



Registrar

National Electric Power Regulatory Authority Islamic Republic of Pakistan

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad
Ph: +92-51-9206500, Fax: +92-51-2600023
Web: www.nepa.org.pk, E-mail: registrar@nepa.org.pk

No. NEPRA/TRF-133/KESC-2009/12393-98

September 5, 2016

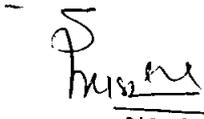
Chief Executive Officer
K-Electric Limited (KEL)
KE House, Punjab Chowrangi,
39 – B, Sunset Boulevard, Phase-II
Defence Housing Authority
Karachi.

Subject: Decision of the Authority in the matter of Fuel Charges Adjustment for the Month of June 2016 for K-Electric Limited and Notification (S.R.O. 829(I)/2016 dated 02.09.2016) Thereof

Enclosed please find herewith a copy of decision of the Authority (07 pages) in the matter of fuel charges adjustment for the month of June 2016 in respect of K-Electric Limited, along with Notification (S.R.O. 829(I)/2016 dated 02.09.2016) thereof. This is for information and further necessary action.

2. While reflecting the Fuel Adjustment Charges, K-Electric Ltd. shall keep in view and strictly comply with the orders of the court(s), if any, notwithstanding this order.

Enclosure: Decision along with Notification is also available on NEPRA's website)


05.09.16
(Syed Safer Hussain)

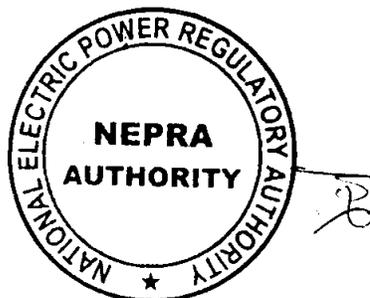
CC:

1. Secretary, Ministry of Water & Power, Islamabad.
2. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
3. Secretary, Ministry of Finance, Islamabad.
4. Secretary, Privatization Commission, Islamabad.
5. The Registrar, Supreme Court of Pakistan, Islamabad.

DECISION OF THE AUTHORITY IN THE MATTER OF FUEL CHARGES ADJUSTMENT FOR THE MONTH OF JUNE, 2016 FOR K-ELECTRIC LIMITED (FORMERLY KARACHI ELECTRIC SUPPLY COMPANY LIMITED)

1. Pursuant to the provisions of Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (hereinafter referred to as the "Act") and as per the mechanism for monthly Fuel Charges Adjustment (hereinafter referred to as "FCA") prescribed by National Electric Power Regulatory Authority (hereinafter referred to as the "Authority") for K-Electric Limited (hereinafter referred to as the "K-Electric"), in case No. NEPRA/TRF-133/KESCL-2009(6) dated December 23, 2009, notified in the Official Gazette vide S.R.O No. 11(I)/2010 dated January 01, 2010, the Authority reviews and adjusts the approved tariff of K-Electric on account of variation in the fuel charges on monthly basis. These adjustments are allowed in the fuel cost component of K-Electric's own generation as well as its power purchases from external sources without taking into account the effect of allowed Transmission and Distribution losses (hereinafter referred to as "T&D losses").
2. K Electric submitted its FCA request for the month of June, 2016 (hereinafter referred to as the "current month") vide letter dated July 19, 2016 based on the provisional power purchase rate of Central Power Purchasing Agency Guarantee Limited (hereinafter referred to as "CPPA-G"). Subsequently, K-Electric submitted its revised FCA request based on the invoice rate of CPPA-G. The summary of the adjustment request submitted by K-Electric is tabulated as hereunder:

Tariff Adjustments – Summary	June-16
Variation in Fuel Charges	Requested
Own Generation (Million Rs.)	794.005
External/PPP (Million Rs.)	(53.873)
Total (Millions Rs.)	740.132
Total Units Sent Out (GWh)	1634.889
Total Variation Ps/kWh	45.271



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3. K-Electric, in its aforementioned FCA request, certified that cost of fuel, in own generation and power purchase, claimed by it does not include any amount of late payment surcharge/mark-up/interest. Further, K-Electric also submitted that it dispatches power as per Economic Merit Order (hereinafter referred to as "EMO") from its own generation units (with the available fuel resources) and import from external sources.
4. Since the impact of FCA, if any, directly affects the consumers of K-Electric, therefore, the Authority decided to provide an opportunity of hearing, to arrive at an informed and just decision, based on the comments/ views/ opinion of all the stakeholders. The hearing on the subject matter was held on August 18, 2016 at NEPRA Tower, Islamabad. Public notice thereof was published on August 05, 2016 in two newspapers with nationwide circulation.
5. During the hearing, K-Electric submitted that in its own its generation, the claimed variation is due to the increase in per unit weighted average fuel cost of generation in Bin Qasim Power Station-I ("BQPS-I") from Rs. 5.446/kWh in reference month of March, 2016 to Rs. 7.059/kWh in June, 2016. The aforesaid variation in fuel price per unit occurred due to escalation in weighted average price of furnace oil from Rs. 19,376/ metric ton in March, 2016 to Rs. 27,658/ metric ton in current month. Further, according to notification dated April 28, 2016 by Oil and Gas Regulatory Authority, gas price has also increased from Rs. 600/MMBTu to Rs. 613/ MMBTu; applicable from April 01, 2016 onwards. The said increase in gas price has also contributed to an increased fuel price variation not only in BQPS-I but all the other power stations in K-Electric's own generation fleet as well. In the fuel component of power purchase cost, major reason of the claimed variation is the decrease in per unit cost of CPPA-G from Rs. 5.261/KWh in the reference month of March, 2016 to Rs. 4.330 /kWh in June, 2016.
6. Comments were received from Anwar Kamal Law Associates ("AKLA"), Syed Adil Gilani from Whistle Blower Pakistan and Mr. Tanveer Ahmed Barry, Chairman Sub- Committee Karachi Chamber of Commerce and Industry ("KCCI") regarding the hearing in the matter of K-Electric's FCA request for the current month.



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7. Anwar Kamal Law Associates (“AKLA”) submitted that K-Electric continued to draw electricity from NTDC/ CPPA-G and underutilized its own power plants as well as external sources i.e. Gul Ahmed and Tapal. As a consequence of this act by the utility, NTDC/ CPPA-G had to purchase electricity from the costlier power plants of its system yet it did not charge K-Electric on the principle of Marginal Cost. The commentator also submitted that K-Electric is being favored at the expense of the consumers of XWDISCO’s. It is informed that the Authority through monthly and quarterly adjustment decisions has been repeatedly directing K-Electric to prudently utilize its available energy capacity so that load shedding can be reduced/ eliminated in its territorial jurisdiction and in the whole country. Further, the Authority has issued multiple 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 facilities (both own and external sources) and was fined by the Authority vide decision dated March 25, 2016. In addition to that, an explanation has been served to K-Electric and NTDC for purchase/ sale of power without an agreement as the previous agreement has expired on January 25, 2015 and legal proceedings in this regard are currently under process with the Authority.
8. AKLA also submitted that NEPRA has not approved/ notified the heat rates of the K-Electric’s power plants in the Gazette of Pakistan for the last more than 6 years. Furthermore, that even after conversion of K-Electric’s power plants from open cycle to combined cycle NEPRA has not revised their heat rates which may not be in the favor of the consumers. Mr. Tanveer Ahmad Barry also highlighted this issue by submitting that NEPRA should conduct the heat rate test of the power plants of K-Electric by an international expert as K-Electric is operating its own generation power plants at very high heat rates. Syed Adil Gilani of Whistle Blower submitted that NEPRA has allowed K-Electric to operate low efficiency power plants on pipeline quality gas. It is informed that according to the directions of the Authority mentioned 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



however the tests resulted in the efficiencies of the mentioned power plants on the higher side. The Authority keeping in view the interest of the consumers approved and allows monthly and quarterly variations on the heat rates which are lower than those emerging from the mentioned heat rate tests in order to guard the consumer interest. Recently, K-Electric KCPP, KTGT-II and STGT-II power plants have been converted into combined cycle mode by K-Electric. The reason for not revising the heat rates is that current tariff regime which has expired on June, 2016 is an efficiency/performance based wherein no return has been guaranteed except gains due to optimization of operations by K-Electric due to which the Authority decided to set the heat rate benchmarks for the control period of seven years and not revising the heat rates before the expiry of tariff period. However, these efficiency gains are to be shared by K-Electric with its consumers by the application of claw back mechanism, in case reported earnings cross certain limits.

9. AKIA also submitted that K-Electric has been favored by making amendments in the original implementation agreement. It is informed that the implementation agreement and the amended implementation agreement were signed between K-Electric and Government of Pakistan and NEPRA has no role therein.

10. Mr. Tanveer Ahmed Barry submitted that the FCA request of K-Electric for the month of June, 2016 is time barred as FCA petitions have to be entertained on a monthly basis on which the Authority has to issue decisions in seven days of the next month and several requests based on the same hearing date is a violation of the law. It is noted that the provisional FCA request for June, 2016 was submitted by K-Electric on June 19, 2016 and revised FCA request on July 26, 2016 based on the invoice rate of NTDC/CPPA-G. K-Electric has submitted that it receives invoice for the power purchased from NTDC/ CPPA-G on 21st day of the subsequent month and therefore it is unable to submit its monthly adjustment request within a week. NTDC/CPPA-G representatives in this regard have submitted that due to operational difficulties, they are unable to raise invoice in the first week of the succeeding month. The Authority also noted that subsequent to the receipt of FCA request from K-Electric, a public hearing is conducted, in pursuance of the Order of the Honorable Lahore High Court, for which an advertisement is published in the daily newspapers normally giving notice period in excess of one week to the general public to express their



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views/comments/opinion in respect thereof. Afterwards, all the claims of the K-Electric are verified to authenticate them. Hence, the delay, if any, is due to verification exercise carried out by the Authority and conducting of hearing to ensure participation of general public for transparency.

11. Mr. Tanveer Ahmed Barry also commented that own generation power plants of K-Electric having auxiliary consumptions of more than 6.1% merits for an energy audit and should be investigated. It is worth mentioning here that in the current MYT regime of K-Electric, overall auxiliary consumption benchmark has been set at 6.1%. It is evident from the figures and corresponding documentary evidences submitted by K-Electric, that the utility is underperforming and its actual overall auxiliary consumption is higher compared to the overall benchmark of auxiliary consumption set by NEPRA, however the impact of the in-efficiency, if any, by K-Electric, is not passed on to the consumers of K-Electric.
12. The information (both of self-generation and power purchased from external sources) submitted by K-Electric vide FCA request for the current month was verified with respective invoices and other relevant documents. Few deviations were noticed which are explained at para 14 & 15 below.
13. The fuel cost variation of K-Electric's own power generation and power purchases from external sources for the month of June, 2016 works out to be around Rs. 583.697 million or Ps. 35.703/ kWh, as per the details tabulated hereunder:

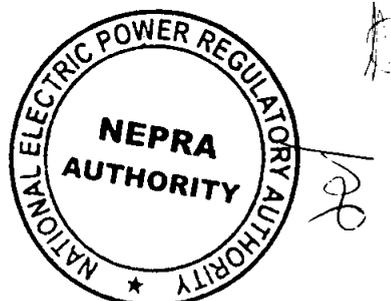
Tariff Adjustment – Summary Variation in Fuel Charges	June-16 Requested	June-16 Allowed
Own Generation (Million Rs.)	794.005	764.637
External/PPP (Million Rs.)	(53.873)	(180.940)
Total (Million Rs.)	740.132	583.697
Total Units Sent Out (GWh)	1634.889	1,634.889
Total Variation Ps/kWh	45.271	35.703



14. The difference between the requested and approved variation in fuel cost of own generation is due to inconsistency in the working of furnace oil rate (Rs./metric ton) by K-Electric. The Authority consistently uses monthly weighted average method to work out the rate of furnace oil consumed in BQPS-I and the same has been used in calculation of fuel charges variations of the current month. Further, K-Electric has claimed gas price variation on the units generated from BQPS-II, which has not been allowed as the heat rate of BQPS-II has not been finalized.
15. The reason for the difference between requested and allowed fuel cost of the power purchase is that K-Electric in its instant FCA request has used the provisional fuel component of CPPA-G whereas the allowed variation in power purchase has been worked out using the fuel cost component of CPPA-G approved by the Authority for EX-WAPDA distribution companies.
16. In view of the discussion in preceding paragraphs, the Authority has decided to pass on Ps. 36 /kWh to the consumers of K-Electric as FCA for the month of June, 2016. It is to be noted that the aforementioned FCA is being allowed on the provisional basis and can be subjected to adjustments if it is found that K-Electric, while dispatching power from the generation sources of its system, has failed to utilize its power stations prudently.
17. The worked out amount of FCA i.e. Ps. 36/ kWh will be charged by K-Electric in the prospective billing month of September, 2016 according to the following schedule:

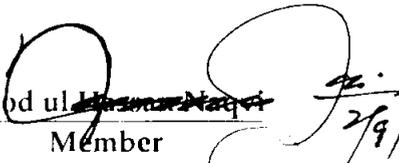
FCA to be calculated on the basis of billing for the month of	Ps/kWh	Charged in consumer bills to be issued in the month of
June, 2016	36	September, 2016

18. The adjustment as referred to in para 17 above:
- shall be applicable to all the consumer categories except lifeline consumers of K-Electric; and

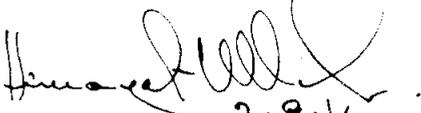


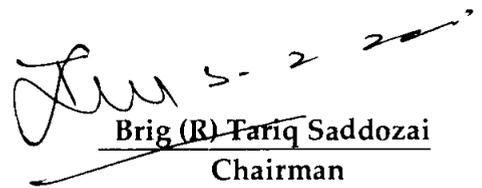
- ii. shall be shown separately in the consumer bills of September, 2016 on the basis of units billed for the month of June, 2016.

AUTHORITY

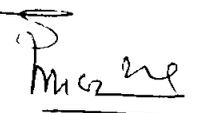

Masood ul Hassan
Member
2/9/16

Maj (R) Haroon Rashid
Member


Himayat Ullah Khan
2.9.16.
Vice Chairman/Member


Brig (R) Tariq Saddozai
Chairman




Masood
05.09.16

**To Be Published in
Official Gazette of Pakistan Part-II**

National Electric Power Regulatory Authority



NOTIFICATION

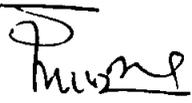
Islamabad, the 2nd day of September 2016

S.R.O. 829 (I)/2016.- Pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 as amended through Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act 2011 and as per the mechanism for monthly fuel price adjustment prescribed and determined by the Authority vide Determination dated December 23, 2009 for K-Electric Ltd. (formerly Karachi Electric Supply Company Limited), as notified vide SRO 11(I)/2010 dated January 01, 2010, National Electric Power Regulatory Authority (NEPRA) makes and notifies the following adjustment in the approved tariff on account of variation in fuel charges for the month of June 2016 in respect of K-Electric Limited:

FCA to be calculated on the basis of billing for the Month of	Ps/kWh	Charged in Consumer Bills to be issued in the Month of
June 2016	36	September 2016

2. The above adjustment of **plus** Ps.36.00/kWh shall be applicable to all the consumer categories except lifeline consumers of K-Electric Ltd. The said adjustment shall be shown separately in the consumer bills of September 2016 on the basis of units billed for the month of June 2016.

[Case No. NEPRA/TRF-133/KESCL-2009(6)]


8209.16
(Syed Safer Hussain)
Registrar

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