunder:

Issue # 1: Whether, the request of LESCO for revision in its targeted T&D losses for MYT control period is justified?

Submissions of LESCO:

10. The petitioner has claimed that despite LESCO's best efforts to meet T&D losses targets the actual losses of LESCO are still much higher as compared to those determined by the Authority i.e. 1.41% higher for FY 2018-19, 1.52% higher for FY 2019-20 and 1.97% for FY 2020-21. The petitioner further stated that the instant modification petition has been filed due to following factors which are beyond the control of LESCO.
 - i. Variation in Consumer Mix
 - ii. Impact of Hard Areas on T&D Losses
 - iii. Non-implementation of AMI project
11. While justifying the impact of Consumer Mix, the petitioner asserted that during the past few years there has been a drastic shift in consumer mix of LESCO; stating further that there has been a continuous increase in the number of residential consumers whereas there either has been a negative or less than expected growth in the industrial and commercial consumers. Moreover, LESCO stated that clause 53 of the Tariff Guidelines allow adjustments in tariff due to consumer mix variance. Therefore, its T&D losses may be adjusted.
12. With respect to impact of hard areas on T&D losses, the petitioner in its petition stated that there are certain areas where access of LESCO staff is difficult especially in the areas close to the eastern border. Therefore, the Authority may consider reduction of T&D losses as done previously for various distribution companies including K-Electric.
13. About AMI project, petitioner maintained that the investment, allowed by NEPRA, amounting to Rs. 93 billion included Rs. 30 billion for AMI project. On the basis of these investments, the Authority gave reduction targets for the T&D losses to the tune of 3.76%. Further, as per review decision, the



Authority accounted 2% reduction in T&D losses on account of AMI implementation. The AMI project could not be implemented due to administrative reasons beyond control of LESCO therefore the benefits in terms of reduction of losses could not be achieved.

Comments by Ministry of Planning:

14. Ministry of Planning, Development and Special Initiatives submitted that T&D and collection Targets should be reset as per actual numbers and future targets in MYT should be on realistic basis. Furthermore, the risk of sale growth should not be with licensee.

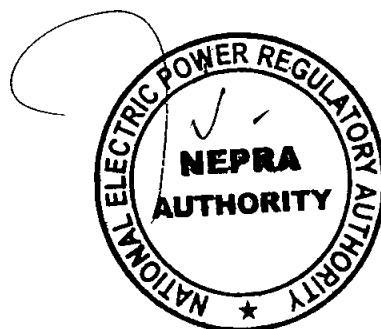
Discussion and Decision of the Authority:

15. Regarding revision of losses due to consumer mix variance Authority noted that as per NEPRA Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015, any under-recovery or over-recovery due to the impact of consumer mix variance is adjusted under the head of prior period adjustments. However, there is no mechanism to revise the T&D Losses Target as determined by the Authority in MYT due to any impact of consumer mix variance.
16. With regard to hard areas in LESCO, the Authority during the course of hearing observed that in the case of K-Electric there were some no go areas where access was not possible without Law Enforcement Agencies (LEA) however no such situation exists in LESCO. Moreover, LESCO shall coordinate with LEA to carry out combing and surveillance operations in border areas. CEO LESCO agreed to this proposal during the course of hearing as well.
17. Therefore, the stance of LESCO to revise T&D losses target due to impact of consumer mix variance and hard areas carries no merit. As far as matter of AMI implementation is concerned it is discussed in detail at issue No. 2 & No.3.

Issue # 2: What are the reasons for non-implementation of Advanced Metering Infrastructure (AMI) project against claimed cost of Rs. 30 Billion?

Submissions of LESCO:

18. The petitioner during the course of hearing and in its written submissions dated 8-12-2021 stated that the AMI project was Asian Development Bank (ADB) funded project for which Rs. 30 billion were allowed in the MYT Re-Determination. Further, BOD of LESCO accorded approval to proceed with bidding of AMI project. Accordingly, the bidding documents were prepared by LESCO in consultation with AF Mercados and the same were approved by ADB on 08-05-2019.
19. The petitioner further briefed that bids could not be opened as per the set timelines on account of stay granted by the Honourable Lahore High Court, Lahore. Subsequent to dismissal of the writ petition, the bids were opened. The technical evaluation of the bids also got delayed on account of COVID-19 restrictions; however, the same was ultimately completed online and report was submitted to ADB. Moreover, ADB provided comments on submitted bid evaluations which were responded to by the Project Implementation Consultant. Revised technical evaluation report was prepared and submitted to ADB with recommendation of rejection of the bids and rebid the process.



20. Petitioner further stated that ADB vide its letter dated 24-6-2021 rejected the bids and gave conditional approval of rebidding subject to government's confirmation that expenditures beyond loan period be funded by the government itself. Therefore, LESCO vide its letter dated 1-7-2021 sought advice from the Ministry of Energy. Ministry of Energy issued Office Memorandum dated 1-11-2021 addressed to Economic Affairs Division requested for cancellation of ADB loan for AMI Project to the extent of LESCO as the time remaining under ADB funding is not sufficient to re-invite bidding.
21. Important timelines in respect of AMI project implementation as provided by petitioner are given below:

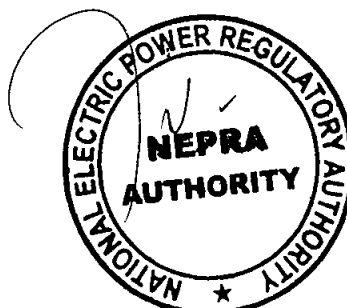
Sr	Activity	Date
1	Approval of PC-I by ECNEC	7-11-2016
2	Ministry of Energy intimated LESCO regarding timelines agreed with ADB for award of AMI project (30-9-2019 project award timeline)	6-11-2018
3	Approval of BoD LESCO for bidding of project	29-12-2018
4	Invitation for Bids was published	25-05-2019
5	Stay by Lahore High Court	5-8-2019
6	Bids were opened	4-11-2019
7	Technical Bid Evaluation Report (TBER) was submitted to ADB	16-9-2020
8	ADB provided comments on TBER	25-9-2020
9	Revised Evaluation Report was submitted to ADB whereby it was recommended to reject both bids and rebid the project	16-03-2021
10	ADB canceled bids upon recommendations of Bid Evaluation Committee and provided conditional approval provided that expenditures beyond loan period be funded by the government itself	24-06-2021
11	Advice from Ministry of Energy for rebidding or cancellation	1-7-2021
12	Response from Ministry	8-9-2021
13	ADB informed to cancel the LESCO's loan	1-11-2021

Comments by Ministry of Planning

22. AMI project was rolled out due to difference of opinion on Design and non-availability of Cost – Benefit Analysis of consumer level AMI implementation. Therefore, ECNEC in its meeting held on 25-11-2021 decided to implement AMI project in IESCO as pilot project prior to implementing same in other DISCOs including LESCO.

Discussion and Decision of the Authority:

23. The Authority observed that NEPRA determined MYT tariff of LESCO initially on 8-3-2016 wherein approval for AMI project was accorded by the Authority. Further, ECNEC approved PC-I of the AMI project in November 2016. Despite, clear approvals from NEPRA and ECNEC, LESCO was unable to successfully bid the project. Further, in March 2021, the bid evaluation committee of LESCO recommended ADB to reject the received bids and accord approval for rebidding of the AMI project. Moreover, ADB in response to the recommendations of Bid Evaluation Committee (BEC) of LESCO expressed its concerns vide letter dated 24-6-2021 on the bidding process and held

LESCO responsible for the delays. ADB also pointed out irregularities in the recommendations forwarded by Bid Evaluation Committee. Further, ADB being dissatisfied with LESCO accorded provisional approval for rebidding of the AMI project with the condition that all the expenses beyond the original agreed financing period of June 2024 shall be borne by LESCO. In addition, ADB also asked for assurance of BoD LESCO that delays will not happen if LESCO decides to proceed with rebidding.

24. It is also pertinent to mention that the Authority has already decided in Para 36.40 of the MYT determination dated 8-3-2016 that incase actual investment differs from determined investment then such investment will be true up through prior year adjustment. The para 36.40 of MYT determination dated 8-3-2016 is reproduced below:

"Considering the fact that RAB for the FY 2015-16 & onwards has been allowed based on estimated level of investments and in case the actual investments carried out turn out to be different from the estimated level i.e. the Petitioner ends up in making higher investments than the allowed, the benefit of the incremental benefit must be passed on to the Petitioner and vice versa. In view thereof, the Authority has decided to true up the benefit of incremental investments and vice versa each year through the Prior Year Adjustment mechanism....."

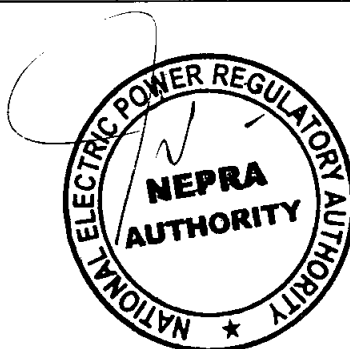
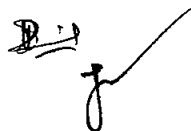
25. Keeping aforementioned facts in view, the Authority decided to adjust allowed investments of Rs. 30 Billion for 4 years of MYT control period (FY 2019-20 to FY 2022-23) through prior year adjustment mechanism on yearly basis. However, there is no provision for adjustment in allowed target of T&D losses corresponding with underinvestment.

Issue # 3: Whether LESCO has quantified the impact of non-implementation of AMI project on reduction in T&D losses? If yes, LESCO should share the loss in figures?

Submissions of LESCO:

26. With regard to quantification of loss reduction that would have been achieved by implementation of AMI project, petitioner briefed the Authority that in the review decision dated 19-5-2016, the Authority observed that PC-I of AMI project mentions 2% loss reduction on company level and 5.21% in the circles under the projects.
27. Furthermore, LESCO submitted that it implemented AMI metering on two feeders through its own resources and achieved an overall reduction of 3.3%.

Feeder Name	Losses Before AMI (%)	Losses After AMI (%)	% decrease
Madina Town	21.1	16.7	4.4
Sabzi Mandi	19.3	16.8	2.4
Total	20.1	16.8	3.3



Discussion and Decision of the Authority:

28. Authority noticed that LESCO failed to achieve targets even if the impact of AMI metering is excluded. The details are given below:

Sr	MYT Effective Years	NEPRA Determined T&D Losses%			Request of LESCO for revision of T&D Losses %	Actual Losses of LESCO %	Losses Target excluding impact of AMI project %
		Loss Target	AMI Reduction	Other measures			
1	2018-19	11.76	Base Year as per 3rd Party Study		13.17	13.2	11.76
2	2019-20	10.88	0.5	0.38	12.40	12.4	11.38
3	2020-21	10.03	0.5	0.35	12.07	12.0	11.03
4	2021-22	9.08	0.5	0.45	11.75	-	10.58
5	2022-23	8.00	0.5	0.58	11.42	-	10.00
Total Reduction		3.76	2.0	1.76	0.34 w.r.t base year		1.76

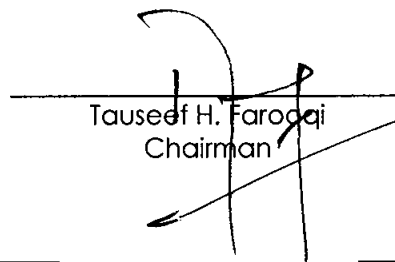
29. Moreover, it is evident from ADB letter dated 24-6-2021 that the reason for cancellation of ADB Loan for AMI project is due to inefficiency of LESCO.

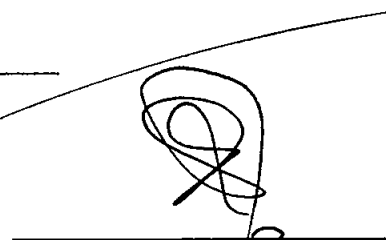
Order:


The Authority considers that since LESCO has failed to fulfill its obligations required to secure ADB funding / loan for AMI Project, therefore, the Authority decided NOT to pass on the inefficiencies on part of LESCO to the end-consumers and the targets of T&D losses pertaining to MYT control period will NOT be revised. Accordingly, the Authority maintained its earlier assessment of T&D loss targets as per LESCO's MYT Re-determination dated 18-9-2017.

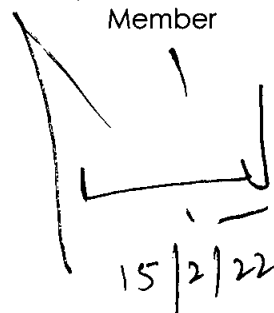
AUTHORITY


Engr. Maqsood Anwar Khan
Member


Tauseef H. Farooqi
Chairman


Rehmatullah Baloch
Member


Rafique Ahmad Shaikh
Member


15/2/22

