

National Electric Power Regulatory Authority Registrar Office

No. NEPRA/TRF-35/IESCO-2005/7552

May 22, 2008

Subject: **Decision of the Authority regarding Federal Government's Request for the Reconsideration of Islamabad Electric Supply Company Ltd. (IESCO) Decision Dated 10th January, 2008 (Case No. NEPRA/TRF-35/IESCO-2005)**

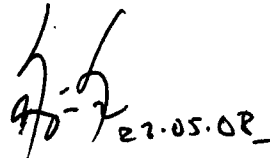
Please find enclosed a copy of subject Decision sent to Cabinet Division along with copies to Secretary Ministry of Water & Power and Secretary Ministry of Finance vide letter No. 7547-49 dated 22.05.2008.

2. The above mentioned Decision has also been sent to petitioner & intervenor as listed below vide letters No. 7550-51 dated 22.05.2008. Copies of the same are also enclosed for information, please.

- i) Chief Executive Officer, IESCO,
- ii) Chairman, All Pakistan Textile Mills Association

Petitioner
Intervenor.

Enclosure: As above


(Mahjoob Ahmad Mirza)
Registrar

Director (Tariff) - I

For information:

1. Chairman
2. Vice Chairman / Member (T)
3. Member (S)
4. Member (L)
5. Member (P)

Distribution:

6. Director General (Standards)
7. Director (IS & P)
8. Director (CAD & Coord)
9. Deputy Director (L) - I
10. Deputy Director (I.T.) [Please place it on the NEPRA Website for the
11. Assistant Director (I.T.) information of general public. Scanned copy has been sent through e-mail.]
12. Assistant Director (Library)
13. Assistant Director (Tariff-Record)



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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Registrar

No.NEPRA/TRF-35/IESCO-2005/7547-49
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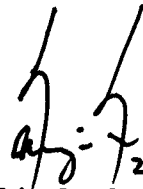
Subject: Decision of the Authority on Federal Government's Request for the Reconsideration of Islamabad Electric Supply Company Ltd. (IESCO) Decision Dated 10th January, 2008 (Case No. NEPRA/TRF-35/IESCO-2005)

Reference: Ministry of Water & Power letter No. PI-4(14)/07 dated 24.01.2008.

Dear Sir,

In continuation of this office letter No. NEPRA/TRF-35/IESCO-2005/5540-42 dated 10.01.2008 whereby decision of the Authority was sent. Please find enclosed herewith decision of the Authority (04 pages) in the matter of request for reconsideration made by Ministry of Water & Power regarding decision of the Authority dated 10.01.2008 in the case of Islamabad Electric Supply Co. Ltd. (Case No. NEPRA/TRF-35/IESCO-2005) for information and further necessary action.

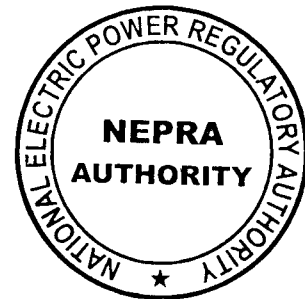
Enclosure: As above


22-05-08
(Mahjoob Ahmad Mirza)

The Secretary
Cabinet Division
Government of Pakistan
Cabinet Secretariat
Islamabad

CC:

1. Secretary, Ministry of Water & Power, Islamabad.
2. Secretary, Ministry of Finance, Islamabad.

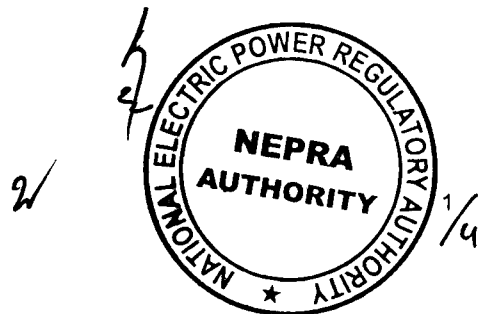




**DECISION OF THE AUTHORITY ON FEDERAL GOVERNMENT'S REQUEST FOR THE
RECONSIDERATION OF ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)
DETERMINATION DATED 10TH JANUARY 2008**

Ministry of Water & Power vide letter No. PI-4(14)/07 dated January 24, 2008 required NEPRA to reconsider its determinations dated January 10, 2008 regarding Eight Distribution Companies including IESCO's comments/observations vide No. FDI/IESCO/09 dated January 22, 2008, addressed to PEPCO, against the decision of the Authority under the NEPRA Act XL-1997 Clause 31-Tariff (4) as per the. Reconsideration request also included a proposal of PEPCO for rationalization/simplification of residential tariff structure and the application of single tariff to the end-consumers applicable in the slab of consumption w.e.f. January 2008.

2. The Authority required certain clarifications from the Ministry of Water & Power vide this office letter No. NEPRA/TRF-35-42/6096 dated February 6, 2008 involving legal implications in the matter of combined reconsideration request before initiating the process under Rule 16(12). The Ministry of Water & Power vide U.O. No.PI-4(14)/07 dated February 11, 2008 clarified that separate reconsideration requests (comments by Discos addressed to PEPCO as referred in para 1) of each distribution company were annexed/forwarded through Ministry's letters of even number dated 24th, 25th and 26th January 2008. The Authority decided to process the case under Rule 16(12) of NEPRA Tariff Rules.
3. The Authority decided not to consider the proposal prepared by PEPCO for rationalization/simplification of residential tariff structure and the application of single tariff to the end-consumers on the ground that PEPCO was not NEPRA's licensee and any reconsideration can be with respect to Authority's specific decisions pertaining to its licensees. PEPCO's proposal in its present form cannot be processed further even if the Authority, ~~taking a lenient view~~ and considering PEPCO's proposal as Government's request for reconsideration decides to proceed further. The tariff for each consumer category is assessed in a manner to ensure the overall revenue requirement, which means that any additional revenue resulting from rationalization/simplification of residential tariff would have to be adjusted through corresponding reduction in tariff of other consumer categories; therefore the proposal cannot be considered in isolation. In order to evaluate PEPCO's proposal a detailed and comprehensive study is required for which monthly slab-wise consumer data and information regarding the impact on other consumer classes will be required.
4. A hearing in the matter was held on February 21, 2008. The hearing was attended by the Ministry of Water and Power, CPPA, Distribution Companies and other stakeholders.
5. IESCO sought reconsideration in the following:
 - i) T&D Losses Allowance
 - ii) Revenue Loss





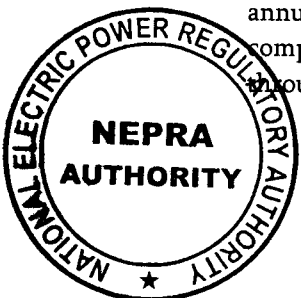
- iii) Power Purchase Price
- iv) Decrease in O&M Component of Distribution Margin (DM)
- v) Investment Program
- vi) Others

T&D Losses Allowance

6. IESCO submitted that its target of 12% T&D losses set by the Authority for the year 2007-08 would not be achievable because it had already reached a saturation point. IESCO requested to revise its target T&D losses to 13.41% as per original determination of February 2007.
7. The Authority was cognizant of this fact while deciding the original petition. According to Authority's observation in this regard "much improvement could not be expected from this loss level but in view of the Energy Loss Reduction Programme (ELR) IESCO would be able to reduce its loss level." In view thereof the Authority adopted the actual distribution losses of 9.9% losses recorded during FY 04 for the FY 2006-07 as benchmark. IESCO did not provided the losses of 132 kV system without which an accurate assessment of losses in the split up 132 kV system was not possible. The Authority based on the comparative configuration of 132 kV system, estimated 3.51% losses for IESCO 132 kV system. The Authority accordingly set overall losses target of 13.41% for FY 2006-07.
8. In order make more accurate and realistic assessment DISCOs were directed to provide updated information at the time of review motion. According to the information provided by IESCO, its actual losses for FY 2006-07 were 12.17% comprising of 8.59% losses up to 11 kV and 3.58% losses in the 132 kV system as against the estimated overall losses of 13.41%. Based upon the information provided and the past trend, the Authority while maintaining 3.58% 132 kV losses decided to set target of 8.42% for distribution losses for FY 2007-08, overall losses target for FY 2007-08 was set as 12%.
9. The Authority considers that in view of past trend the expected improvement in the losses target of 0.17% as against actual of 12.17% is achievable and IESCO's request to revise this target to 13.41% is not justified.

Revenue Loss

10. IESCO submitted that reduction in the losses has directly hit the tariff rate, which seems to be very unjustified. The total revenue will be reduced by Rs. 135 million approximately.
11. The issue has already been addressed in the preceding paragraph. The exact impact on this account can only be determined once the annual accounts are finalized. At the time of annual review on the basis of Annual Audited Accounts, the Authority can consider compensation for legitimate revenue loss if any sustained by IESCO on this account, through tariff adjustment in the next year.



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Power Purchase Price

12. According to IESCO the power purchase price was kept at 3.5018 per unit, while the 6 months actual PPP was recorded at Rs.3.63 per unit, the adjustment of which would be claimed in the 6 months automatic adjustment.
13. In the tariff determination dated 9th March 2007, the Authority decided to allow biannual adjustment on account of variation in actual PPP. After the adjustment allowed by the Authority in February 2008 the issue of PPP stands resolved.

Decrease in O&M Component of Distribution Margin (DM)

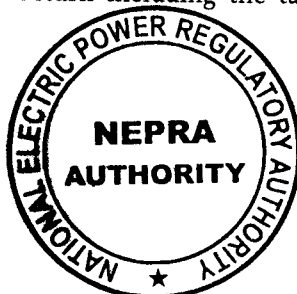
14. IESCO submitted that the Authority allowed O&M component of Rs. 3,353 million as compared to the demanded O&M of Rs. 3,680 million. The demanded figure was inclusive of retired employees benefit as IESCO has to carry out actuarial valuation of its employees.
15. The Authority while determining O&M expenses made reasonable provision for employees retirement benefits therefore IESCO contention in this regard is not valid. IESCO's actual O&M expenses for FY 2006-07 were Rs. 2,968 million. Having considered the increase in salaries & wages (15%) and increase in other operational costs (inflation rate 10%), the Authority considers that the assessment of Rs. 3,353 million for FY 2007-08 on account of O&M expenses is reasonable and require no reconsideration.

Investment Program

16. IESCO submitted that the Authority while calculating the rate base kept the investment at 9,234 million as against the actual of 9,704 million as on 30.6.2007 which affect the DM.
17. IESCO's contention in this regard is valid because Authority's assessment was based on its original determination wherein an adjustment mechanism for adjusting return as per actual was prescribed. In the review decision the Authority decided to exclude the mechanism because DISCO's tariff was determined for one year only. The Authority considers that only two months are left before completion of the current financial year; therefore it would not be appropriate to reassess IESCO's return at this point of time. The Authority would however consider tariff adjustment on the basis of Annual Audited Accounts if justified.

Others

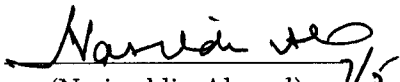
18. IESCO submitted that working capital shortfall was not accounted for in the tariff determination and financial charges impact in this regard was ignored. According to IESCO the rate of return including the taxation impact was kept at lower level than required.




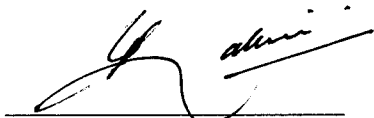


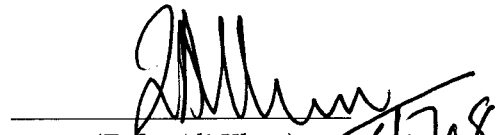
19. The Authority in its decision with respect to review motion has already allowed IESCO financing cost of working capital on actual basis therefore IESCO's request is not valid in this context.

AUTHORITY


(Nasiruddin Ahmed) 7/5
Member


(Maqbool Ahmed Khawaja)
Member


(Abdul Rahim Khan)
Member


(Zafar Ali Khan) 6/5/08
Vice Chairman



