



**National Electric Power Regulatory Authority**  
**Islamic Republic of Pakistan**

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad.  
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Web: www.nepra.org.pk, E-mail: registrar@nepra.org.pk

No. NEPRA/TRF-133/KESC-2009/12048-12051  
July 24, 2018

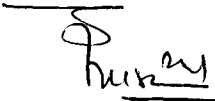
**Subject:- Decision of the Authority in the matter of K-Electric's Quarterly Adjustment in Tariff for the Quarter January-March 2016 and Transfer of a Portion of Profit for the Financial Year 2014-15 to the Consumers of K-Electric as per the Claw Back Mechanism [No. NEPRA/TRF-133/KESC-2009]**

Dear Sir,

Please find enclosed herewith the subject decision of the Authority along with Annex-I (16 Pages) in Case No. NEPRA/TRF-133/KESC-2009(6).

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.

Enclosure: As above

  
24 07 18  
( 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.
3. Secretary, Privatization Commission, Government of Pakistan  
5-A, EDB Building, Constitution Avenue, Islamabad



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No. NEPRA/TRF-133/KESC-2009/12052

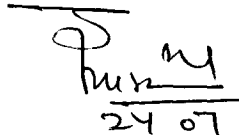
July 24, 2018

Chief Executive Officer  
K-Electric Limited (KEL)  
KE House, Punjab Chowrangi,  
39 – B, Sunset Boulevard, Phase-II  
Defence Housing Authority  
Karachi.

Subject:- **Decision of the Authority in the matter of K-Electric's Quarterly Adjustment in Tariff for the Quarter January-March 2016 and Transfer of a Portion of Profit for the Financial Year 2014-15 to the Consumers of K-Electric as per the Claw Back Mechanism [No. NEPRA/TRF-133/KESC-2009]**

The Authority has made its Decision on the subject matter. The Decision has been sent to Ministry of Energy (Power Division) for notification in the official Gazette vide letter No. NEPRA/TRF-133/KESC-2009/12048-12051 dated 24.07.2018. A copy of the Decision is served herewith for your information please.

Enclosure: As above

  
24 07 18  
( Syed Safer Hussain )



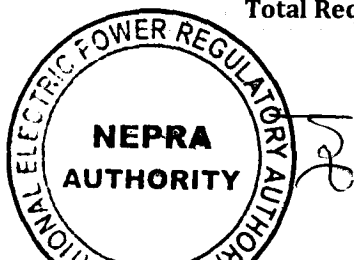
**DECISION OF THE AUTHORITY IN THE MATTER OF K-ELECTRIC'S QUARTERLY ADJUSTMENT IN TARIFF FOR THE QUARTER JANUARY-MARCH, 2016 AND TRANSFER OF A PORTION OF PROFIT FOR THE FINANCIAL YEAR 2014-15 TO THE CONSUMERS OF K-ELECTRIC AS PER THE CLAW BACK MECHANISM.**

- Pursuant to section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 and in accordance with the determination of the Authority in case No. NEPRA/TRF-133/KESC-2009(6) dated December 23, 2009 notified vide S.R.O. No. 11(I)/2010 dated January 01, 2010, K-Electric Limited (hereinafter referred to as "K-Electric", "the company" or "the utility") has been allowed certain adjustments in its tariff on quarterly basis which include the following:
  - Impact of variation in the capacity charges and Operation and Maintenance (hereinafter referred to as the "O&M") components of the cost of power purchased by K-Electric from the external sources.
  - Impact of targeted Transmission and Distribution losses (hereinafter referred to as the "T&D losses") not allowed in the monthly Fuel Charges Adjustments (hereinafter referred to as "FCA").
- In addition to the aforesaid adjustments in tariff, for allowing K-Electric to recover its tariff in future on the latest prices, the tariff level is required to be adjusted at the price level of last month of the quarter i.e. in the current case the price level of March, 2016.

**CURRENT REQUEST**

- K-Electric, in accordance with the prescribed mechanism for adjustment of fuel cost and power purchase cost variation, submitted quarterly adjustment request for the quarter January-March, 2016 dated April 20, 2016 (hereinafter referred to as the "current quarter/instant quarter"). The summary of the adjustment as requested by K-Electric is tabulated below;

Items	Proposed Adjustment
Fuel Price Variation of March, 2016 over December, 2015 (Ps/kWh)	(37.174)
Power Purchase Price Variation of March, 2016 over December, 2015 (Ps/kWh)	20.345
<b>1 Total Variation in Tariff (Ps/kWh)</b>	<b>(16.829)</b>
<b>Un Recovered Cost</b>	
Variation in O&M cost of IPPs and Other External Sources (Mill Rs)	(118.287)
Variation in Capacity Charges of IPPs and Other External Sources (Mill Rs)	19.887
Un-recovered cost of fuel in FCAs due to non-adjustment of T&D losses (Mill Rs)	(45.697)
Payment of old capacity charges to Gul Ahmed Energy Limited (Mill Rs)	377.184
<b>Total Unrecovered Cost (Mill Rs.)</b>	<b>233.088</b>
Estimated Units to be Sold in the next quarter (GWh)	3,769.726
<b>2 Required Adjustments (Ps/kWh)</b>	<b>6.183</b>
<b>3 Reversal of Unrecovered Cost of Previous Quarter (Ps/kWh)</b>	<b>(43.306)</b>
<b>Total Required Adjustment in K-Electric's Tariff (Ps/kWh) (1+2+3)</b>	<b>(53.952)</b>



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**PUBLIC HEARING**

4. Since the impact of the tariff adjustment directly affects the consumers, therefore, in order to make K-Electric's tariff adjustment process transparent, the Authority decided to provide an opportunity of hearing/filing of objections/comments to all the stakeholders. Accordingly, a public hearing for consideration of the requested adjustment was conducted by the Authority on May 23, 2016 (Monday) at 10:30 am at Marriot Hotel, Karachi; notice thereof was published in the daily newspapers on May 12, 2016. Separate notices were also sent to the major stakeholders inviting their comments/objections.

**ISSUES RAISED BY THE COMMENTATORS**

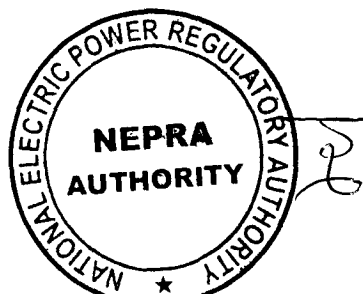
5. Regarding the subject request, comments, in writing, were received from Mr. Abu Bakar Usman representing Pasban Pakistan, Mr. Adil Gilani from Whistle Blower and Qazi Ahmed Kamal representing Karachi Chamber of Commerce and Industries. The comments from aforementioned commentators and the response of the K-Electric and views of the Authority thereon are discussed as hereunder;
- a. Mr. Abu Bakar Usman from Pasban Pakistan submitted that unrecovered cost of Ps. 43.306/ kWh has already been requested by K-Electric in previous quarter therefore, the same should not be allowed in the current quarter. It is noted that according to the mechanism prescribed vide the determination of the Authority dated December 23, 2009, the under-recovered/over-recovered cost is allowed to be applicable for one quarter only and then reversed in the subsequent quarter. In pursuance of the said mechanism, the unrecovered cost of Ps. 43.306/ kWh was allowed to K-Electric in the quarter ended December, 2015 which need to be reversed in the current quarterly adjustment, thereby reducing the tariff of K-Electric by that amount, therefore, the objection made by commentator is not valid.
- b. Mr. Abu Bakar Usman further submitted that according to Claw-Back mechanism mentioned in the Multi Year Tariff ("MYT") Determination of the Authority dated December 23, 2009, K-Electric is to share excess profits with its consumers but despite making a profit of Rs. 11,923 million in FY 2014-15, K-Electric has not passed on the benefit of the same to the consumers. K-Electric submitted that Claw-Back mechanism for profit sharing is under litigation and will be decided as per the court's order. It has been noted that the Authority based on the reported results of K-Electric worked out Claw-Back amount and directed the company to share the said amount with its consumers. However, K-Electric filed civil suits against those decisions and implementation of Claw-Back mechanism to the extent of impugned quarterly adjusted decisions was suspended by the Honorable Sindh High Court.
- c. Mr. Adil Gilani while referring to the generation data of the own power plants of K-Electric from January, 2013 to March, 2016 submitted that K-Electric has exhibited a non-prudent behavior and has violated provisions of NEPRA rules and regulations and terms & conditions of distribution license thereby



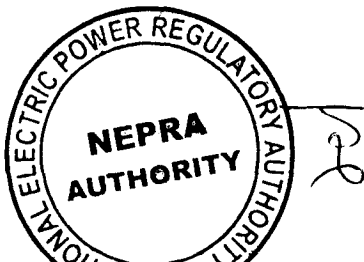
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inflicting loss to National Exchequer, consumers and national economy by underutilizing its own generation capacity and drawing 650 MW of electrical power from National Transmission and Despatch Company Limited ("NTDC"). By doing so, K-Electric has rendered NTDC to buy electricity from power plants in its system which have higher cost per unit of electricity than generation sources owned by K-Electric. Mr. Gilani also submitted that K-Electric is subjecting its consumers to load shedding who are not involved in theft and are paying electricity bills regularly. Qazi Ahmed Kamal also raised the same issue by submitting that K-Electric is underutilizing its fleet capacity (own generation and external sources) and thereby subjecting the consumers of its service territory to undue load shedding. K-Electric in its response denied the allegations leveled by the aforementioned commentators that K-Electric underutilized its plants and submitted that K-Electric is responsible to dispatch as per Economic Merit Order (EMO) from its own generation units and imports from external sources in order to result in lowest variable cost to end users. The company further submitted that EMO is followed by K-Electric as required under the provision of NEPRA Act and NEPRA Licensing (Generation) Rules 2000. K-Electric also submitted that the period from January-March, 2016 is a winter season during which demand is usually less than the supply of electric power. Therefore after following EMO and maintaining load shedding program in high loss and theft areas as per the company's policy, lower demand in winter season may contribute towards under-utilization of capacity which does not correspond to violation of any rules and regulations. While responding to the comments regarding undue load shedding, K-Electric submitted that it follows a transparent load management regime which has been in place since 2010, under which low loss area, industrial zones and strategic connections (under the implementation Agreement and Amended Agreement) are exempted from load shed regime. As a result of this load management plan, around 60% of the licensed territory of K-Electric is load shed free and enjoys uninterrupted power supply except for outages due to technical reasons. The Authority considered the comments regarding the issue and is of the view that K-Electric has been time and again directed by the Authority through monthly and quarterly adjustment decisions to prudently utilize its available energy/capacity to eliminate/ reduce load shedding in its territorial jurisdiction. In addition to aforementioned, the Authority has also been showing concerns over the load shedding regime followed by K-Electric. Further, the Authority from time to time has issued explanations/show cause notices to K-Electric on under-utilization of its energy sources and violations of power purchase agreement with NTDC, however, the same were challenged by K-Electric in the Honorable High Court of Sindh. Recently, on events occurring in June, 2015, K-Electric was issued a show cause notice for which one of the grounds was the ongoing underutilization of its available power generations facilities (both own and external sources) and was fined by the Authority vide decision dated March 25, 2016. In addition to that, an explanation was served to K-Electric and NTDC for purchase/ sale of power without an agreement as the previous agreement expired on January 25, 2015. Subsequently, Show Cause Notices were issued to both entities and afterwards a fine of 10 million each was imposed. K-Electric and NTDC have filed review applications against the verdict of the Authority and proceedings of the same are underway.



- d. Mr. Adil Gilani also submitted that K-Electric is committing over recoveries by not passing on the benefit of FCA to the consumers using up to 300 units. In this regard, K-Electric referred to the guidelines issued by Ministry of Water and Power which states "**any negative adjustment on account of monthly FCA will not be passed on to the domestic consumers who have subsidized electricity tariff.**" K-Electric submitted that in pursuance to these guidelines, the Authority has been directing K-Electric not to pass on the impact of negative FCA, if any, to the agriculture, lifeline and domestic consumers, consuming up to 300 units so the Government of Pakistan ("GoP") subsidies can be saved to the extent of that amount. It has been noted that GoP issued the aforementioned guidelines and in pursuance thereof, the Authority directed K-Electric not to pass on the impact of negative FCA to consumer categories that already have subsidized tariff. This negative impact is taken in quarterly Schedule of Tariff ("SoT") of K-Electric to reduce the subsidy payments made by GoP to K-Electric to that extent.
- e. Mr. Qazi Ahmed Kamal submitted that NEPRA is allowing K-Electric to operate its own generation power plants on inefficient heat rates despite the repeated requests of the participants of the hearings for having the heat rate tests of the aforementioned power plants conducted by an international expert. Further, the inefficient operations of K-Electric's own generation plants results in fuel cost burden which is borne by the consumers in the form of FCA. Mr. Adil Gilani also submitted that NEPRA has not yet approved the heat rates of the newly inducted power plants of K-Electric for last many years and has allowed K-Electric to generate on the higher heat rates. K-Electric submitted that its plants have already undergone heat rate tests by independent reputable firms in the presence of NEPRA professionals. K-Electric, further submitted that heat rates approved by NEPRA were lower than the actual determined, which does not consider aging of the plant and was conducted under controlled conditions without any interruption or tripping unlike the actual operating scenario which results in higher heat rates. In addition to that, K-Electric submitted that approval of heat rates of BQPS-II is under process and no monthly fuel price variations are being allowed on the mentioned power station by NEPRA. The Authority has noted that in accordance with its directions given in the determination dated December 23, 2009, the heat rate test of Bin Qasim Power Station-II (BQPS-II), Korangi Combined Cycle Power Plant ("KCPP"), Korangi Gas-II ("KTGT-II") and Site Gas-II ("STGT-II") were carried out resulting in efficiencies of the mentioned power plants on higher side when compared with those provisionally approved. The Authority, however, keeping in view the interest of the consumers has been allowing monthly and quarterly variations on the heat rates which are more efficient than those resulted from the mentioned heat rate tests.
- f. Mr. Adil Gilani also submitted that it is surprising as to how K-Electric is making profits as its T&D losses number is much higher than the benchmark set by NEPRA and its recovery is also in the range of 85%-88%. Mr. Gilani requested NEPRA to check whether the profits made by K-Electric are due to overbilling, incorrect subsidy claims and charging more than other DISCOs in the provision of electricity connections. K-Electric submitted that MYT tariff is based on how efficiently the company runs the



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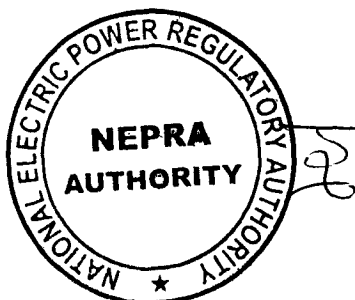


system that determines its profits. K-Electric submitted that it was required to invest in revamping the power grid, curb theft and improve utilization of its power plants. Since there has been improvement in all areas; transmission and distribution (T&D) losses have come down, plant efficiency has improved and financial charges have also been reduced, which has helped in turnaround of K-Electric. It has been noted that the MYT awarded to K-Electric is an efficiency based tariff wherein average rate was set based on certain efficiency and T&D loss benchmarks. The awarded tariff had to remain the same throughout the control period except certain adjustments due to uncontrollable factors and that also allowed on yearly specified targets. It has been observed informed that no guaranteed return has been allowed to K-Electric. The company can only earn profit by bringing efficiencies in its operations. However, in case the profits surpass a certain threshold, the same has to be shared with the consumers by application of a Claw Back mechanism embedded in the tariff determination. It also needs to be understood here that based on the benchmarks of yearly losses, only variations in tariff are allowed and not the whole tariff is reset. It should also be noted that while allowing variations in the set tariff, the impact of the yearly inefficiencies on part of the utility against the targets set by NEPRA are borne by K-Electric itself and not passed on to consumers.

- g. Mr. Qazi Ahmed Kamal submitted that K-Electric's own generation plants have auxiliary consumptions figures which are above the benchmark of 6.1% set by NEPRA. The mentioned differential in auxiliary consumption figures warrants for an audit in order to ascertain the reasons of such occurrence. The Authority noted that the current MYT regime of K-Electric is an efficiency based tariff wherein performance targets have been set and are used to allow monthly and quarterly adjustments in tariff. The benefit/loss due to efficiency/ in-efficiency of operations residues with the utility. Nevertheless, it is evident from the figures and corresponding documentary evidence submitted by K-Electric, that the utility is underperforming when actual auxiliary consumption is compared to the overall benchmark of 6.1% auxiliary consumption set by NEPRA, however its worth mentioning here that any in-efficiency by K-Electric, in this regard, is not passed on to the consumers of K-Electric.

#### **FINANCIAL ANALYSIS**

6. The generation data, rates, etc. of K-Electric (both from self-generation and power purchased from external sources) were verified from respective invoices and other underlying documents. K-Electric's request for the current quarter has been discussed in detail under the following headings:
- a) Changing the reference tariff from December, 2015 to March, 2016.
  - b) Under/Over-recovered costs for the current quarter.
  - c) Reversal of tariff adjustment pertaining to the previous quarter i.e. October-December, 2015.



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**CHANGING THE REFERENCE TARIFF FROM DECEMBER, 2015 TO MARCH, 2016.**

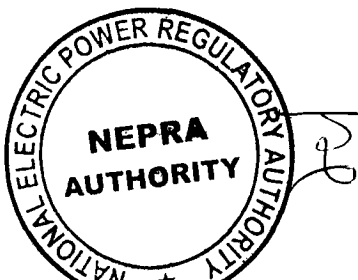
7. K-Electric's last adjusted tariff is based on the fuel prices (both own generation and power purchase from external sources), O&M costs and capacity charges of December, 2015. For allowing K-Electric the recovery of its tariff in future according to the latest prices, the tariff is required to be adjusted to the price level of March, 2016. According to the prescribed mechanism, changing the tariff level requires allowing variations in the fuel cost of company's own generation as well as in its power purchase cost from external sources (fuel cost, O&M costs and capacity charges) of March, 2016 over the reference month of December, 2015. K-Electric has requested for following adjustments in its tariff on this account:

Description	Requested
Fuel cost variation of March, 2016 over December, 2015 (Mill Rs.)	(422.137)
Power purchase cost variation of March, 2016 over December, 2015 (Mill Rs.)	231.030
<b>Total Variation (Mill Rs.)</b>	<b>(191.107)</b>
Units sold at 15% T&D losses for March, 2016 (GWh)	1,135.573
<b>Required adjustment in tariff (Ps/kWh)</b>	<b>(16.829)</b>

8. During the hearing K-Electric submitted that in its own generation, the reason for the claimed variation is the decrease in per unit weighted average fuel cost of generation of Bin Qasim Power Station-I from Rs. 6.877 kWh in reference month of December, 2015 to Rs. 5.462/kWh in March, 2016. The reason for the said decrease is the reduction in weighted average price of furnace oil from Rs. 27,943/ metric ton in December, 2015 to Rs. 19,458/metric ton in March, 2016. In the power purchase cost, K-Electric submitted that major reason of the claimed variation is the increase in power purchase cost per unit of CPPA-G/ NTDC from Rs. 7.092/ kWh in the reference month of December, 2015 to Rs. 8.572/kWh in March, 2016.
9. A comparative analysis of the adjustment in K-Electric's tariff required to bring it to the tariff level of March, 2016 as requested by K-Electric and as approved by the Authority after verification of all the relevant documentary evidence is tabulated below:

Description	Requested	Approved
Fuel cost variation of March, 2016 over December, 2015 (Mill Rs.)	(422.137)	(420.311)
Power purchase cost variation of March, 2016 over December, 2015 (Mill Rs.)	231.030	87.439
<b>Total Variation (Mill Rs.)</b>	<b>(191.107)</b>	<b>(322.872)</b>
Units sold at 15% T&D losses for March, 2016 (GWh)	1,135.573	1,135.572
<b>Required adjustment in tariff (Ps/kWh)</b>	<b>(16.829)</b>	<b>(29.313)</b>

10. The difference between the claimed and approved variation in fuel cost of own generation is due to inconsistency in the working of weighted average furnace oil rate (Rs/metric ton) at K-Electric's end. The Authority has consistently been using monthly weighted average method to work out the furnace oil rate and has used the same method for working out the above mentioned fuel charges variations.







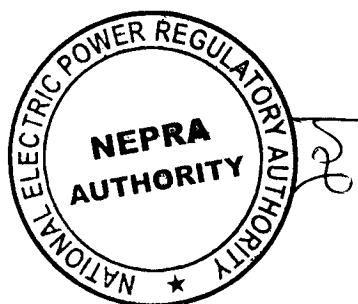
11. The difference in the requested and approved power purchase cost variation has occurred because K-Electric in its request has used the fuel cost component as per the invoice of CPPA-G/ NTDC in the month of March, 2016. In addition, provisional cost of variable O&M for the energy purchased from CPPA-G was used in its request by KE. For the approved variations, the Authority has used the fuel cost component allowed to all Ex-WAPDA Distribution Companies (XWDISCOs) and has also made the corrections in the variable O&M costs.

**UNDER/OVER-RECOVERED COST FOR THE CURRENT QUARTER**

12. As per the approved mechanism, the monthly variation on account of O&M cost and capacity charges components of the power purchase cost of K-Electric, accumulated and not allowed in the monthly adjustments is required to be adjusted in the quarterly tariff adjustment of K-Electric. In addition, the cost of fuel that was not allowed to the utility to be passed on in the monthly FCAs to the extent of targeted T&D losses is required to be taken care of on quarterly basis in accordance with the prescribed mechanism. Furthermore, other costs that are allowed to be passed on under the approved mechanism but were not accounted for in the monthly FCAs are accounted for in the quarterly adjustment. K-Electric has requested for allowing it the recovery of the following unrecovered costs:

DESCRIPTION	Requested by K-Electric
Variation in O&M cost of IPPs and Other External Sources (Mill Rs)	(118.287)
Variation in Capacity Charges of IPPs and Other External Sources (Mill Rs)	19.887
Un-recovered cost of fuel in FCAs due to non-adjustment of T&D losses (Mill Rs)	(45.697)
Payment of old capacity charges to Gul Ahmed (Mill Rs.)	377.184
<b>Total Unrecovered Cost (Mill Rs.)</b>	<b>233.088</b>
Estimated Units to be Sold at 15% T&D losses Apr-Jun, 2016 (GWh)	3,769.726
<b>Required Adjustments (Ps/kWh)</b>	<b>6.183</b>

13. Variation in O&M Costs: The variation in O&M cost component of the power purchase cost is worked out by comparing the monthly weighted average O&M costs of all external power sources. This method addresses the change in prices as well as energy mix on month to month basis. As tabulated above, the company has claimed variation of minus Rs. 118.287 million on this account.
14. Variations in capacity charges: Similar to the mechanism of O&M costs, the variation in capacity charges component of the power purchase cost paid to IPP's (Gul Ahmed and Tapal) is worked out by comparing the monthly weighted average cost of all the power stations from which K-Electric evacuates power, which represents change in both prices and energy. As shown in the aforementioned table, the utility has claimed variation of around Rs. 19.887 million under this head.



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15. Un-recovered fuel cost due to non-adjustment of T&D losses in monthly FCA: The variation in the cost of fuel (own generation + power purchases) that was not allowed to K-Electric to be passed on in the monthly FCAs to the extent of targeted T&D losses is required to be taken care of on quarterly basis. K-Electric has claimed around minus Rs. 45.697 million under this head.
16. Payment of old capacity charges to Gul Ahmed: K-Electric has claimed Rs. 377.184 million in respect of disputed capacity charges, which now have been paid to Gul Ahmed. It was directed in the Authority's decision for quarterly adjustment in tariff for the quarter ended March, 2014 that the said amount will be allowed only, after it has been paid to Gul Ahmed in full.
17. A comparative analysis of the adjustment in K-Electric tariff for the under/over-recovered costs of the current quarter to be adjusted as per request submitted by K-Electric and being approved by the Authority after verification of the relevant documentary evidence is tabulated below;

DESCRIPTION	Requested by K-Electric	Allowed to K-Electric
Variation in O&M cost of IPPs and Other External Sources (Mill Rs)	(118.287)	(148.575)
Variation in Capacity Charges of IPPs and Other External Sources (Mill Rs)	19.887	19.887
Un-recovered cost of fuel in FCAs due to non-adjustment of T&D losses (Mill Rs)	(45.697)	(60.769)
Payment of old capacity charges to Gul Ahmed (Mill Rs.)	377.184	347.184
FCA not allowed to be passed on to the consumers	-	(199.722)
<b>Total Unrecovered Cost (Mill Rs.)</b>	<b>233.088</b>	<b>(41.995)</b>
Estimated Units to be Sold at 15% T&D losses Apr-Jun, 2016. (GWh)	3,769.726	4030.854
<b>Required Adjustments (Ps/kWh)</b>	<b>6.183</b>	<b>(1.073)</b>

18. The Authority noted that the difference in the requested and worked out variation in O&M Cost is primarily, due to the reason that K-Electric has used the provisional variable O&M cost per kWh for CPPA-G for the month of March, 2016. In the allowed variations, the approved cost has been taken into account.
19. The reason of the difference in requested and worked out variation in un-recovered fuel cost due to the non-adjustment of T&D losses is due to the inconsistency on part of K-Electric while calculating the weighted average rate of furnace oil. K-Electric uses the moving average basis whereas the Authority has consistently been using monthly weighted average method to work out this weighted average rate. Further, K-Electric has used invoice rate for fuel cost of power purchase from CPPA-G for the month of March, 2016 which has been corrected while allowing the variations.
20. K-Electric in its instant request has claimed an amount of Rs. 377.184 million on account of disputed amount of capacity payments made to Gul Ahmed. The Authority noted that this amount pertains to the dispute between K-Electric and Gul Ahmed regarding capacity payments during the period from January, 2008 to November, 2012. Subsequently, a settlement agreement was agreed upon between both the parties according



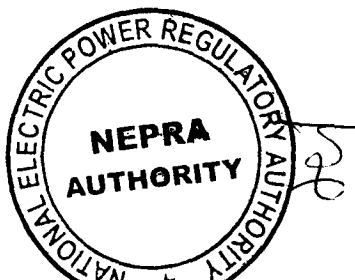


to which all the dues were to be paid by the former in equal monthly installments starting from September, 2013. The Authority decided to adjust the same after full payment i.e. after June 2015. In the instant request, K-Electric requested that as the disputed amount has been paid in full to Gul Ahmed, therefore, the same should be allowed. The payments were verified by NEPRA professionals and a letter dated June 06, 2016 was also written to Gul Ahmed to confirm the said capacity payments of 377.184 by K-Electric. Gul Ahmed vide its letter dated June 08, 2016, acknowledged that all the payment had been received by it and due to timely payments a Rs. 30 million discount was given on the payment of last installment. The Authority has decided to allow capacity payments of Rs. 347.184 million, i.e. after excluding the amount of discount received by K-Electric.

21. Ministry of Water and Power vide its policy guidelines, Section 31 (4) of the NEPRA Act, 1997 on 21.05.2015 stated that "Any negative adjustment on account of monthly FCA will not be passed on to the Domestic consumers who have subsidized electricity tariff." In pursuance of the aforementioned guidelines, the Authority vide its decisions of K-Electric's FCA for the months of February, 2016 and March, 2016 had directed the company not to pass on the impact of negative FCA to the life line consumers, agricultural consumers and the residential consumers using up to 300 units as the same is to be adjusted in SoT of the current quarter. Further, K-Electric was also directed vide letter dated June 02, 2016, to provide the details of negative FCA not passed on the aforementioned consumers which K-Electric submitted vide letter dated June 08, 2016. The Authority after verification of the said details has decided to allow an amount of minus Rs. 252.752 million in the unrecovered cost of K-Electric of the current quarter.
22. K-Electric, in its current quarter request, has estimated that 3,769.726 GWh units will be sold @ 15% T&D losses in the next quarter i.e. Apr-Jun, 2016, however, while the instant decision was in process actual units sold i.e. 4,030.854 GWh were received and same have been used while calculating the adjustment of the minus Ps. 2.368/ kWh for unrecovered cost.
23. The variation in tariff under this head will be applicable for the next quarter only i.e. April-June, 2016 and will cease, automatically, at the end of that quarter.

**REVERSAL OF TARIFF ADJUSTMENT APPLICABLE FOR CURRENT QUARTER ONLY**

24. The Authority in its previous quarterly adjustment pertaining to October-December, 2015 allowed a decrease of Ps. 64.760/kWh in K-Electric's tariff on the basis of next quarter's units sold for adjustment of unrecovered amount of minus Rs 1,870.567 million by K-Electric. As per the direction in the same decision, the allowed decrease of Ps. 64.760/kWh is required to be adjusted back in the K-Electric's current quarterly adjustment in order to nullify its impact in the SoT of K-Electric and the same has been done in the current quarter.



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**OVERALL ADJUSTMENT IN TARIFF**

25. The overall cumulative variation in the K-Electric's tariff after making all aforesaid adjustments that have been discussed in the preceding paragraphs, works out to be Ps. 33.079/kWh;

	<u>Paisas per kWh</u>
• Changing the reference tariff from December, 2015 to March, 2016	(29.313)
• Under/Over-recovered costs for the current quarter	(2.368)
• Reversal of tariff adjustment applicable for current quarter only	64.760
	<hr/> <b>33.079</b> <hr/>

26. K-Electric is allowed adjustment in consumer end tariff for all consumer categories, except for the life-line consumers, by Ps. 33 per kWh.

27. In view of the foregoing, the revised SoT for the subject quarter to be applicable from April 01, 2016 to June 30, 2016 is attached herewith as **Annexure-I**.

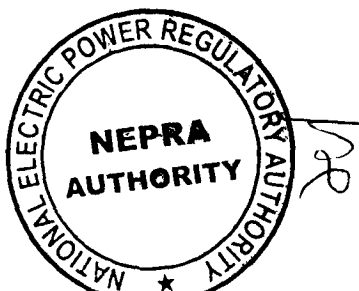
**CLAW BACK MECHANISM - SHARING OF A PORTION OF K-ELECTRIC'S PROFIT WITH CONSUMERS**

28. The MYT awarded to K-Electric vide determination dated December 29, 2009 was a performance based tariff wherein separate component of investment and return was not allowed to K-Electric. As per spirit of the MYT, certain efficiency parameters such as heat rates, transmission and distribution losses etc. were specified by the Authority thereby giving an incentive to the investor not to adjust the tariff downward if it brings more efficiency. Similarly, if performance falls short of the specified parameters then loss will be borne by the utility as no upward adjustment in tariff will be allowed.

29. The determination also prescribed the clawback mechanism for sharing of K-Electric's profits with the consumers (hereinafter referred to as the "clawback mechanism"). The clawback mechanism provided that to the extent that the annual real return on the regulatory asset base exceeds 12%, the surplus shall be shared with the consumers through a reduction in tariff. The claw back mechanism was prescribed after having input from all stakeholders by following the due process of law and same was also notified in the official gazette.

30. The sharing formula as provided in the claw back mechanism is reproduced as under;

"1. *KESCL shall on yearly basis and within the first week of January, submit the proposed adjustment of tariff arising out of the transfer of a portion of the profits of the preceding financial year to consumers according*



*A*



to the claw back formula as provided herein below along-with the basis of the calculations supported with the relevant audited financial statements:

**CLAWBACK FORMULA**

2. To the extent that the annual real return\* on the regulatory asset base\*\* exceeds the limits prescribed hereunder, the surplus return shall be shared with consumers through a reduction in tariff, on the basis set out below;

a) Where the real annual return exceeds 12% but remains within 15%

25% of the profit value in excess of 12% Return on Assets ("ROA") will be transferred to the consumers

b) Where the real annual return exceeds 15% but remains within 18%

In addition to (a) above, 50% of the profit value in excess of 15% ROA will be transferred to the consumers

c) Where the real annual return exceeds 18%

In addition to (a) plus (b) above, 75% of the profit value in excess of 18% ROA will be transferred to the consumers.

\* The annual return on the regulatory asset base shall be the audited earnings before interest and tax for that year divided by the average of the opening and closing regulatory asset base for that year.

\*\* The regulatory asset base shall be the audited share capital and reserves plus bank and other borrowings less cash and securities.

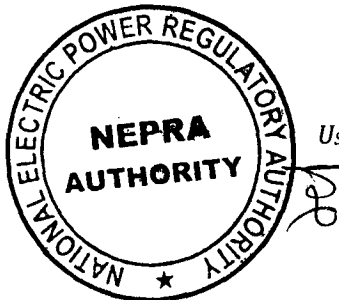
3. The decrease in average sale rate ( $S_{1CB}$ ) will be calculated as under.

$$\Delta(S_{1CB}) = \frac{\Delta P_s}{U_{ST}}$$

Where  $P_s$  = The aggregate profit to be transferred to the consumers calculated according to sub paras (a), (b) and (c) of para 2 above.

$U_{ST}$  = Estimated units expected to be sold during the twelve months commencing from January 1st of the financial year following the year for which profits are calculated.

The above reduction shall be applied uniformly to all consumer classes".



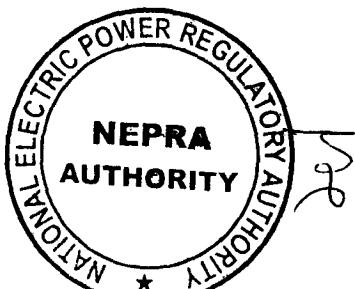
**Claw Back for FY 2012, FY 2013 & FY 2014**

31. Based on the reported results of K-Electric for FY 2012, 2013 and 2014, the Authority, in accordance with the claw back mechanism prescribed vide its determination dated December 23, 2009, worked out certain

amounts that had to be shared by the utility with its consumers. In its previous quarterly decisions of K-Electric, the Authority directed the company to share that amount with its consumers. However, K-Electric filed civil suits against those decisions and implementation of claw back mechanism was suspended by the Honorable Sindh High Court to the extent of impugned quarterly adjustment decisions. The impact of earlier determined claw back amount has not been accounted for in the attached SoT and the same shall be considered in light of the final orders of the Honorable Court in this regard.

**Claw Back for FY 2015**

32. The Authority noted that K-Electric, in its Audited Financial Statements for the Financial Year 2014-15, has reported an Earnings before Interest & Tax (EBIT) of Rs. 24,836.212 million, which after including depreciation of Rs.2,707.338 million on revalued assets, works out as Rs. 27,543.550 million. Though, as per the mechanism, it was obligation of K-Electric to submit the proposed adjustment of tariff to transfer a portion of profits of the preceding financial year to consumers, however, it did not submit the adjustment request, therefore, the Authority directed K-Electric vide letter dated December 29, 2015 to inform the Authority, supported with detailed workings, as to whether the reported profit for the FY 2014-15, qualifies the criteria for application of the claw back mechanism or otherwise.
33. K-Electric vide letter dated January 08, 2016, received on January 15, 2016, submitted its working of clawback amount for the FY 2014-15, whereby, as per K-Electric its annual return on regulatory asset base was 6.62%. Thus, as per K-Electric, the clawback mechanism was not applicable for the financial year 2014-15, being less than the allowed threshold of 12%.
34. K-Electric in this regard also reiterated that contents of its earlier letters dated October 15, 2012 and October 7, 2013 (related with clawback calculations for FY 2011-12), form an integral part of this letter, as if they were duly repeated herein, with regard to the said mechanism. K-Electric also submitted that as per the interim order of the Honorable Divisional Bench of the High Court of Sindh in the suit HCA 208/2015, wherein, NEPRA is respondent, the application of clawback mechanism has been suspended.
35. The Authority observed that calculations of annual return on regulatory assets submitted by K-Electric for FY 2014-15 were not correct. The Authority noted that calculations were carried out by K-Electric on the very same basis as were done by K-Electric for the Financial Year 2011-12, FY 2012-13 and FY 2013-14. The Authority also noted that all the issues raised by K-Electric vide its letters dated October 15, 2012 and October 7, 2013 had already been addressed by the Authority in its decision in the matter of transfer of a portion of profit of K-Electric for the financial year 2011-12 and the decisions were issued after following due process of law i.e. by giving K-Electric an opportunity to explain its point of view in writing and through hearing as well.





36. Following the same principles, as done for the Financial Year 2011-12, FY 2012-13 and FY 2013-14, and strictly in accordance with the determined and the notified clawback of profits mechanism, the Authority noted that financial results of K-Electric for the financial year 2014-15 activated the applicability of clawback mechanism. Accordingly, the Authority initially assessed that an amount of Rs. 6,625.81 million is due for clawback for financial year 2014-15.
37. The said working was shared with K-Electric, however, K-Electric again reiterated that the clawback mechanism does not activate, as the reported profits, as per K-Electric's working, are less than 12% of the RAB. K-Electric also reiterated contents of its previous correspondence in particular letters dated October 15, 2012, October 7, 2013 and January 08, 2016.
38. Subsequently, during proceedings of K-Electric's Integrated Multi Year Tariff (I-MYT) petition, for the period from FY 2016-17 to FY 2025-26, certain facts, as narrated in the ensuing paras, surfaced which necessitated revision of the previously worked out amount of the clawback for the FY 2014-15.
39. During proceedings of K-Electric's latest MYT Petition, K-Electric was asked to submit its revenue reconciliation statement for the FY 2014-15. An analysis of the reconciliation statement provided by K-Electric, revealed that K-Electric had adjusted its Revenue for the FY 2014-15, by an amount of Rs.13,997.868 million on account of profits clawback amounts pertaining to the FY 2014-15 and also for the previous years. This effectively resulted in lower EBIT for the FY 2014-15 and subsequently lower profit clawback amount, if worked out on the basis of reported EBIT of FY 2014-15. K-Electric also submitted that similar adjustments were also made by K-Electric in its Revenue during previous years.
40. In view of the above, the Authority directed K-Electric, vide letter dated July 07, 2017, to provide reasons for making such adjustments in its revenue, resulting in understatement of EBIT and consequently lower assessment of claw back amount. K-Electric submitted its response vide letter dated July 31, 2017.
41. The Authority, keeping in view the submissions of K-Electric and the notified clawback mechanism, observed that clawback is applicable on the EBIT for the year and therefore calculating profit to be clawed back by reducing EBIT on account of profit claw back pertaining to previous and current year is not correct and against the spirit of approved profit claw back mechanism. Thus working out profit to be clawed back by K-Electric by reducing its revenue for reported year, with the amount of profit to be shared with the consumers for the current as well as the previous years, results in lower assessment of profit claw back amount.
42. Accordingly, for the FY 2014-15, the Authority has recalculated the EBIT, by adding back amount of Rs.13,997.868 million (*deducted by K-Electric from its Revenue on account of profit claw-back*) and incremental depreciation due to revaluation of assets of Rs. 2,707 million, in the reported EBIT for the FY 2014-15, thus, resulting in revised EBIT of Rs. 41,541.418 million. Consequently, the amount of profit claw-

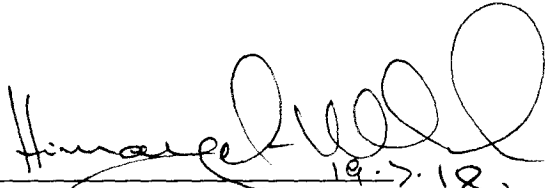




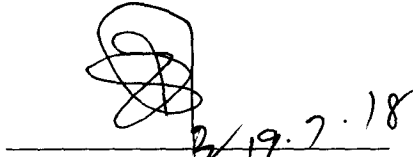
back for the FY 2014-15 has been reworked as Rs.16,036.835 million based on average RAB of Rs.134,393.144 million.

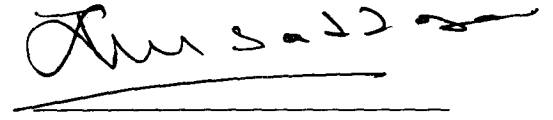
43. As per the mechanism provided in the MYT determination dated December 23, 2009, the decrease in average sale rate due to profits claw back is to be calculated on the basis of estimated units expected to be sold during the twelve months period commencing from January 1<sup>st</sup> of the Financial Year following the year for which profits are calculated, which in the instant case is from January 01, 2016 to December 31, 2016.
44. Accordingly, the decrease in consumer class wise tariff, on account of claw-back of profits for Financial Year 2014-15, except for the life line consumers, based on actual units sold from January 01, 2016 to December 31, 2016 i.e. **13,683.77GWh** based on Authority's approved target of T&D losses, works out to **minus Rs.1.1720/ kWh, for each of the four (04) quarters from January 01, 2016 to December 31, 2016**, which is hereby approved. Any over / under recovered amount will be adjusted subsequently.
45. Since as per the notified mechanism, the impact of clawback is to be shared with the consumers and the benefit of the same shall go to all consumers classes through their bills, therefore, SoT for the **current quarter** i.e. January to March 2016 is being issued on gross up basis i.e. without adjusting the impact of clawback amount of **minus Rs. 1.1720/kWh. This is being done in order to pass on the benefit of profit claw back directly to the consumers rather to be adjusted by the GoP in the subsidy.**

AUTHORITY

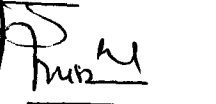
  
19.7.18.  
(Himayat Ullah Khan)  
Member

  
(Saif Ullah Chattha)  
Member

  
19.7.18  
(Rehmatullah)  
Member/ Vice Chairman

  
(Brig. (R) Tariq Sadozai)  
Chairman



  
24 07 18



**SCHEDULE OF ELECTRICITY TARIFF  
FOR K-ELECTRIC LIMITED  
DETERMINED FOR THE QUARTER JANUARY 16-MARCH 16  
APPLICABLE FOR THE QUARTER APRIL 16-JUNE 16**

**A-1 GENERAL SUPPLY TARIFF - RESIDENTIAL**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
a)	For Sanctioned load less than 5 kW	-		
i	Up to 50 Units	-		4.00
	For Consumption exceeding 50 Units	-		
ii	1- 100 Units	-		11.98
iii	101- 200 Units	-		13.38
iv	201- 300 Units	-		13.88
v	301- 700 Units	-		15.99
vi	Above 700 Units	-		18.26
b)	For Sanctioned load 5 kW & above	-		
	Time Of Use	-	19.26	13.26

As per decision of the Authority, residential consumers will be given benefit of only one previous slab.

Consumption exceeding 50 units but not exceeding 100 units will be charged under the 1-100 slab.

Under tariff A-1, there shall be minimum monthly customer charge at the following rates even if no energy is consumed.

- a) Single Phase Connections:  
b) Three Phase Connections:

Rs. 75/- per consumer per month  
Rs. 150/- per consumer per month

**A-2 GENERAL SUPPLY TARIFF - COMMERCIAL**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
a)	For Sanctioned load less than 5 kW	-		18.76
b)	For Sanctioned load 5 kW & above	400.00		15.96
	Time Of Use	400.00	20.26	14.76

Under tariff A-2, there shall be minimum monthly charges at the following rates even if no energy is consumed.

- a) Single Phase Connections:  
b) Three Phase Connections:

Rs. 175/- per consumer per month  
Rs. 350/- per consumer per month

**B INDUSTRIAL SUPPLY TARIFFS**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
B1	Less than 5 kW (at 400/230 Volts)	-		15.26
B2(a)	5-500 kW (at 400 Volts)	400.00		13.86
B3(a)	For all loads upto 5000 KW (at 11,33 kV)	380.00		13.46
B4(a)	For all loads upto 5000 KW (at 66,132 kV)	360.00		13.06
	Time Of Use			
B2(b)	5-500 kW (at 400 Volts)	400.00	19.26	13.01
B3(b)	For All Loads up to 5000 kW (at 11,33 kV)	380.00	18.76	12.51
B4(b)	For All Loads (at 66,132 kV & above)	360.00	18.26	12.26
B5	For All Loads (at 220 kV & above)	340.00	17.76	12.01

For B1 consumers there shall be a fixed minimum charge of Rs. 350 per month.

For B2 consumers there shall be a fixed minimum charge of Rs. 2,000 per month.

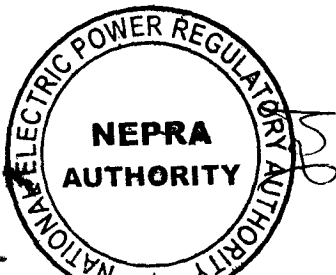
For B3 consumers there shall be a fixed minimum charge of Rs. 50,000 per month.

For B4 consumers there shall be a fixed minimum charge of Rs. 500,000 per month.

For B5 consumers there shall be a fixed minimum charge of Rs. 1000,000 per month.

**C - SINGLE POINT SUPPLY FOR PURCHASE IN BULK BY A DISTRIBUTION LICENSEE AND MIXED LOAD CONSUMERS NOT FALLING IN ANY OTHER CONSUMER CLASS**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
C-1	For supply at 400/230 Volts			
a)	Sanctioned load less than 5 kW	-		15.26
b)	Sanctioned load 5 kW & up to 500 kW	400.00		14.41
C-2(a)	For supply at 11,33 kV up to and including 5000 kW	380.00		14.41
C-3(a)	For supply at 132 and above, up to and including 5000 kW	360.00		14.26
	Time Of Use			
C-1(c)	For supply at 400/230 Volts 5 kW & up to 500 kW	400.00	19.26	13.26
C-2(b)	For supply at 11,33 kV up to and including 5000 kW	380.00	18.76	12.46
C-3(b)	For supply at 132 kV up to and including 5000 kW	360.00	18.26	12.26



**D - AGRICULTURE TARIFF**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
D-1	For all Loads Time of Use	200.00		14.86
D-2	For all Loads	200.00	20.86	12.86

Note: The consumers having sanctioned load less than 5 kW can opt for TOU metering.

**E - TEMPORARY SUPPLY TARIFFS**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
E-1(i)	Residential Supply	-		18.66
E-1(ii)	Commercial Supply	-		21.56
E-2 (i)	Industrial Supply	-		18.26
E-2 (ii)	Bulk Supply			
	(a) at 400 Volts	-		18.66
	(b) at 11 kV	-		18.26

For the categories of E-1 (i & ii) and E-2 (i & ii) above, the minimum bill of the consumers shall be Rs. 50/- per day subject to a minimum of Rs. 500/- for the entire period of supply, even if no energy is consumed.

**F - SEASONAL INDUSTRIAL SUPPLY TARIFF**

125% of relevant industrial tariff

Note:

*Tariff-P consumers will have the option to convert to Regular Tariff and vice versa. This option can be exercised at the time of a new connection or at the beginning of the season. Once exercised, the option remains in force for at least one year.*

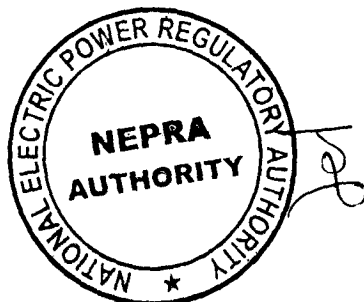
**G- PUBLIC LIGHTING**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
	Street Lighting	-		18.26

Under Tariff G, there shall be a minimum monthly charge of Rs.500/- per month per kW of lamp capacity installed.

**H - RESIDENTIAL COLONIES ATTACHED TO INDUSTRIAL PREMISES**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
	Residential Colonies attached to industrial premises	-		16.26



b