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Islamic Republic of Pakistan

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No.NEPRA/TRF-37/QESCO-2005/7694-96
May 29, 2008


Subject: **Decision of the Authority Regarding Federal Government's Request for the Reconsideration of Quetta Electric Supply Company Ltd. (QESCO) Decision Dated 10th January, 2008 (Case No. NEPRA/TRF-37/QESCO-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-37/QESCO-2005/5552-54 dated 10.01.2008 whereby decision of the Authority was sent. Please find enclosed herewith decision of the Authority (05 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 Quetta Electric Supply Co. Ltd. (Case No. NEPRA/TRF-37/QESCO-2005) for information and further necessary action.

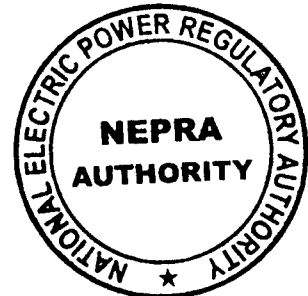
Enclosure: As above


29.05.08
(Mahjood 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.

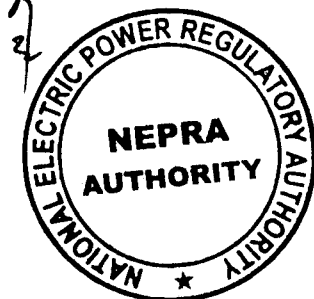




**DECISION OF THE AUTHORITY REGARDING FEDERAL GOVERNMENT'S REQUEST FOR THE
RECONSIDERATION OF QUETTA ELECTRIC SUPPLY COMPANY (QESCO) DECISION DATED 10TH
JANUARY 2008**

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 QESCO vide letter No. nil 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 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. QESCO sought reconsideration in the following:

- i) Power Purchase Price (PPP)
- ii) T&D Losses, Investment Program
- iii) Calculation of Distribution Margin
- iv) Recovery Target

Power Purchase Price

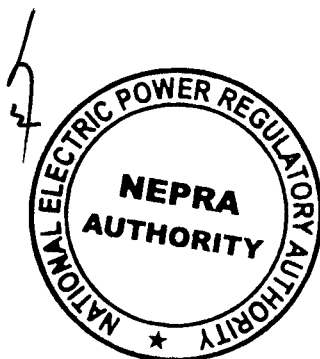
6. According to QESCO, in calculation of tariff, NEPRA considered weighted average Power Purchase Price of Rs.3.5413 per kWh, whereas actual Power Purchase Price from Jul-Dec 2007 was Rs.3.660 per kWh.
7. The Authority considers that QESCO's analysis regarding Power Purchase Price (PPP) is not appropriate because QESCO compared annual weighted average PPP with six month weighted average PPP. The Authority's determined PPP for the period July to December was Rs.3.7593 per kWh as against the actual PPP of Rs.3.660 per kWh as indicated by QESCO in review motion. The Authority therefore considers that QESCO's concern in this regard is not valid.
8. In the determination the estimated PPP is subject to adjustment in accordance with prescribed adjustment mechanism. QESCO in its review motion disregarded this aspect. QESCO's concern has been addressed through mid-year adjustment of PPP according to the prescribed mechanism. Therefore, QESCO's contention in this regard stands resolved.

Annual T&D Losses

9. According to QESCO, T&D losses for current fiscal year ending December 07 are as follow:

Transmission Losses	7.53%
Distribution Losses	<u>15.10%</u>
Total:	22.63%

10. QESCO stated that the T&D total losses 18.70 % allowed by NEPRA for the period July to December 07 are not achievable due to bottlenecks in the transmission system. QESCO further stated that its transmission losses are expected to increase from 7.53% to 10.24% up to FY 2011 assuming load growth @ 8% per annum subject to completion of some transmission projects which are under construction.

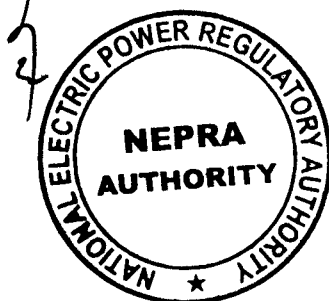




11. According to QESCO the other main reason for not achieving the envisaged T&D losses of 18.7% is less allocation made in the current PSDP budget for i.e. Rs. 1,080.56 million as against projected Rs. 2,062 million.
12. In the original petition QESCO proposed to set its distribution losses 22.2% for the first year (FY 06) of the proposed Multi-year price cap period (control period) as benchmark. The actual losses other than 132 kV system losses recorded during FY 05 were 15.3% which were used as reference to set target of 13.74% for FY 06. The Authority considered that QESCO should be able to reduce its losses by about 1.36% in FY 07 in view of company's envisaged investments for Energy Loss Reduction (ELR). Accordingly a level of 12.37% distribution losses other than 132 kV system was considered reasonable estimate for FY 07.
13. QESCO's actual losses for 132 kV system were 5.3% as against the estimated 7% for FY 05. Based upon the actual 132 kV system losses were revised to 5.3% for FY 07. The Authority thus set overall losses target including 132 kV system losses for QESCO at 17.67% for FY 07.
14. In the review motion QESCO stated that the proposed T&D losses for the FY 06-07 in Tariff Petition were 20.4% which were subject to investment of Rs. 725 million and Rs. 2,143 million FY 05-06 & FY 06-07 under 6th STG Program which could not be carried out due to non availability of funds. According to QESCO its actual T & D losses for FY 06-07 were 21.56% as against the assessed losses of 17.67% for FY 06-07.
15. The Authority considers that QESCO's contention for revision of target of its T&D losses of 17.6% for FY 06-07 is valid because it could not carryout its investment program to reduce losses in the absence of notified tariff. Accordingly the T&D losses target of 18.70% for FY 07-08 as proposed by QESCO vide its letter No. 13620-22/FD/QESCO/Comp dated 30-5-2007 was adopted.
16. The Authority however considers that in order to address the issue of T&D losses, a comprehensive study is required without which no firm basis for assessment of judicious target of T&D losses for QESCO is possible. For the time being the Authority considers it appropriate to review QESCO's performance on the basis of annual audited accounts.

Calculation of Distribution Margin

17. QESCO stated that it requested Rs.1.74 per kWh Distribution Margin while NEPRA's allowed Distribution Margin of Rs.0.853 per kWh. According to QESCO NEPRA did not account for 30%



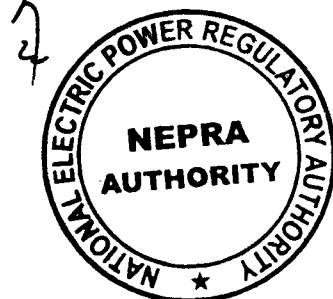


agricultural subsidy. The financial burden on this account is Rs.1.04 per kWh or Rs.2.5 billion (approximately) per year.

18. QESCO in its review motion referred para 3 of Tariff Notification dated February 23, 2007 according to which "existing agricultural consumers of Balochistan shall be billed at the rate notified but shall continue to be charged up to the maximum of Rs. 4,000 per tube-well per month. The difference between the amount billed and charges shall be shared by the Federal Government, Government of Balochistan and QESCO in the proportion of 40:30:30 or as amended from time to time". In the light of above Notification QESCO requested to include 30% agricultural subsidy in Distribution Margin for assessing the revenue requirement.
19. The Authority considers that subsidy or any kind of financial support to any consumer category was the Governments prerogative and responsibility. The Authority determined QESCO's tariff which was sufficient to recover its all prudent costs. In Authority's opinion if QESCO intends to give any relief to any consumer category it should come from its own surplus revenue and subsidy so given cannot be claimed as cost. Since the issue of subsidy did not come under NEPRA purview therefore QESCO should take up this issue with the Ministry of Water & Power.

Recovery Targets

20. According to QESCO, provision for bad debts during FY 2006-07 was Rs. 518 million. The main reason for high bad debts was change in the basis of calculation. QESCO submitted that Balochistan is socio economically poor province with scattered population having much higher poverty level as compared to other provinces. The law and order situation is also not conducive to achieve the desired target. QESCO further submitted that in the present scenario of political and tribal culture and law and order situation, it is not possible to achieve the required recovery target of 99%.
21. The Authority considers that QESCO's justification for less recovery of billed amount is not based on the facts because about 90% of QESCO's sale is to the agricultural consumers who are required to pay fixed amount of about Rs. 4000 per consumer per month and the difference of actual billed amount and the payable by the consumer is picked up by the Federal as well as provincial government. Having considered the ground realities and socio-economic conditions of the people of Balouchistan a higher percentage of provision of bad debts was allowed to QESCO as compared to other DISCOs.





22. In view of the above the Authority considers that there is no ground for ~~reconsideration~~ ^{any modification/increase.}

AUTHORITY

Nasiruddin Ahmed
Member

27/5

Maqbool Ahmed Khawaja
Member

28/5

Abdul Rahim Khan
Member

28/5/08

Zafar Ali Khan
Vice Chairman

