



Registrar

National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Tariff)/TRF-100/519-521
January 11, 2022

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 K-Electric

Dear Sir,

Please find enclosed herewith subject Decision of the Authority (09 Pages) in the matter of Motion filed by the Federal Government with respect to Winter Incentive Package for Electricity Consumers on Incremental Consumption of 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

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(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.

National Electric Power Regulatory Authority

(NEPRA)

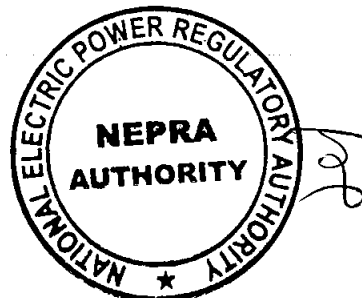
**DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FILED BY THE FEDERAL
GOVERNMENT WITH RESPECT TO WINTER INCENTIVE PACKAGE FOR ELECTRICITY
CONSUMERS ON INCREMENTAL CONSUMPTION OF K-ELECTRIC**

Islamabad

January¹¹, 2022

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 1st Nov. 2021 till 28th 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



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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.
- 1.5. The Ministry further submitted that the above decision of the ECC, has been ratified by the Federal Cabinet dated 24.08.2021.

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. Here it is pertinent to mention that the Authority vide its decision dated November 03, 2021, has already approved the winter incentive package for Residential, Commercial and General Services Consumers of XWDISCOs as proposed by the Ministry of Energy. However, for K-Electric, the Authority decided that it approves the winter incentive



package in principle, but, 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.

5. For the purpose of record, a brief of submissions made by K-Electric vide letter dated 29.10.2021 are given hereunder;

Mechanism for adjustment in Tariff

5.1.1. 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:

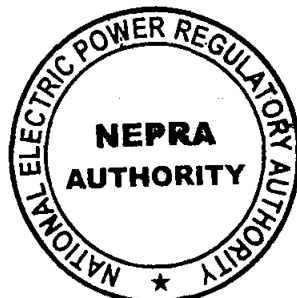
- ✓ KE suffered loss of sent out due to COVID-19 in FY 2020 due to unforeseen reason which is beyond KE's control, however, the impact/adjustment has not yet been allowed.
- ✓ No revision in sent-out targets was made when the earlier ISP Package PKR 3 / kWh, applicable at the time of determination of MYT targets, was removed in 2018/19.

5.1.2. 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.

5.2. **Bifurcation of growth due to Industrial package**

5.2.1. 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 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.

5.2.2. 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.



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Description	FY 2019	FY 2020	FY 2021 ¹
Growth (year on year) in Industrial consumption	6.7%	Negative 5.7%	16.3%
Break up of growth in FY 2021¹:			
- July 2020 to October 2020 (Pre-introduction of package)			13.5%
- Nov 2020 to June 2021 (Post introduction of Package)			17.6%
July 2021 to Sep 2021 (Package not implemented yet)			17.7%

5.2.3. 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.

5.3. Verification of Marginal Variable Cost

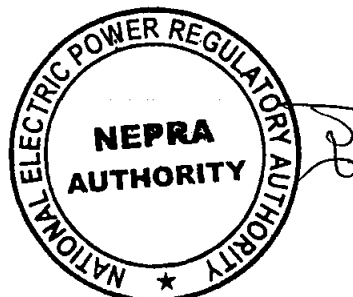
5.3.1. K-Electric further submitted that its estimated marginal cost of PKR 14.6 / kWh, worked out based on prevailing prices at that time and forecast used by CPPA-G (FO price for FY 2022 was PKR 56,045/kWh) for calculation of PKR 12.96 /kWh. However, after increase in prices, marginal cost for July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

5.3.2. 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.

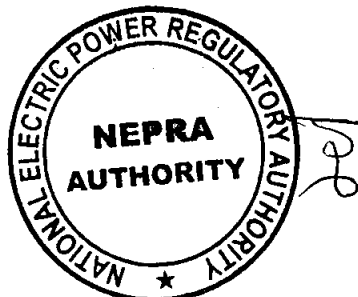
5.4. Adjustment of Marginal Cost

5.4.1. 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.



5.4.2. The submissions made by K-Electric were forwarded to the Ministry of energy for response. The Ministry in response vide email dated 04.11.2021, submitted the following;

Issue#1: What shall be the mechanism for adjustment in tariff for the incremental sales (Industrial package and winter incentive package)?		
Sr.	K.E Comments	Ministry Reply
		<p>1. CCoE approved the para-8 of the package for industrial consumers and Para-3 of the Winter Incentive package, which inter-alia states that:</p> <p><i>“.....Further NEPRA shall provide the appropriate mechanism for adjustment, keeping in view existing NEPRA determinations for K-Electric.”</i></p> <p>Ministry of Energy (Power division) has already provided its submission to NEPRA during the hearing on the subject matter, dated 21st October 2021 and the same may be accordingly considered.</p> <p>2. <u>NEPRA may verify the industrial sales growth numbers provided by K-Electric. It is pertinent to mention here that the abolishment of TOU package is still applicable during the period mentioned by K-Electric (Jul-21 till Sep-21). Provided further, that sales data for the past 5 years may also be reviewed by NEPRA accordingly.</u></p>
Issue#2: What shall be the mechanism for verification of marginal variable cost for the incremental sales (Industrial package and winter incentive package)		
		<p>1. CCoE approved the para-8 of the package for industrial consumers, which states that:</p> <p><i>B.The marginal (variable) cost of Rs 14.61 /kwh, to be utilized for the computation of subsidy, shall be verified by NEPRA.</i></p> <p>2. CCoE approved Para-3 of the Winter Incentive package, which inter-alia states that:</p> <p><i>f.The actual marginal cost to be utilized for subsidy shall be provided by NEPRA</i></p> <p>In light of cabinet decisions, <u>NEPRA may determine the marginal cost and respective mechanism based upon the relevant parameters and applicable regulatory framework for K-Electric.</u></p>
Issue #3: What shall be the mechanism for adjustment of marginal cost due to incremental sales in monthly FCA (winter incentive package)		
		<p>1. CCoE approved the para-8 of the package for industrial consumers and Para-3 of the Winter Incentive package, which inter-alia states that:</p> <p><i>“C. On Incremental consumption, only positive fuel price adjustments shall be passed on to the consumers availing the incremental consumption package”</i></p> <p>Accordingly, the same may be considered during the determination of the instant motion.</p>



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5.4.3. The Authority observed that the MYT determinations of K-Electric for the FY 2015-16 to FY 2020-23, prescribes the following;

Para 37.4 - MYT determination - March 20, 2017

".....Further, the existing MYT regime is so designed that the volume risk is borne by the Petitioner, thus its argument with respect to revenue loss is not justified either. In view of the aforementioned, the Petitioner request for inclusion of force majeure clause in tariff is not acceptable."

Para 19.9 & 19.10 - Review Motion determination - October 09, 2017

"...The instant MTY 2017 allows the Utility to maximize its profits by higher sales growth, therefore, an incentive should be provided to K-Electric to minimize load shedding in order to increase its sales and earn higher profits, which would also be benefiting the consumer in the shape of exemption from load shed and provision of reliable supply.

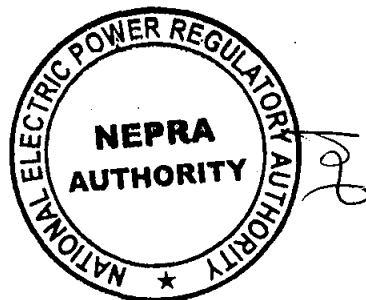
Accordingly, for the purpose of making future financial projections of K-Electric, the sales as projected by K-Electric have been accounted for by the Authority, for the seven years tariff control period."

5.4.4. The Authority noted that as per the MYT determination, a certain percentage of sales growth has been incorporated in the MYT, impact of which has been already been built in the MYT of K-Electric, therefore, the Authority considers that it would be unfair with K-Electric if the entire growth of domestic, commercial and general services, over & above the reference months, i.e. November 2020 to February 2021, is taken away from K-Electric.

6. Order

6.1.1. The Authority after taking into account the request made the Federal Government in the Motion and during the hearing, the MYT determinations of K-Electric, submissions made by K-Electric during the hearing and afterwards and response thereto by the Ministry of Energy, decides as under;

- i. The Authority has worked out benchmark sales by applying annual growth built in the MYT of K-Electric on monthly basis on the total actual domestic, commercial and general services consumers sales (excluding temporary) for the reference months from November 2020 to February 2021 (after adjusting for sales shifted to other categories). The Authority has decided that K-Electric shall only be allowed Marginal Cost on sales above the benchmarked units and no other adjustment as un-recovered cost e.g. O&M, RoRB, Depreciation, Base Rate and Bad Debt etc., will be provided. In case K-Electric recovers any amount over & above the Marginal Cost on the above incremental units either through tariff or through subsidy etc., the same would be adjusted from K-Electric subsequently. Following benchmark sales have been calculated as detailed above;



←

note

Growth rate
as per MYT
5.4%

Residential

	FY 2020-21	FY 2021-22
November	196.84	207.44
December	110.21	116.15
January	84.20	88.73
February	85.41	90.01

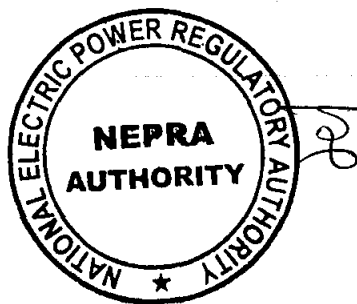
Commercial

	FY 2020-21	FY 2021-22
November	144.36	152.13
December	116.95	123.25
January	96.78	102.00
February	99.30	104.65

General Services

	FY 2020-21	FY 2021-22
November	31.07	32.74
December	22.54	23.76
January	18.08	19.05
February	19.37	20.41

- ii. Here it is pertinent to mention that actual consumer wise incremental units would be worked out by K-Electric, keeping in view the reference months of November 2020 to February 2021, as prescribed in the Motion of the Federal Government.
- iii. In order to ensure that K-Electric is only allowed to retain Marginal cost on incremental sales beyond the Authority's worked out benchmarks, the Authority while working out the monthly FCAs would exclude all such incremental units (after adjusting for losses) and their marginal cost. Similarly, the units and cost without such incremental sales (after adjusting for losses) would be accounted for while calculating K-Electric's quarterly adjustments. K-Electric for the purpose of subsidy claims, shall ensure that no subsidy/ tariff is claimed on incremental units over & above the Authority's allowed benchmarks, except for the difference between Rs.12.96/kWh and the marginal cost, as determined by the Authority. Marginal cost would be intimated to the Federal Government by NEPRA, every month.
- iv. Here it is also pertinent to mention that monthly FCAs already determined by the Authority, for the period for which the incremental consumption package remains applicable would be re-determined by the Authority once the instant decision is notified.
- v. The Package shall be applicable for winter months i.e. from 1st Nov. 2021 till 28th Feb. 2022.
- vi. The reference period for incremental consumption will be Nov. 2020 to Feb. 2021.
- vii. 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.

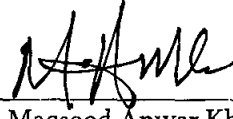


- viii. Rate of Rs.12.96 /kWh shall be charged to Commercial consumers (Non-ToU) and General Services consumers on the incremental consumption above the reference consumption in the corresponding months of reference period.
- ix. Rate of Rs.12.96/kWh shall be charged to Domestic consumers (ToU) and Commercial consumers (ToU) on the respective peak/off-peak incremental consumption, above the reference peak/off-peak consumption in the corresponding months of reference period.
- x. 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.
- xi. No quarterly adjustments would be applicable on incremental consumption.
7. 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



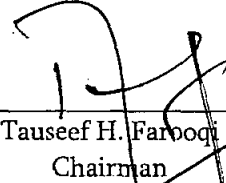
Rehmatullah Batoch
Member



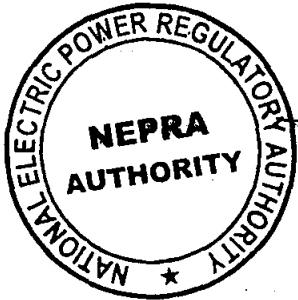
Engr. Maqsood Anwar Khan
Member

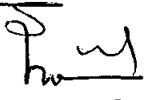


Rafique Ahmed Shaikh
Member/Vice Chairman



Tauseef H. Farooqi
Chairman




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