



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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Registrar

No.NEPRA/R/TRF-133/KESCL-2009/4234-4237

December 2, 2010

Subject: **Determination of Security Deposit Rates of Karachi Electric Supply Company Ltd. (Case No. NEPRA/TRF-133/KESCL-2009(6) - Intimation of Determination of Tariff pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997)**

Dear Sir,

Please find enclosed herewith the subject Determination of the Authority along with Annexure-I (08 pages) regarding Security Deposit Rates applicable to KESCL.

2. The Determination is being intimated to the Federal Government for the purpose of notification of the approved rates in the official gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997) and Rule 16(11) of the National Electric Power Regulatory Authority Tariff (Standards and Procedure) Rules, 1998.

3. Please note that only Annex-I of the Determination needs to be notified in the official gazette.

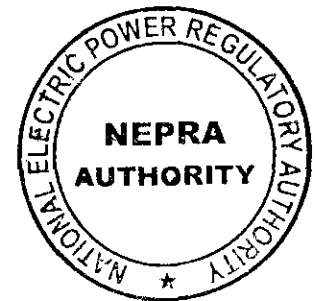
Enclosure: As above

(Syed Safer Hussain)

Secretary,
Ministry of Water & Power,
'A' Block, Pak Secretariat, Islamabad

CC:

1. **Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.**
2. **Secretary, Ministry of Finance, Islamabad.**
3. **Secretary, Privatization Commission, Islamabad.**

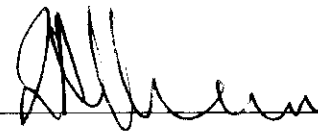


**NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA**


**Determination of Security Deposit Rates of Karachi Electric Supply Company Limited
(KESCL) [Case No. NEPRA/TRF-133/KESCL-2009(6)]**

Authority

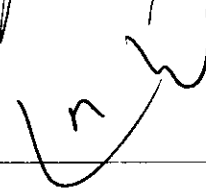
Zafar Ali Khan
Member


12/11/10

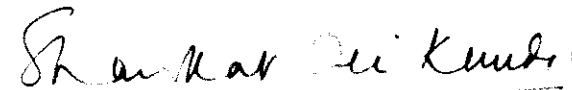
Ghiasuddin Ahmed
Member


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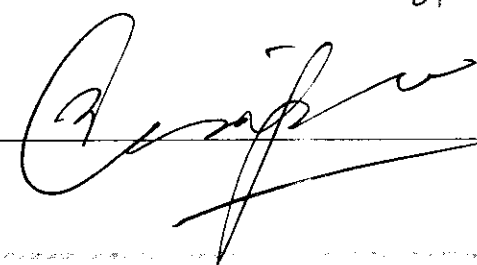
Maqbool Ahmed Khawaja
Member

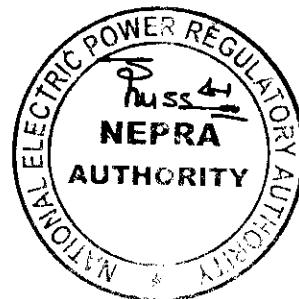


Shaukat Ali Kundi
Member


01.12.2010

Khalid Saeed
Chairman



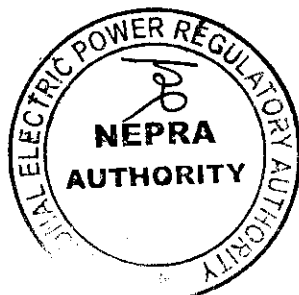


**Determination of the Authority in the matter of
Security Deposits (SD) Rates for KESCL [Case No. NEPRA/TRF-133/KESCL-2009(6)]**

Background

1. The Karachi Electric Supply Company Limited (KESCL) filed a tariff petition on April 22, 2009 for revision of Security Deposit (SD) Rates alongwith the request for increase in Base Tariff and Modification in the Tariff Adjustment Mechanism. The National Electric Power Regulatory Authority (the Authority), while determining the tariff of KESCL vide its determination dated December 23, 2009 decided to revise the SD rates of KESCL later, alongwith other distribution companies (DISCOs) to be uniformly applicable all across the Country.
2. KESCL then requested for the determination of SDs on January 05, 2010 alongwith the Motion for Leave for Review. In its request, KESCL submitted that the Authority in its determination dated December 23, 2009 had linked the revision of SD rates to be charged by KESCL with approval of SD rates of DISCOS. KESCL further submitted that currently the SD rates charged by KESCL are less than those approved for DISCOS, and if the Authority is going to revise KESCL's SD rates with other DISCOS with the motive of getting it uniformly applicable all across the country, then there would be a discrimination with KESCL as DISCOS are charging/enjoying enhanced SD rates while KESCL will be charging old rates till its revision which are quite on the lower side as compared to the existing SD rates of DISCOS.
3. In accordance with the NEPRA Tariff Standards and Procedure Rules 1998 (the Tariff Rules), the tariff petition including the request for revision of SD rates was advertised in the leading National Daily newspapers on April 04, 2010, thereby inviting all the interested/concerned stakeholders to participate in the hearing to be held in Karachi or submit their comments in writing. The hearing was held at Karachi on April 21, 2010.
4. Among the 10 intervention requests approved by the Authority in the case of tariff petition filed by KESCL for increase in base tariff, modification in the tariff adjustment mechanism, application of revised terms and conditions and security deposit rates, the following interveners submitted their comments on the issue of security deposits.

1. Choudhary Mazhar Ali as KESCL Consumer
2. Mohammad Nisar Shekhani representing All Pakistan Textile Processing Mills Association
3. Qazi Ahmed Kamal, representing Karachi Chamber of Commerce of Industry
4. Mr. Arif Bilvani as KESCL Consumer



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5. The Intervener, Chaudhary Mazhar Ali, submitted that in 2003 determination of KESCL for SD rates, KESCL itself asked Authority to reduce its rates so that KESCL would be able to reduce pilferage and would be able to attract consumers using illegal connections to buy legal connections through cost cutting. Now if KESCL is requesting to increase rates then it would mean that pilferage will again increase in future.
6. Mr Nisar Shekhani, the Intervener, submitted that KESCL is requesting for the higher SD rates not for the security purpose in case of default by the consumers but only to generate funds for its capital investment. In this regard, the Lahore High Court in its Order has categorically directed that SD should be treated as security and not funds for investment. He further submitted that SD rates are charged to secure the utility company against the loss due to non-payment of utility charges. Simultaneously, bank guarantee in lieu of cash deposit is an option that can be introduced by the Authority and for those consumers who have already paid their cash deposits to KESCL, he requested the Authority to prescribe 15% return on security amount withheld by the utility rather than 5% being given by KESCL.
7. Mr Qazi Ahmed Kamal, another intervener, submitted that it is meaningless to revise/enhance SD rates of KESCL with other Discos because in many respects, KESCL is different from other DISCOS. While explaining his statement, he said KESCL loss percentage cannot be compared with IESCO and its geographic parameters cannot be compared with that of HESCO. Further he submitted that SD rates should be based on load factor of the consumers and not on tariff type. During the hearing, he submitted that when KESCL is asking the consumer for the deposit amount why it is taking 34% losses per unit into consideration for the calculation of SD amounts. "Being a consumer, the amount/money I am going to deposit with KESCL is from my hard earned money which, after been deposited, will do nothing for me. So as a consumer I want KESCL not to charge anything which is actually not being supplied to me, i.e. disregard 34% losses in calculation of SD." He further submitted that there should be some relaxation/reward for regular payers based upon their record especially for industrial consumers. He quoted example of few other corporate entities who are exempting industrial users on the basis of their payment record.
8. Mr. Arif Bilvani asked KESCL about the definition of a new consumer and requested the Authority to clearly define the terms of the new SD rates. Mr. Bilwani also proposed the option of bank guarantee with the suggestion that few categories of consumers, especially industrial consumers, with certain loads should be given the option of bank guarantees because it will be difficult to implement it on all categories of consumers. The option/flexibility should be given to the consumers with certain loads that whether they want to pay via cash, cheque or bank guarantee. Mr. Bilwani submitted that the amount of security deposits maintained by KESCL in June, 2009 was around Rs.3,400 million. KESCL doesn't know that around 50% out of this amount of Rs.3,400 million



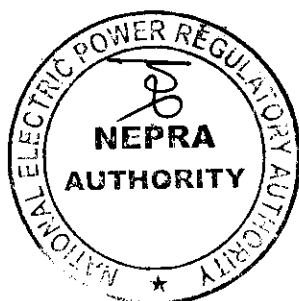
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belongs to whom, i.e. KESCL doesn't have the proper record maintained of its consumers. He requested the Authority that KESCL should be directed that the amount of security deposits should be linked with the consumers from whom KESCL has collected that amount so that it would know how many secured consumers it has.

9. One commentator, Mr. Aijaz Nabi Abbasi, submitted that the increase in rates requested by KESCL is exorbitant and will adversely affect the growth of Industry in Karachi. The Security Deposit rates of KESCL should be at par with those of HESCO which also needs revision to encourage growth for the prosperity of the country.
10. In reply to the above interventions/comments, KESCL replied that it doesn't have any issues and is willing to accept bank guarantees in lieu of cash as SD. KESCL further clarified that primary purpose is not raising cash through SDs but to make consumers realize that in case of default, they have something at stake.
11. KESCL clarified that security deposits are not based on consumer's actual billing. KESCL further explained that SD is calculated on the basis of connected load while the energy billing is done on the basis of actual electricity consumed by the consumer and therefore, the amount of SD deposited by the consumer does not guarantee the 100% default risk by the consumer. For example, if someone is asking for 5kw load for a house, he/she has to pay a certain amount of deposit on the basis of load and not the billing amount. Regarding the point of exemption from SDs, KESCL said it is happy to accommodate good people with good payment history if it is given any such flexibility by the Authority.
12. Defining the consumer, KESCL submitted that the definition of consumer is already given by the Authority in the NEPRA Act and the Consumer Service Manual approved by the Authority. For SDs, our definition of new consumer is the new connection. If somebody was disconnected and reconnected, then he/she is a new consumer.
13. Explaining about its record, KESCL explained that it has the record of its consumers and SD amount is printed on the monthly bills of these consumers. However, there are certain instances where it doesn't have the record available and there is a variety of reasons for that. Firstly, there are many consumers who were given connection without SDs in the past. Secondly, there are lots of people who have transferred ownership of properties, people have changed houses, people have rebuild houses and have converted the single apartments into multiple apartments etc. KESCL contended that it is trying to sort out these issues and that will take time.



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ISSUES OF SECURITY DEPOSIT RATES

14. The comments offered by the Interveners/commentators during the hearing at Karachi for KESCL as well as during the hearing for other distribution companies have been jointly considered by the Authority with the aim to apply the revised SD rates throughout the country and on uniform basis.
15. In view of the comments offered by the Interveners, commentators and submissions of the Petitioner, the following issues have been discussed for decision of the Authority for SD rates of KESCL:
- Whether to revise the SD rates to cover the non-payment risk for the credit period;
 - Whether different or uniform SD rates be fixed for distribution companies including KESCL; and
 - Whether the revised SD rates to be applied on new connection, reconnection, extension of load, change of name, change of tariff category and what should be the mode of payment.
16. These issues have been discussed at length in the Authority determination of SD Rates for DISCOs and the following is the summary on which KESCL's determination of SD rates is based.

Issue # 1. Whether to revise the SD rates to cover the non-payment risk for the credit period

17. The mechanism for calculation of SD rates was thoroughly discussed by the Authority based on the following important components and factors as given hereunder;
- Consumer category wise load factors.
 - NEPRA determined adjusted Tariff based on technical losses; and
 - One month's or two and half month's billing.
18. In order to arrive at a just and fair decision with respect to the SD rates of KESCL, the Authority considered various options based on actual load factors of different consumer categories, NEPRA's determined tariff and one or two-and-a-half months billing cycle. It was observed by the Authority that there was large variation of SD rates for different classes of consumers of KESCL viz-a-viz DISCOs.
19. The Authority also observed that fixing SD rates on the basis of assumption as proposed by KESCL, in any case, will not completely safeguard the utility against default by the consumers in any specific time period due to the following reasons.



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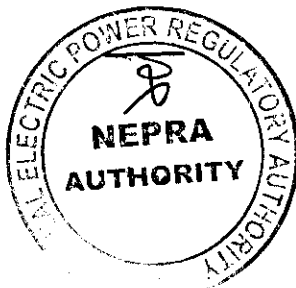
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- SD rates are based on connected load of the consumer whereas the monthly billing is done on actual electricity consumed by a consumer.
 - The actual tariff of KESCL is changed/adjusted on monthly/quarterly basis due to fluctuation in fuel prices.
 - The amount of SD is fixed for each class of consumer whereas the actual load factor of a particular consumer of the same class may be quite different from the average load factor used in the calculation.
20. The existing SD rates charged by KESCL were determined by the Authority in 2003 whereas SD rates charged by DISCOs have been revised by the Authority twice during this period. Consequently, there occurs a gap between the SD rates charged by KESCL and DISCOS. Having considered the arguments, the rationale for SD and the international practices to cover the risk of credit sales, the Authority is convinced that KESCL was able to make its case for revision in the SD rates. However, the argument to cover the risk of credit sales solely through SD is not valid due to the reasons stated above. Although the Authority agrees that the inherent business risk against the default from the consumer's end exists but as per documents required for new connection/extension and reduction of load or change of name in terms of Chapter 2.3 (b) & (h) of the Consumer Service Manual, the risk of credit sales transfers to the third party, i.e. owner of the premises or purchaser. It is also true that electricity in today's life is a basic necessity and the consumers cannot afford to live without it. Considering these facts, the risk of the utility against default from consumers becomes minimal. Thus, the contention to cover the risk of credit sales solely through SD is not maintainable. In the opinion of the Authority SDs should be used as deterrent on the part of consumer but not to cover 100% risk of default by the consumers.
21. Considering the request of KESCL to determine SD rates based on 2^{1/2} months billing, the Authority is of the opinion that SD rates on the basis of 2^{1/2} months billing period would unnecessarily block the money of the consumers and keeping this money idle is a sheer wastage of scarce resources, which in the present economic conditions of the country is neither justified nor acceptable. In view thereof, the Authority considers that one month average billing is reasonable for determining SD rates.

Issue # 2. Whether different or uniform SD rates be fixed for distribution companies including KESCL?

22. The Authority considers that the consumers of KESCL should not be burdened with the higher SD rates due to higher approved tariff of KESCL as compared to other DISCOs because of its peculiar structure of being an integrated utility and also due to inherent weaknesses of its distribution system. The Authority also considered that GoP, in view of socio-political considerations, has notified a uniform tariff through ↓



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subsidies to all distribution companies including KESCL. Although GoP has planned to do away with the tariff subsidies in future but for all practical purposes the liability of the consumers to pay their monthly bills, during this transitional phase, is limited to the tariff notified by GoP. In view of the aforementioned, the Authority considers that till such time the NEPRA determined tariff for each distribution company including KESCL will become effective, uniform SD rates for all distribution companies including KESCL can be maintained. Accordingly the Authority has decided to average out the SD rates of all the distribution companies including KESCL in order to arrive at uniform rates to be charged by KESCL and other distribution companies all across the country. In view of aforementioned reasons, the SD rates for each consumer category have been determined and are attached as **Annex-I**.

Issue # 3. Whether the revised SD rates to be applied on new connection, reconnection, extension of load, change of name, change of tariff category?

23. In view of the request made by KESCL for enhanced SD rates together with that of other distribution companies, the following issues were considered by the Authority for application of revised SD rates:
- from the customers applying for new connections, reconnection or extension/reduction of load; and
 - from the existing customers whose SDs have become insufficient to cover monthly/two and half month billing.
24. The Authority considers that the recovery of enhanced SDs from the new connections, reconnections, change of name and change of tariff category is justified; therefore is accepted. Para 5.2(a) of Consumer Service Manual Chapter explains the options for transfer of SD rates in case of relocation of premises; change of name or through succession. Chapter 5.2 (b) of Consumer Service Manual also makes it mandatory that all consumers to update their SD in case of change of tariff, shifting of site and change of name.
25. The Authority is also of the view that for seasonal connections, the new rates would apply only if the amount of security deposited by a consumer is refunded at the time of disconnection. As regards the application of enhanced SD rates to the cases of extension or reduction of load, the Authority does not agree with the request of recovery on the entire load. In the opinion of the Authority, the additional security should be recovered to the extent of incremental load and not on the entire load.
26. The Authority has also carefully examined the aspect of collecting new SDs from existing consumers and finds no justification for additional recovery from the existing consumers on the basis of enhanced SD rates. The Authority considers that the time value of money for the amount kept by a distribution company for decades on account of SDs by its existing consumers is huge and can not be ignored. Moreover, KESCL has also not provided the risk analysis based on defaulted consumers' history. In view thereof, the request for allowing recovery of SD based at the enhanced rates from the existing consumers is not accepted.



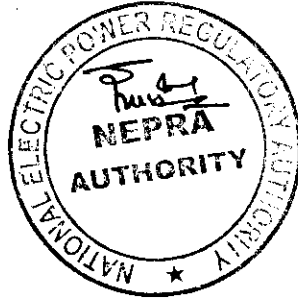
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27. During the hearing, the interveners representing Industrial Consumers requested to allow bank guarantees in lieu of cash considering the amounts that an industrial consumer would pay towards SDs since their SD rates runs in million for which a cash deposit would not be prudent. KESCL, also, in principle agreed to consider this option of bank guarantee in lieu of cash deposit.

28. Having considered the arguments of KESCL and the interveners, the Authority allows the option of Bank guarantee for the industrial consumers under B-3, B-4 and B-5 categories only. The existing B-3, B-4 and B-5 category consumers can avail option of Bank Guarantees by withdrawing their previous SDs from KESCL and submit a bank guarantee to the satisfaction of KESCL on new SD rates for a validity period of not less than three years.



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Annex- I

Description	KESCL Security Deposit Rates
Residential	
Urban	Rs. 1,220 / kW
Rural	Rs. 610 / kW
Commercial A-2	
Urban	Rs. 1,810 / kW
Rural	Rs. 920 / kW
Industrial	
B1	Rs. 1,580 / kW
B2	Rs. 2,010 / kW
B3 -	Rs. 2,890 / kW
B4	Rs. 3,560 / kW
B-5	Rs. 4,300 / kW
Single Point Supply for further distribution	
C1(a) Supply at 400 Volts - less than 5 kW	Rs. 1,670 / kW
C1(b) Supply at 400 Volts -exceeding 5 kW	
C2 Supply at 11 kV	Rs. 2,080 / kW
C3 Supply above 11 kV	Rs. 2,740 / kW
Agricultural Tube-wells - Tariff D	
Agricultural Tube-wells (including scarp)	Rs. 15000 lump sum
Public Lighting - Tariff G	
Tariff H - Residential Colonies attached to industries	Rs. 3,240 / kW
Tariff-F (Seasonal) Double of Regular Industrial Tariff	

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