Government of Pakistan
Ministry of Water and Power
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Subject: **UNFAIR TARIFF FOR KE CONSUMERS – MAKING THEM PAY ADDITIONAL RS. 62 BN**

The objectives which NEPRA is expected to achieve includes, amongst others, a responsibility towards the power sector consumers to pay a reasonable price for services which covers reasonable costs of the service providers. In recent revelations, it is noted with concern that the KE consumers have been made to pay a very high tariff resulting in windfall profits for KE. The following two factors support this point of view.

2. The multi-year tariff provides for a mechanism whereby, the tariff is to be adjusted every quarter to reflect the revised fuel and energy purchase costs as well as targets for T&D losses. Ideally, on a base tariff of say Rs. 100 per unit, if the cost component in a period has reduced by 5% and the T&D losses have also been targeted to reduce by 5%, the cumulative effect on tariff reduction would roughly be around 10% or so and the new tariff would be Rs. 90 or so. However, by a strange tariff setting method, the tariff mechanism applicable to KE limits tariff reduction on account of reduced T&D loss benchmark only on **"the change in cost of generation"** rather than **"the total cost of generation"**, hence limiting the benefit to KE consumers of the reduced T&D benchmark and effectively allowing KE higher T&D losses than the stated benchmark. This has now become evident as to how in all these years of falling oil prices, KE consumers were denied the benefit in fuel price adjustments.

3. The windfall allowed to KE, on this account only, has been in billions every year through the multi-year tariff and quarterly adjustments determined by NEPRA. The rough calculations are at Annexure-A. These show that while the declared T&D losses allowed to KE are 15%, the effective losses (due to the tariff setting mechanism) allowed by such calculation comes to be around 28.5%, which is 4.8% higher than even its actual T&D loss (at 23.7%). This has roughly provided a windfall for KE of Rs. 12.91 bn in one single financial year of 2015, which under the law was supposed to be passed on to KE consumers. This practice has been going on since past several years and the estimated cumulative loss to KE consumers adds up to more than Rs. 60 bn on this account.

4. Another area of such flaws in KE tariff calculations, is cost of generation allowed to KE for its own generating units. While NEPRA has been very strict with state owned power generating units which are, many a times,

even not allowed their actual cost of generation, KE has been allowed to recover very high price, whereas the actual generation costs are much lower. The cumulative efficiency of KE plants is around 40% while the cost is calculated by NEPRA at an efficiency of around 37% allowing an estimated Rs. 2 bn last year Annexure-B.

5. These rough estimates (which require to be calculated with accurate data) show that with the help of excessive tariff setting, KE consumers have been made to pay at least Rs. 62 billion in past few years, not accounting for the loss on account of efficiency gains by KE in the previous years. This tariff determination practice adopted for KE, violates the general policy and guidelines relating to tariff determination.

6. In view of the above, it is advised that NEPRA take the above in consideration while setting the new tariff for KE which not only corrects all these anomalies in new tariff for KE but also transfers these excessive payments back to KE consumers. This also calls for strict accountability of those responsible for causing such a colossal loss to KE consumers.

(Mohammad Younus Dagha)
Secretary

Brig. Rtd. Tariq Saddozai, Chairman NEPRA, Islamabad
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