



National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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Registrar

No. NEPRA/TRF-133/KESC-2009/2881-2884
April 19, 2011

Subject:- **Decision of the Authority in the matter of Monthly Fuel Cost Adjustment of Karachi Electric Supply Co. Ltd. due to changes in Fuel Prices for the Month of January 2011 [Case No. NEPRA/TRF-133/KESCL-2009(6)] - Intimation of Decision 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 Decision of the Authority (04 pages) regarding monthly fuel cost adjustment of Karachi Electric Supply Company Ltd. due to changes in fuel price for the month of January 2011 in Case No. NEPRA/TRF-133/KESC-2009(6).


2. The Decision is being intimated to the Federal Government for the purpose of notification of the approved tariff 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. Pursuant to the orders of Honorable High Court of Sindh, Karachi, passed in Writ Petition No. 1380 of 2009 titled the Law Foundation and 16 others Vs NEPRA and 9 others on 25.06.2010, the Fuel Adjustment Charges (FAC) of KESC shall not be passed on to the consumers till final orders are passed in the Petition. Copy of orders of Sindh High Court is enclosed for reference.
4. Please note that paras 12 - 13 of the Authority's Decision are required to be notified in the official Gazette. However, prior to the notification of the subject decision, Ministry of Water & Power may like to consult Law, Justice and Parliamentary Affairs Division for legal opinion in the light of order of the Sindh High Court as referred in para 3 above.

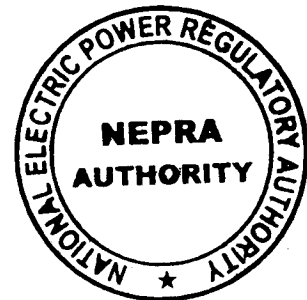
Enclosure: As above

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.


(Syed Safer Hussain)



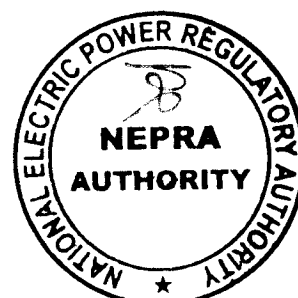
**DECISION OF THE AUTHORITY IN THE MATTER OF
MONTHLY FUEL COST ADJUSTMENT OF KARACHI ELECTRIC SUPPLY COMPANY
LIMITED DUE TO CHANGES IN FUEL PRICES FOR THE MONTH OF JANUARY, 2011**

- Pursuant to the amendment made in section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 (hereinafter referred to as the "NEPRA Act") through the Finance Act, 2008, National Electric Power Regulatory Authority (herein after referred to as "the Authority") is required to review the fuel charges on monthly basis in the approved tariff on account of any variation in the fuel prices. Further, the monthly adjustments on account of fuel cost variations is to be done in accordance with the monthly adjustment mechanism for Karachi Electric Supply Company Limited (herein after referred to as "KESCL") determined by the Authority in case No. NEPRA/TRF-133/KESCL-2009(6) dated December 23, 2009, duly notified by the Government of Pakistan vide S.R.O No. 11(I)/2010 dated January 01, 2010. As per the said mechanism, KESCL is allowed monthly adjustment in fuel cost component for its own generation as well as power purchase cost from external sources on account of fuel price variation without taking in to account the effect of transmission and distribution losses. The aforesaid variation in cost is to be passed on to the consumers in their monthly bills as fuel surcharge adjustment (FSA).
- KESCL submitted its request with regards to adjustment in its fuel cost and power purchase cost variation due to changes in fuel prices for the month of January 2011 vide letter No. CMF/NEPRA/071/573 dated February 10, 2011. In this request overall decrease of Ps. 5.724 /kWh on account of fuel price variation for the month of January 2011 was claimed. KESCL had submitted in its request that the cost of power purchase from NTDC/CPA has been accounted for on provisional basis while taking into account the rates of December 2010, as the invoice of NTDC/CPA for the month of January 2011 was not received by KESCL till then. In accordance with the directions of the Authority, KESCL had also certified through its request that the cost of fuel and power purchase claimed by it did not include any amount of late payment surcharge/mark-up/interest. The summary of the requested adjustments is tabulated below:

Tariff Adjustments Summary	January -11 Requested
Variation in Fuel Price	
Own Generation (Million Rs)	(176.479)
External/PPP (Million Rs)	122.675
Total (Rs. in Million)	(53.804)
Total Units Sent Out (GWh)	939.935
Total Variation Ps/kWh	(5.724)

- Notice of hearing of the above mentioned KESCL request was advertised by the Authority in the leading daily newspapers on February 15, 2011. The Authority also sent notices to the main stakeholders on the same date inviting thereby their comments/objections in order to reach an informed and just decision. Hearing in this matter was held at National Institute of Management, Karachi on February 22, 2011.

Handwritten signatures and initials.



4. During the hearing, KESCL submitted that subsequent to its afore-referred request, it has received the invoice of NTDC for the month of January 2011. On the basis of this invoice the energy transfer price of power purchased from NTDC previously taken at Rs. 2.724 billion (based on December 2010 price) has now increased to Rs. 3.613 billion. KESCL accordingly requested an increase of Ps. 88.822/kWh for the month of January 2011 as against the earlier proposed adjustment i.e. decrease of Ps 5.724/kWh.
5. The commentators present in the hearing objected to this major revision in KESCL request at this belated stage. The Authority allowed the hearing to continue to consider the revised request of KESCL. However, keeping in view the significant revision in request made by KESCL during the hearing for which no prior notice was given to any of the stakeholders, the Authority allowed the participants of the hearing to provide their written comments, if any, based on the revised request within 10 days of the hearing. KESCL was directed to provide copies of relevant documents to the stakeholders for consideration and submission of comments.
6. KESCL submitted its revised request in writing which was earlier presented in the hearing, vide letter No. CMF/NEPRA/071/581 dated February 25, 2011. Summary of the revised proposed adjustments based on invoiced energy transfer rate of NTDC requested by KESCL is tabulated below:

Tariff Adjustments Summary	January -11 Requested
Variation in Fuel Price	
Own Generation (Million Rs)	(176.479)
External/PPP (Million Rs)	1,011.347
Total (Rs. in Million)	834.868
Total Units Sent Out (GWh)	939.935
Total Variation Ps/kWh	88.822

7. In order to allow the general public to give their comments on the revised request of KESCL, a notice based on the revised request of KESCL, was also published by the Authority in the leading daily newspapers on March 25, 2011 inviting thereby comments/objections from interested/affected parties within 7 days of publication of the notice.
8. During the hearing held on February 22, 2011 Dr. Qazi Ahmed Kamal, representing Karachi Chamber of Commerce & Industry, gave his views/comments. Subsequently, he also submitted his comments in writing. Following are the main comments submitted by Dr. Qazi Ahmed Kamal:
 - The basis of monthly fuel adjustment is no more legally valid, as the presidential order on the basis of which monthly fuel adjustment was carried out has lapsed after the passage of 120 days. He added that this ordinance has not been ratified by the Assembly therefore it does not stand as an applicable law any more. NEPRA representatives in response to this comment clarified during the hearing that monthly fuel adjustment has been made mandatory by the Finance Act, 2008 whereby an amendment was made in

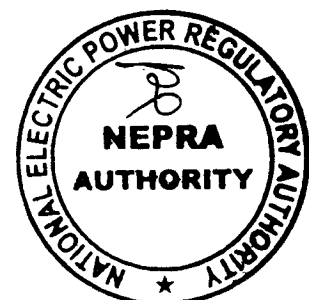
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the NEPRA Act. Since this was an 'Act' of Parliament therefore it did not lapse after 120 days. Probably, the issue is mixed up with the amendment made through an ordinance No. XVIII of 2009 whereby NEPRA was required to determine the overall electricity tariff on quarterly basis. The monthly fuel price adjustment was also made part of this Ordinance. Since the Ordinance lapsed after 120 days, the earlier amendment affected through the Finance Act, 2008 revived and now holds the field. Hence the monthly fuel price adjustment is very much legal and valid.

- He further submitted that there should be a mandatory level of line losses that must form a basis for all fuel related adjustments and if KESCL violates that standard then it should not be given any benefit. The Authority observed that in its determination dated December 23, 2009 KESCL has been allowed predetermined line losses. Currently the fuel and power purchase cost adjustments are allowed to KESCL on the basis of approved T&D losses at 23% which will decrease by 2% every year up to financial year ending on June 30, 2015 irrespective of actual line losses of KESCL.
 - He further submitted that for the month of January 2011, KESCL is buying more units from external sources than it is generating from its own power plants. He added that KESCL bought around 63% of its total units sent out for the month of January 2011 from external sources and 80% of the total external purchases are made from NTDC. He submitted that KESCL's current self generation is even lower than what KESCL used to generate when it was privatized and this is the major reason for such a high fuel surcharge figure. In response to this query, KESCL representatives submitted that KESCL dispatches its power plants on the basis of economic merit order. They submitted that energy generated at KESCL's Bin Qasim Power Plant costs about Rs. 14/kWh while purchases from Tapal and Gul Ahmed cost about Rs. 11/kWh, as power plants of these independent power producers are comparatively new therefore KESCL is relying on buying power from these cheaper external sources.
9. The generation data, rates etc. of KESCL (both from self generation and power purchased from external sources) for the month of January 2011 were scrutinized with respective invoices and other underlying documents. The Authority observed that NTDC/CPPA for the month of January, 2011 charged Rs. 7.72/kWh to KESCL as energy transfer rate as against the energy transfer rate of Rs. 7.65/kWh approved by the Authority for monthly fuel cost adjustments of XWDISCOs. The Authority in its decision dated September 29, 2008 had directed that NTDC/CPPA shall treat KESCL at par with XWDISCOs for the purpose of sale of power and shall charge KESCL on the basis of similar mechanism as approved for XWDISCOs. Accordingly the Authority has allowed Rs. 7.65/kWh for the power purchased from NTDC for the month of January, 2011.
10. It was also observed by the Authority that KESCL in its request had taken the fuel cost per unit of Pakistan Steel Mills Limited, an Independent Power Producer, as Rs. 7.415/kWh. On verification of the gas bills provided by KESCL, it is found that actual fuel cost per unit works out to be Rs. 6.618/kWh instead of Rs. 7.415/ kWh as claimed by KESCL. Figure of Rs. 6.618/kWh has therefore been allowed in this case for calculation of fuel cost variation by the Authority.
11. In view of the above, the fuel cost variation of KESCL's own power generation and power purchases from external sources for the month of January, 2011 works out to be Rs. 797.874 million (Ps. 84.891/kWh), as per the details tabulated hereunder:

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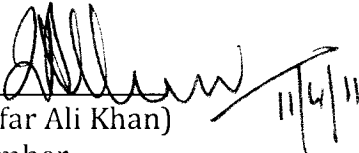
Tariff Adjustments Summary	January -11 Requested	January -11 Allowed
Variation in Fuel Price		
Own Generation (Million Rs)	(176.479)	(176.479)
External/PPP (Million Rs)	1,011.347	974.353
Total (Rs In Million)	834.868	797.874
Total Units Sent Out (GWh)	939.935	939.878
Total Variation Ps/kWh	88.822	84.891

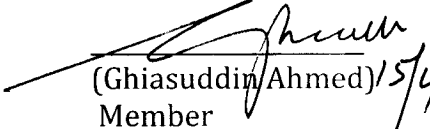
12. In order to allow KESCL for variation in fuel cost of its own generation as well as power purchased from external sources for the month of January 2011, the Authority has therefore decided to pass on Ps.84.891/kWh to consumers of KESCL as fuel surcharge adjustment. The paise per kWh, rounded off after taking into account its effect on the consumption of life line consumers, to be charged by KESCL in the prospective billing month of April 2011 from each consumer works out to be Ps. 85/kWh and shall be charged by KESCL according to the following schedule:


FSA to be calculated on the basis of the billing for the month of	Ps/kWh	To be charged in Monthly Consumer bill of
January 2011	85.00	April 2011

13. The adjustment as referred to in para 12 above;
- shall be applicable to all the consumer categories except lifeline consumers of KESCL; and
 - shall be shown separately in the consumer bills of April, 2011 on the basis of units billed for the month of January, 2011.

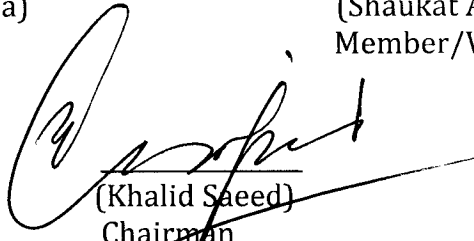
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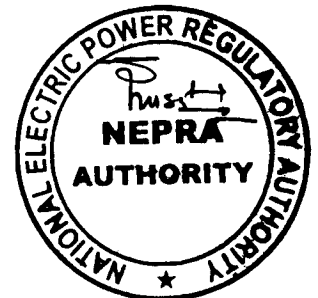

(Zafar Ali Khan)
Member



(Ghiasuddin Ahmed) 15/4
Member


(Maqbool Ahmad Khawaja)
Member

on leave
(Shaukat Ali Kundi)
Member/Vice Chairman


(Khalid Saeed)
Chairman



 In my opinion till KESC completes dividend of Authority issued as per determination Dec 2009 regarding utilization of full capacity of Generation from available plants. Heat rate & separate cost centre of Gen/Tech/Distribution, no adjustment should be allowed as KESC is violating directives of authority. I therefore dissent from this decision.
17/4/11
MAQBUL AHMAD KHAWAJA (MEMBER)