



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Tariff)/TRF-100/40478-40480  
November 3, 2021

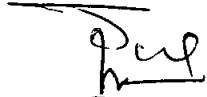
**Subject: Decision of the Authority in the matter of Motion filed by the Federal Government with respect to Winter Incentive Package for Electricity Consumers on Incremental Consumption of XWDISCOs & K-Electric**

Dear Sir,

Please find enclosed herewith subject Decision of the Authority (08 Pages) in the matter of Motion filed by the Federal Government with respect to Winter Incentive Package for Electricity Consumers on Incremental Consumption of XWDISCOs & K-Electric.

2. The Authority's Decision along-with Order Part 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

  
03 11 21  
( 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.

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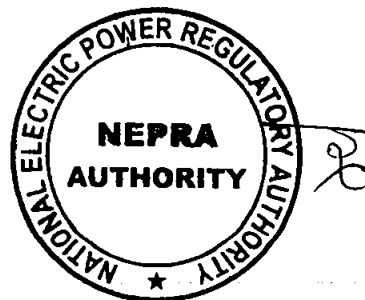
**National Electric Power Regulatory Authority  
(NEPRA)**

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

**Islamabad**

**November 3, 2021**

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1. **Background**

- 1.1. The Ministry of Energy (MoE) Power Division (PD) vide letter dated October 06, 2021 has submitted a Motion with respect to Winter Incentive Package for all domestic, commercial and general services consumers of XW-DISCOs and K-Electric.
- 1.2. The Ministry in the Motion submitted that Cabinet Committee on Energy (CCoE) has approved the winter incentive package for all domestic, commercial and general services consumers of XW-DISCOs and K-Electric, with the direction that the actual marginal cost to be utilized for subsidy calculation of K-Electric, shall be provided by NEPRA and shall also provide appropriate mechanism for adjustment of the same, keeping in view existing tariff determinations of K-Electric.
- 1.3. In view thereof and pursuant to, inter alia, Section 7 & 31 of NEPRA Act, the Ministry has requested NEPRA to incorporate the cabinet approved winter incentive package in the tariff adjustment's methodology/ tariff structure, including the verification / determination of marginal cost for K-Electric to be utilized for calculation of subsidy, so that winter incentive package can be implemented accordingly.
- 1.4. The Ministry of Energy, also provided copy of the "Summary for the CCoE", through which winter incentive package was proposed. The Summary was approved by the CCoE, vide minutes dated 17.09.2021. The winter incentive package as approved by the CCoE for winter months is given as under;
- i. The Package shall be applicable for winter months i.e. from 1<sup>st</sup> Nov. 2021 till 28<sup>th</sup> Feb. 2022.
  - ii. The reference period for incremental consumption will be Nov. 2020 to Feb. 2021.
  - iii. Rate of Rs.12.96/kWh shall be charged to Domestic consumers (Non-ToU) on the incremental consumption, above monthly 300 units or above the reference consumption in the corresponding months of reference period, whichever is greater.
  - iv. Rate of Rs.12.96 /kWh shall be charged to Commercial consumers (Non-ToU) and General Services consumers on the incremental consumption above the reference consumption in the corresponding months of reference period.
  - v. Rate of Rs.12.96/kWh shall be charged to Domestic consumers (ToU) and Commercial consumers (ToU) on the respective peak/off-peak incremental consumption, above the reference peak/off-peak consumption in the corresponding months of reference period.
  - vi. New and existing consumers having no reference consumption available in period of November 2020 to February 2021 shall be offered same package at the concessionary rate of Rs.12.96/kWh through benchmark consumption methodology.
  - vii. Additional supplementary grant for the additional cumulative subsidy of approx. Rs.1.3 billion for K-Electric consumers. The actual marginal cost to be utilized for subsidy shall be provided by NEPRA. Further, NEPRA shall provide appropriate mechanism for adjustment, keeping in view existing tariff determinations of K-Electric.
  - viii. No quarterly adjustments would be applicable on incremental consumption.
  - ix. On incremental consumption, only positive fuel price adjustments shall be passed on to the consumers availing incremental consumption package.



x. Actual subsidy realized for given proposals shall be independent of all the other budgeted subsidies for the power sector.

2. **Proceedings**

2.1. The Authority, considering the fact that impact of any adjustments has to be made part of the consumer end tariff, decided to conduct a hearing in the matter in order to provide an opportunity of hearing to all the concerned and meet the ends of natural justice.

2.2. Hearing in the matter was accordingly scheduled on October 21, 2021 through Zoom; Notice of admission / hearing along-with brief description of Motion filed by the MoE were published in newspapers and also uploaded on NEPRA website; Individual notices were also issued to stakeholders & interested parties.

2.3. During hearing, the MoE was represented by its Additional Secretary, Joint Secretary and its financial and technical team. Hearing was also attended by K-Electric, XWDISCOs, General Public and representatives of Media.

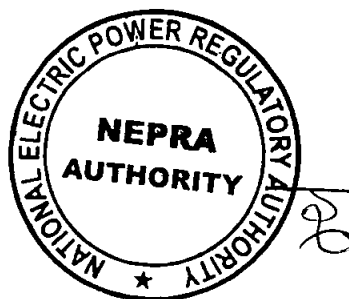
3. **Issues of Hearing**

3.1. For the purpose of hearing, and based on the pleadings/ record, following issues were framed to be considered during the hearing and for presenting written as well as oral response;

- i. What shall be the mechanism for adjustment in tariff for incremental sales of K-Electric and XWDISCOs?
- ii. What shall be the mechanism for verification of marginal variable cost for incremental sales of K-Electric?
- iii. What shall be the mechanism for adjustment of marginal cost due to incremental sales in monthly FCAs?
- iv. Any other issue with permission of the Authority.

4. **Filing of Objections & Comments**

4.1. Comments/objection, if any, were desired from the interested person/party through publication of notice for hearing. In response thereof, written comments were received from Pakistan Association of Large Steel Producers, wherein it has been submitted that the Government can utilize the surplus generation capacity by facilitating domestic steel industry with subsidized electricity prices like government is already providing to some other sectors. The energy tariffs in Pakistan are highest in Regions and domestic steel industry is jeopardized by the high electricity prices. The ECC of the Cabinet approved the extension of incremental consumption package, however, no notification has been issued so far for continuation of this package. It has also been submitted that with increase of Rs.2.97/kWh in prices of electricity from October 2021, the cost of steel would increase by around Rs.4,000/ton. Accordingly, it has been requested that electricity be provided to industry at lower rates and notification for extension of electricity package be issued at the earliest.



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- 4.2. The Authority observed that incremental consumption package for industrial consumers of XWDISCOs till October 2023, has already been decided by the Authority vide decision dated 01.12.2020. Further, the Motion filed by the MoE and request of K-Electric for extension of abolishment of time of use tariff scheme till June 2022, for Industrial consumers of XWDISCOs and K-Electric has already been decided by the Authority vide decision dated 17.06.2021.
5. **Discussion on issues**
- 5.1. On the basis of the pleadings, available record, evidence produced during the course of hearing and afterwards, the issue-wise findings are as under;
- 5.2. **What shall be the mechanism for adjustment in tariff for incremental sales of K-Electric and XWDISCOs?**
- 5.3. **What shall be the mechanism for verification of marginal variable cost for incremental sales of K-Electric?**
- 5.4. **What shall be the mechanism for adjustment of marginal cost due to incremental sales in monthly FCAs?**
- 5.5. The MoE was represented, during the hearing, by its Additional Secretary, Joint Secretary and other financial and technical team. The representative of the MoE submitted that around 18% growth was witnessed during previously allowed package in 2019, and the same proxy has been used as no other direct measure for the growth elasticity is available. It has also been submitted that as per analysis, if the growth owing to winter package increases over 100% of the projected growth of around 16-18%, than in the month of January 2021, there could be incremental requirement of RLNG, otherwise, local gas and coal would be used for marginal costs.
- 5.6. Upon inquiry from the Authority regarding lifting of AT&C based load shedding to increase sales, it was explained by the MoE that AT&C based load shedding is carried out in those areas where recovery percentage is very poor and if recovery is not improved, supply of additional electricity in these areas would result in additional losses. The Authority, however, observed that despite AT&C based load shedding, there has been no improvement in recoveries, rather feeders with better recoveries and losses have gone worse. The Authority therefore considers that the Ministry may explore the options of reducing the AT&C based load shedding, which may not only result in improved sales growth but may also result in improved recoveries. Hence, the requirement for allowing such incentive packages may not arise, thus reducing the burden of additional subsidies on national exchequer.
- 5.7. Regarding Mechanism for adjustment in tariff and verification of Marginal cost, the MoE submitted that NEPRA shall decide the same.
- 5.8. K-Electric during the hearing submitted that at the time of discussion the instant package, fuel prices were different. However, since the prices have now gone up, therefore, the impact of the same would eventually go into subsidy. Thus, the package should be implemented with full information and facts & figures. K-Electric further submitted that marginal cost is not applicable in case of KE, as sent out growth has already been captured in the MYT of K-Electric, therefore, difference between the discounted price of Rs.12.96/kWh and the determined tariff should be picked up by the GoP as part of TDS.



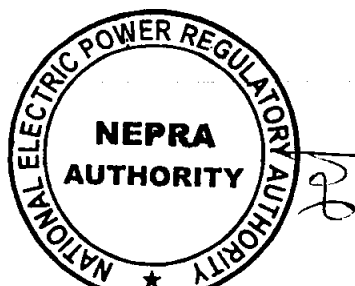
- 5.9. Mr. Khaleeq Kiani, representing media, submitted that whether any analysis has been carried to assess the paying capacity of consumers to make investment in the new equipment instead of existing gas based equipment. The representative of MoE submitted that a joint exercise with NEECA has been carried out in this regard, whereby the payback period for the new equipment is between 3-5 years. The Authority however, observed that the instant package has been proposed only for 4 months, therefore the consumers may not be willing to make investments. The representative of the MoE submitted that by introducing this package, an incentive/ opportunity has been provided to the consumers, however, the decision rests with the consumers.
- 5.10. K-Electric, during the hearing also requested to have further discussions with NEPRA and CPPA-G/ MoE in order to come up with a plausible solution. Subsequently, a meeting was held in NEPRA involving representatives of K-Electric, and CPPA-G/ the MoE. Pursuant thereto, K-Electric vide letter dated 29.10.2021 submitted its written comments; a brief of which is as under;

**Mechanism for adjustment in Tariff**

- 5.10.1. KE submitted that within its MYT, NEPRA has determined a base tariff, wherein NEPRA has considered sales growth and sent out targets for FY 2017 to FY 2023 and accordingly determined a price cap tariff with appropriate adjustment mechanism. Therefore, the benefit of increased sales is already absorbed in KE's determined tariff. In this regard, compound annual growth rate (CAGR) of sent out of 4.50 % (FY 16 to FY 21) has been assumed in tariff, whereas the actual growth has been 3.33 % (FY 16 to FY 21). Important to note that:
- ✓ KE suffered loss of sent out due to COVID-19 in FY 2020 due to unforeseen reason which is beyond KE's control, however, the impact/adjustment has not yet been allowed.
  - ✓ No revision in sent-out targets was made when the earlier ISP Package PKR 3 / kWh, applicable at the time of determination of MYT targets, was removed in 2018/19.
- 5.10.2. Accordingly, there is no mechanism to exclude incremental sales within the MYT. Further, if incremental sales has to be separately treated through a new mechanism, then recovery of following components of tariff already absorbed in MYT based on sent out growth, shall be added back to tariff on quarterly basis as part of un-recovered cost : O&M, RoRB, Depreciation, Base Rate and Bad Debts.

**Bifurcation of growth due to Industrial package**

- 5.10.3. K-Electric also stated that it is a fact that government policies, including Industrial package, have played a key role to accelerate the industrial growth. In this regard, we understand that the factors which contributed to growth in Industrial sector in FY 2021 include organic growth, increase in economic activity after COVID-19, Government policies to support the same including lower KIBOR Rates, industrial packages, shutdown of economy in other parts of the world due to COVID, construction package, currency depreciation making import expensive / export attractive and shift of captive power plants



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to grid, etc. Since all these are complex and interlinked subjective factors hence, it is not practical to segment the growth due to industrial package and growth due to other factors.

- 5.10.4. Growth in FY 2021 increased due to increase in economic activity after COVID-19 to catch up the lost growth. Accordingly, even July to October 2021 witnessed 14% growth before introduction of Industrial package, and the growth is continuing in FY 2022 while incremental discount is not being given to consumers, due to on-going momentum of favorable government policies and macroeconomic environment.

Description	FY 2019	FY 2020	FY 2021 <sup>1</sup>
Growth (year on year) in Industrial consumption	6.7%	Negative 5.7%	16.3%
<b>Break up of growth in FY 2021<sup>1</sup>:</b>			
- July 2020 to October 2020 (Pre-introduction of package)			13.5%
- Nov 2020 to June 2021 (Post introduction of Package)			17.6%
<b>July 2021 to Sep 2021 (Package not implemented yet)</b>			<b>17.7%</b>

- 5.10.5. Further, it is important to note that the above numbers represent average growth of industrial segments. There are some consumers who have shown positive growth and some who have showed negative growth. As the package is only applicable on consumers having incremental growth, assuming all the incremental sales units as package growth would be impractical.

- 5.10.6. Similarly, with respect to winter incentive package, residential consumption is also highly linked with weather conditions and would require a longer tenure of package and consistency of policy to assess long term shift of gas demand to electricity demand, hence it would be impractical to directly ascertain the impact of this package. Moreover, as last year was partially impacted due to COVID-19 affecting commercial activity, comparison of growth with last year may not give an appropriate result.

**Verification of Marginal Variable Cost**

- 5.10.7. K-Electric further submitted that its estimated marginal cost of PKR 14.6 / kWh, worked out based on prevailing prices at that time and forecast used by CPPA-G (FO price for FY 2022 was PKR 56,045 / kWh) for calculation of PKR 12.96 / kWh. However, after increase in prices, marginal cost for July to September 2021 based on hourly generation data is given below:

- ✓ July 2021 – PKR 22.0 / kwh
- ✓ August 2021 – PKR 22.7 / kWh
- ✓ September 2021 – PKR 26.5 / kWh

- 5.10.8. K-Electric mentioned that working of marginal cost based on hourly generation details have been provided to NEPRA, however, it is not practical to break down incremental sales for each consumer into hours, accordingly average marginal cost based on hourly cost data for each month has been used and this is consistent with the methodology used by CPPA-G for their projections.

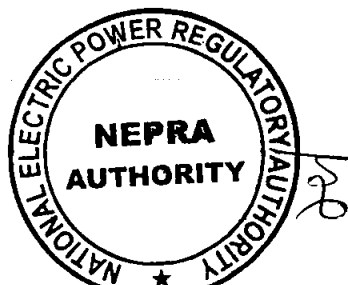


### Adjustment of Marginal Cost

- 5.10.9. K-Electric also submitted that as there is no mechanism in KE's MYT to treat incremental sales at marginal costs and sales growth has already been absorbed in KE's tariff, therefore, the methodology as approved for ISP initially for November 2020 to June 2021 whereby difference in Applicable rates and discounted rate was picked up by GoP as subsidy may be applied. Furthermore, positive FCA was passed on to all units and negative FCA was not passed on to Incremental units and the impact of same was included in quarterly tariff variations. In addition, if incremental sales has to be separately treated through a new mechanism, then recovery of following component of tariffs already absorbed in MYT based on sent out growth, shall be added back to tariff on quarterly basis as part of un-recovered cost: O&M, RoRB, Depreciation, Base Rate and Bad Debts and in monthly Fuel Cost adjustments such marginal cost and incremental sales unit be excluded for monthly fuel cost adjustments and no FCA be applied on such incremental consumption.

### Order

6. In view of the aforementioned discussion, submissions made by the stakeholders during the hearing and afterwards, the Authority has no objection in approving the instant proposal regarding winter incentive package for Residential, Commercial and General Services Consumers of XWDISCOs as proposed by the Ministry of Energy as mentioned below;
- i. The Package shall be applicable for winter months i.e. from 1<sup>st</sup> Nov. 2021 till 28<sup>th</sup> Feb. 2022.
  - ii. The reference period for incremental consumption will be Nov. 2020 to Feb. 2021.
  - iii. Rate of Rs.12.96/kWh shall be charged to Domestic consumers (Non-ToU) on the incremental consumption, above monthly 300 units or above the reference consumption in the corresponding months of reference period, whichever is greater.
  - iv. Rate of Rs.12.96 /kWh shall be charged to Commercial consumers (Non-ToU) and General Services consumers on the incremental consumption above the reference consumption in the corresponding months of reference period.
  - v. Rate of Rs.12.96/kWh shall be charged to Domestic consumers (ToU) and Commercial consumers (ToU) on the respective peak/off-peak incremental consumption, above the reference peak/off-peak consumption in the corresponding months of reference period.
  - vi. New and existing consumers having no reference consumption available in period of November 2020 to February 2021 shall be offered same package at the concessionary rate of Rs.12.96/kWh through benchmark consumption methodology.
  - vii. No quarterly adjustments would be applicable on incremental consumption.
  - viii. On incremental consumption, only positive fuel price adjustments shall be passed on to the consumers availing incremental consumption package.



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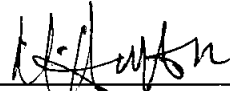


7. For K-Electric, the Authority approves the winter incentive package in principle, however, since the mechanism for verification of Marginal cost and adjustment in tariff of K-Electric for incremental sales requires detailed workings/calculations & discussions with MoE, therefore, a separate decision in this regard will be issued, once the required mechanism is finalized and comments/ input is received from the MoE on the submissions of K-Electric made vide letter dated 29.10.2021.
8. The decision of the Authority along-with order part is intimated to the Federal Government for notification in the official gazette in terms of section 31(7) of NEPRA Act, 1997.

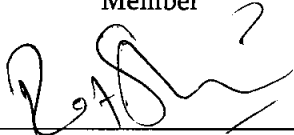
**AUTHORITY**



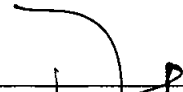
Rehmatullah Baloch  
Member



Engr. Maqsood Anwar Khan  
Member



Rafique Ahmed Shaikh  
Member/Vice Chairman



Tauseef H. Harooqi  
Chairman



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