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No. NEPRA/R/ADG(Tariff)/TRF-100/8095-8097

May 26, 2022

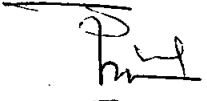
Subject: **DECISION OF THE AUTHORITY IN THE MATTER OF REVIEW MOTION FILED BY K-ELECTRIC LIMITED AGAINST DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FILED BY FEDERAL GOVERNMENT WITH RESPECT TO WINTER INCENTIVE PACKAGE FOR ELECTRICITY CONSUMERS ON INCREMENTAL CONSUMPTION OF K-ELECTRIC**

Dear Sir,

Enclosed please find herewith the subject Decision of the Authority (6 Pages) in the matter of Review Motion filed by K-Electric against Decision of the Authority in the Matter of Review Motion filed By K-Electric Limited against Decision of the Authority in the matter of Motion filed by Federal Government with respect to Winter Incentive Package for electricity consumers on Incremental Consumption of K-Electric.

2. The Decision is being intimated to the Federal Government for the purpose of notification in the official Gazette pursuant to Section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 within 30 days from the intimation of this Decision. In the event the Federal Government fails to notify the subject tariff Decision or refer the matter to the Authority for reconsideration, within the time period specified in Section 31(7), then the Authority shall notify the same in the official Gazette pursuant to Section 31(7) of NEPRA Act.

Encl: As above


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(Syed Safer Hussain)

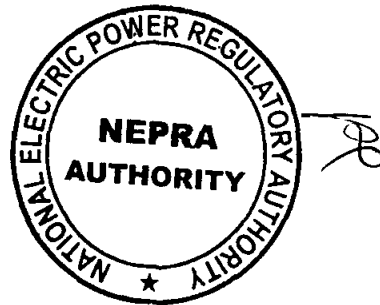
Secretary
Ministry of Energy (Power Division)
'A' Block, Pak Secretariat
Islamabad

CC:

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

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
(NEPRA)

DECISION OF THE AUTHORITY IN THE MATTER OF REVIEW MOTION FILED BY
K-ELECTRIC LIMITED AGAINST THE DECISION OF THE AUTHORITY IN THE MATTER OF
MOTION FILED BY THE FEDERAL GOVERNMENT WITH RESPECT TO WINTER
INCENTIVE PACKAGE FOR ELECTRICITY CONSUMERS ON INCREMENTAL
CONSUMPTION OF K-ELECTRIC



Islamabad
May ²⁶, 2022

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Background

1. The Ministry of Energy (Power Division) vide letter dated October 06, 2021 submitted a Motion with respect to Winter Incentive Package for all domestic, commercial and general services consumers of XWDISCOs and K-Electric. The Ministry submitted that Cabinet Committee on Energy (CCoE) approved the winter incentive package for all domestic, commercial and general services consumers of XW-DISCOs and K-Electric, with the direction that the actual marginal cost to be utilized for subsidy calculation of K-Electric, shall be provided by NEPRA and shall also provide appropriate mechanism for adjustment of the same, keeping in view existing tariff determinations of K-Electric
2. The Authority issued its Decision in the matter on 11.01.222, which was intimated to the Federal Government for notification in the official gazette in terms of section 31(7) of NEPRA Act, 1997.
3. K-Electric being aggrieved with the decision, filed a Motion for leave for review vide letter dated 13.01.2022, which was admitted by the Authority.

Proceedings

4. The Authority, considering the fact that impact of any adjustments has to be made part of the consumer end tariff decided to conduct a hearing in the matter in order to provide an opportunity of hearing to the parties to the proceedings. Hearing in the matter was initially scheduled on March 21, 2022 through Zoom. However, due to public holidays the hearing was rescheduled on March 29, 2022.
5. Based on the submissions made by K-Electric in the Review Motion and during the hearing, the point wise discussion on the issues raised by K-Electric is as under;

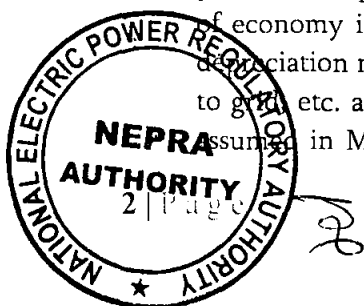
5.1. Risk of Positive or Negative Sales under MYT

- 5.1.1. K-Electric on the issue has submitted that decision dated January 11, 2022 states;

"keeping in view the fact that K-Electric tariff structure is different from XWDISCOs whereby.... the risk of sales whether positive or negative lies with K-Electric...."

- 5.1.2. Accordingly, K-Electric requested that in accordance with the structure of Multi Year Tariff (MYT) and consistent with the past decision and terms of MYT, there should not be any adjustment for benchmark units and all the difference between the applicable tariff rate and package rate be made available by way of subsidy.

- 5.1.3. K-Electric further stated that due to different macro and external factors including COVID-19, withdrawal of ISP of Rs.3/kWh implemented since January 2016, and other factors, it was unable to achieve the sales growth. It also submitted that growth in units billed is due to several factors including increase in economic activity after COVID-19, Government policies to support the same including lower KIBOR Rates, industrial packages, shutdown of economy in other parts of the world due to COVID, construction package, currency depreciation making import expensive / export attractive and shift of captive power plants to grid etc. and there is no basis/evidence to link the entire growth over the % growth assumed in MYT as occurring due to Industrial support package. K-Electric accordingly



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requested NEPRA to adjust the sales growth assumed in tariff considering the reasons beyond control of K-Electric.

5.1.4. The Authority observed that similar submissions were made by K-Electric earlier on the Motion filed by Federal Government. The Authority on the issue, keeping in view the submissions of K-Electric, response of MoE and the MYT determination of K-Electric, had already decided in the determination dated January 11, 2022 in paras 5.4.4. and 6.1.1 as under;

5.4.4. *The Authority noted that as per the MYT determination, a certain percentage of sales growth has been incorporated in the MYT, impact of which has been already been built in the MYT of K-Electric, therefore, the Authority considers that it would be unfair with K-Electric if the entire growth of domestic, commercial and general services, over & above the reference months, i.e. November 2020 to February 2021, is taken away from K-Electric.*

6.1.1.1 (i) *The Authority has worked out benchmark sales by applying annual growth built in the MYT of K-Electric on monthly basis on the total actual domestic, commercial and general services consumers sales (excluding temporary) for the reference months from November 2020 to February 2021 (after adjusting for sales shifted to other categories). The Authority has decided that K-Electric shall only be allowed Marginal Cost on sales above the benchmarked units and no other adjustment as un-recovered cost e.g. O&M, RoRB, Depreciation, Base Rate and Bad Debt etc., will be provided. In case K-Electric recovers any amount over & above the Marginal Cost on the above incremental units either through tariff or through subsidy etc., the same would be adjusted from K-Electric subsequently. Following benchmark sales have been calculated as detailed above;*

Growth rate
as per MYT
5.4%

Residential

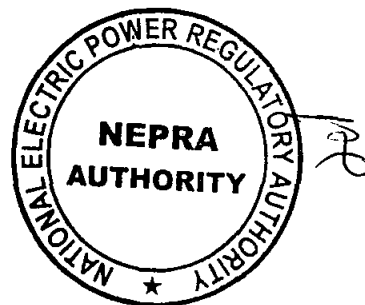
	FY 2020-21	FY 2021-22
November	196.84	207.44
December	110.21	116.15
January	84.20	88.73
February	85.41	90.01

Commercial

	FY 2020-21	FY 2021-22
November	144.36	152.13
December	116.95	123.25
January	96.78	102.00
February	99.30	104.65

General Services

	FY 2020-21	FY 2021-22
November	31.07	32.74
December	22.54	23.76
January	18.08	19.05
February	19.37	20.41



(ii) *Here it is pertinent to mention that actual consumer wise incremental units would be worked out by K-Electric, keeping in view the reference months of November 2020 to February 2021, as prescribed in the Motion of the Federal Government.*

(iii) *In order to ensure that K-Electric is only allowed to retain Marginal cost on incremental sales beyond the Authority's worked out benchmarks, the Authority while working out the*

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monthly FCAs would exclude all such incremental units (after adjusting for losses) and their marginal cost. Similarly, the units and cost without such incremental sales (after adjusting for losses) would be accounted for while calculating K-Electric's quarterly adjustments. K-Electric for the purpose of subsidy claims, shall ensure that no subsidy/ tariff is claimed on incremental units over & above the Authority's allowed benchmarks, except for the difference between Rs.12.96/kWh and the marginal cost, as determined by the Authority. Marginal cost would be intimated to the Federal Government by NEPRA, every month.

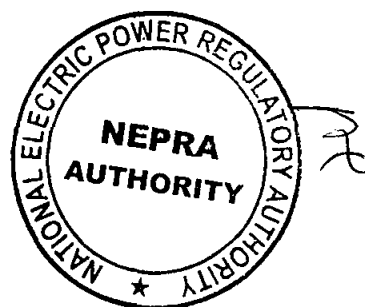
5.1.5. In view thereof, the Authority considers that since the matter has already been discussed in detail in the earlier decision, therefore, does not require any further deliberation.

5.2. Benchmark Units

5.2.1. On the issue of benchmarked units, K-Electric while appreciating the Authority's stance to only exclude growth over benchmark units, submitted that in the MYT, as the sales targets have been locked for seven years in absolute GWh units, therefore only those yearly benchmark units shall be considered, otherwise there would be inconsistency in units benchmarked in MYT versus the unit benchmarked considered for ISP as a result of which KE would be unduly burdened.

5.2.2. KE also stated that since the control period is for seven years and one of the features of the MYT is that in case a utility is unable to perform in earlier years, it can catch up on targets in later years and compensate for its earlier losses. Further, there is no loss to K-Electric in case in a segment growth is lower and the other segment growth is higher. Therefore, instead of yearly benchmarks for industrial segment, cumulative benchmark growth for all segments be used for the purpose of instant Determination. K-Electric, accordingly, requested that instead of benchmark for each year, the following cumulative sales benchmark should be considered;

Description	FY 2022 - target	FY 2023 - target
	GWh	
Till June last year	77,197	95,272
July	78,833	96,991
August	80,437	98,675
September	82,080	100,402
October	83,709	102,113
November	85,173	103,651
December	86,445	104,987
January	87,556	106,155
February	88,711	107,368
March	90,033	108,756
April	91,554	110,354
May	93,365	112,257
June	95,272	114,260



5.2.3. The Authority observed that the MYT of K-Electric does not provide any mechanism through which KE's under performance in terms of sales target is to be compensated through tariff in the coming years. Further, as per the Motion filed by the Federal Government, the actual units for the reference months were to be considered as reference units to work out the incremental units. The Authority accordingly in the Decision dated January 11, 2022, being cognizant of the fact that a certain percentage of sales growth has been incorporated in the MYT, impact of which has been already been built in the MYT of K-Electric,

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incorporated growth rate allowed in the MYT to work out the benchmark sales. The Authority accordingly in its decision dated 11.01.2022 decided as under;

"The Authority has worked out benchmark sales by applying annual growth built in the MYT of K-Electric on monthly basis on the total actual domestic, commercial and general services consumers sales (excluding temporary) for the reference months from November 2020 to February 2021 (after adjusting for sales shifted to other categories). The Authority has decided that K-Electric shall only be allowed Marginal Cost on sales above the benchmarked units and no other adjustment as un-recovered cost e.g. O&M, RoRB, Depreciation, Base Rate and Bad Debt etc., will be provided. In case K-Electric recovers any amount over & above the Marginal Cost on the above incremental units either through tariff or through subsidy etc., the same would be adjusted from K-Electric subsequently."

5.2.4. Thus, the matter raised by the K-Electric has already been considered by the Authority in the decision dated January 11, 2022, therefore, does not need to be discussed again.

5.3. Adjustment mechanism

5.3.1. K-Electric submitted that in the Determination dated 11.01.2022 at para 6.1.1 (i), it has been stated that *"K-Electric for the purpose of subsidy claims, shall ensure that no subsidy/Tariff is claimed on incremental units over & above the Authority's allowed benchmarks, except for the difference between Rs.12.96/kWh and the marginal cost, as determined by the Authority"*.

5.3.2. K-Electric submitted that since treatment of incremental units not falling over & above the benchmark has not been specified by the Authority, therefore, has requested for clarification that for those incremental units, the difference between applicable tariff rate and package rate would be allowed in the form of subsidy.

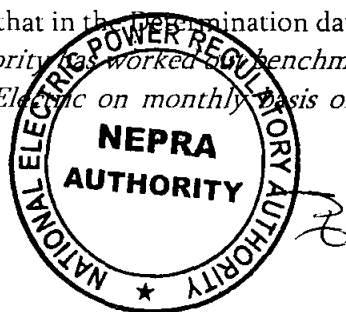
5.3.3. The Authority observed that in the Determination dated 11.01.2022 it has been specifically stated that;

"The Authority has worked out benchmark sales by applying annual growth built in the MYT of K-Electric on monthly basis on the total actual industrial sales (excluding temporary) for the reference months from March 2019 to February 2020 (after adjusting for sales shifted to other categories). The Authority has decided that KE shall only be allowed Marginal Cost on sales above the benchmarked units and no other adjustment as un-recovered cost e.g. O&M, RoRB, Depreciation, Base Rate and Bad Debt etc., will be provided."

5.3.4. It is clear from the above, that marginal cost is only applicable for the incremental sales over and above the benchmarked units, meaning thereby that sales up-to benchmarked units would be treated based on NEPRA determined tariff.

5.4. Adjustment in reference units

5.4.1. K-Electric on the issue submitted that in the Determination dated 11.01.22, at para 6.1.1 (i), it has been stated that *"The Authority has worked out benchmark sales by applying annual growth built in the MYT of K-Electric on monthly basis on the total actual domestic,*



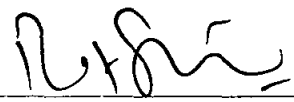
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commercial and general services consumers sales (excluding temporary) for the reference months from November 2020 to February 2021 (after adjusting for sales shifted to other categories)”.

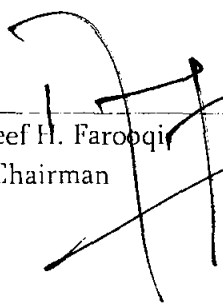
- 5.4.2. K-Electric accordingly requested that in case of adjustment in reference months units on premise that consumers have shifted to other categories in later months, units relating to consumers who were added in subsequent months including new connection units should also be excluded for the purpose of comparison with benchmark for a like to like comparison.
- 5.4.3. The Petitioner has raised two issues, i.e. addition of new connection and addition of existing connections to the categories. Regarding, new connections the Authority observed that the allowed growth rate in the MYT was based on increase in consumption of the existing consumers and as well as new connections and the Authority has used growth rate in the MYT to work out the benchmarked sales, therefore there is no need to make any further adjustment.
- 5.4.4. Regarding addition of existing consumers into the Industrial Category, the Authority noted that units used for working out the benchmarked sales were provided by K-Electric, therefore, no further adjustment is required.
6. In view of the above discussion, the Authority considers that the grounds raised by KE in the motion for leave for review were duly considered by the Authority while issuing impugned decision. In view thereof, the Authority considers that the review motion does not merit consideration and accordingly subject to above, is disposed-off as the grounds are not sufficient enough justifying the review of the earlier Determination, hence motion for leave for review is accordingly disposed off.
7. The decision of the Authority is intimated to the Federal Government for notification in the official gazette in terms of Section 31(7) of NEPRA Act, 1997.

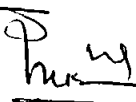
AUTHORITY


Engr. Maqsood Anwar Khan
Member


Rafique Ahmed Shaikh
Member




Tauseef H. Farooqi
Chairman


26.05.22