



# Whistleblower Pakistan

72-F/II Jami Commercial Street No. 9 Phase VII,  
Defence Housing Authority, Karachi  
Tel : (92-21) 35391778 Fax: (92-21) 35391778  
Email : info@whistleblower.com.pk  
Website : www.whistleblower.com.pk

Dated: 12<sup>th</sup> July, 2016

The Chairman,  
National Electric Power  
Regulatory Authority (NEPRA),  
Attaturk Avenue (East), NEPRA Tower,  
Sector G-5/1, Islamabad.

## TRUSTEES

Ms. Yasmeen Lari

Justice (R) Nasira Iqbal

Ms. Shahana Kaukab

Mr. Sohail Muzaffar

Justice (R) Zia Perwaiz  
(Secretary General)

Justice (R) Dr. Ghous  
Muhammad  
(Vice Chairman)

Syed Adil Gilani  
(Chairman)

Notice of Hearing - Hearing in the Matter of Monthly Fuel Charges Adjustment (FCA) Request of K-Electric Limited (Formerly KESCL) for the Month of December 2015, January, 2016 and Quarterly Adjustment Request for the Quarter October -December 2015.

Reference:

- A. NEPRA's Advertisement Published in Daily Dawn dated 10.03.2016
- B. Whistleblower Pakistan letter dated 04.09.2014
- C. Whistleblower Pakistan letter dated 10.11.2014
- D. Whistleblower Pakistan letter dated 01.12.2014
- E. Whistleblower Pakistan letter dated 01.12.2014 (to SSGCL and Copy to NEPRA)
- F. Whistleblower Pakistan letter dated 03.03.2015
- G. Whistleblower Pakistan letter dated 03.03.2015 (to SSGCL and Copy to NEPRA)
- H. Whistleblower Pakistan letter dated 04.03.2015
- I. Whistleblower Pakistan letter dated 09.06.2015
- J. Whistleblower Pakistan letter dated 02.07.2015

Whistleblower following letters which it sent in the matter of Grant of Generation License and Tariff to K-Energy for the 420 MW Capacity Power Plants of K-Electric after its leasing to K-Energy:

- i. Whistleblower Pakistan letter dated 05.09.2014
- ii. Whistleblower Pakistan letter dated 10.11.2014
- iii. Whistleblower Pakistan letter dated 15.12.2014
- iv. Whistleblower Pakistan letter dated 14.01.2015 (through Counsel)
- v. Whistleblower Pakistan letter dated 15.12.2014



Dear Sir,

I Adil Gilani, Chairman of Whistleblower, Pakistan am a law abiding and concerned citizen of Pakistan and an end-consumer of K-Electric system. I am deeply perturbed and burdened by the higher price of electricity and illegal load shedding in the distribution territory of K-Electric mainly due to operation of the utility by K-Electric in a non-prudent manner as well as due to un-economic and un-wise decisions of the Authority. It should have been the greatest blessing for the electricity consumers that the prices of fuel (RFO) have come down to US\$ 30 from US\$ 130 per barrel in the international market. However, it is the great concern of electricity consumers that the benefits of lower oil prices have not been passed-on to them in full. Not passing-on the benefit of lower oil prices to consumers in full resulted in lower export (manufacturing goods specially Textile products) of the country.

Whistleblower has been participating in the process of Monthly and Quarterly Adjustments proceedings of K-Electric which NEPRA conducts in Karachi. Whistleblower is raising serious concerns which all consumers of electricity are facing. The financial and economic impact of issues which are being raised by Whistleblower are not in millions but in billions of rupees on monthly basis. The highlighted issues are not only affecting the Nation in terms of finances and the economy, but the Nation is also facing social disorder due to load shedding, mis-governance of Distribution Companies and high prices of electricity on account of inefficiencies of the Power Sector players. Unfortunately, the Regulator is protecting the Investor, the Utility K-Electric, and ignoring the most deserving stakeholder: that is the consumers of K-Electric. The current working of NEPRA shows protection and promotion of inefficiencies.



Through Monthly Fuel Charges Adjustments and Quarterly Adjustments, NEPRA not only adjusts the effect of Fuel Price but also adjusts the Generation mix, Impact of T&D losses etc. to their actual values as against the Reference values and also sets the Reference values for the next quarter. The factor of Generation mix is itself dependent on effective Regulation as well as development and operation of the Utilities as per prudent practices. Hence, the process of Fuel Charges Adjustment not only provides opportunities of effective monitoring of the performance of Power Plants and their Despatch but can also be used as a tool to evaluate the impact of Regulatory decisions made in the past.

Availing the opportunity of the proceedings of Monthly and Quarterly Adjustment in K-Electric Consumer-end Tariff, Whistleblower, along with other stakeholders, is also participating and highlighting various issues which are causing loss to the National economy and the electricity consumers.

Whistleblower in the past has mentioned several times that K-Electric is a private vertically integrated utility which is engaged in the business of electricity Generation, Transmission, Distribution and its sale to the electricity consumers in the area of Karachi and some of its adjoining areas. Although K-Electric is performing the functions of electricity Generation, Transmission and Distribution under separate Licenses but they have no separate Tariff for each such separate function. K-Electric has a Consumer-end Tariff determined by NEPRA; K-Electric is the only Utility in Pakistan which is doing this business in a vertically integrated manner.

Strong monitoring from the Regulator is the prime need of the Regulatory regime and this need increases manifold if the Utility is



vertically integrated like K-Electric as it is maintaining all accounting books under 'One-Single' management and there is no check and balance from end-consumers and National Ex-Chequer's perspective. Therefore, under such conditions a vigilant, competent, wise, experienced, and pro-active Regulator which believes in merit is needed to protect the interest of the electricity consumers and the National economy by ensuring that all National resources are being used to their best economic values.

It is known fact that Electricity is the basic need of the society and being a monopoly of the Utility company in the specified area there is always a chance that the Utility may exploit the condition to realize its own vested interest under various names. Companies do not hesitate to obtain their interest at the cost of disharmony among the Provincial/State Governments/people. Such Companies may often approach the Courts with distorted facts to maximize their undue profits at the cost of electricity consumers, scarce National resources. Thus the role of the Regulator becomes more and more important to control the situation in a manner that the National economy's efficiency and interest are not scarified through exploitation by the Utility.

Unfortunately, the Electric Power Regulator in Pakistan has not been able to perform its function: resultantly the health of the Pakistan Power Sector has gone from bad to worse. Total Regulatory capture can easily be judged in the Pakistan Power Sector. None of the decisions of the Regulator are based on economic analysis and economic prudence, rather they are based on exploitation by the Investors. The induction of low efficiency Power Plants on pipeline quality Gas of more than 900 MMBTU/lb, allowing Gas Power Plants to run on Open Cycle mode for such an inordinately long period, extending the life of old in-efficient Power Plants by allowing



conversion of these Power Plants to Coal from RFO fuel etc. are but a few examples.

Since K-Electric is a vertically integrated Utility and no other forum is available to discuss and highlight these issues of inefficiency and mismanagement, operation of the Utility in a non-prudent manner and against the interest of electricity consumers and the national economy, Whistleblower used to present its submissions and observations before the Regulator. From the past working and decisions of NEPRA it appears that NEPRA is only protecting the Investors' interest at the cost of electricity consumers and the National economy for reasons best known to it.

Whistleblower in its effort to assist the Authority to bring efficiency in the Power Sector has sent several communications but witnessed no meaningful and result-oriented action from NEPRA. Based on the information available through various sources i.e. Authority's Determinations & Decisions and other data/information which NEPRA up-loads on its website, comments of stakeholders which they submit orally and in writing before the Authority, Annual Reports of K-Electric, State of Industry Reports of NEPRA, Articles published in different Newspapers and Journals etc., Whistleblower has compiled some documents for review by the Authority and the taking of necessary action to eliminate the in-efficiencies from the Power Sector and ensuring the use of the available resources to their best economic value. NEPRA should also order an inquiry and publish its Report on the findings on issues which are being raised through the Reports submitted herewith.

The first Report mentions the favors which have been given to K-Electric during the post-Privatization period by different Agencies, non-performance of NEPRA in a timely manner to regulate K-Electric in an effective manner, un-economic decision making by NEPRA,



delayed Decision making by NEPRA and that too without observance of flawless legal procedures that thus giving an opportunity to K-Electric to go to Courts against the Decisions of NEPRA on procedural grounds rather than on merit, not highlighting the issues relating to K-Electric in NEPRA's State of Industry Reports to apprise CCI and other Stakeholders about the issues and to keep all stakeholders in the dark, failure of NEPRA to effectively monitor the Vertically Integrated Utility etc. The main issues which are included in this Report are Underutilization of Power Plants in K-Electric Generation Basket, Non-following of the Economic Merit Order, In-efficient burning of Pipeline quality Gas in Power Plants of K-Electric, Burning of gas in in-efficient Steam Turbine Power Plants, Operation of Power Plants in Open Cycle Mode, Non-approval of Heat Rates of newly inducted Power Plants, Collection of un-justified Bank Charges, Increasing the Tariff by Paisa 15/kWh after opening the Multiyear Tariff during 'locked-in' period, Charging higher Auxiliary Consumption for newly inducted Gas Power Plants, Supply of electricity without energy meter through hook connections, Non provision of Time-of-Use (TOU) Meters, Refusal to refund the amount to consumers under 'Claw-back Mechanism', Over-charging of three categories of consumers, Over-billing and Over-charging from consumers, issuing the electricity bills without snap-shots of the Energy meters, Discontinuation of giving profit to consumers on their Security Deposit amount, Charging of meter rent without any legal justification, booking higher amount on its books under the head of payable to SSGC, Observing load-shedding illegally in its area, etc.

The second Report gives a month-wise picture of Electricity Generated by K-Electric's Own and other two IPPs' Power Plants which are supplying electricity into the K-Electric basket, Power



Purchases by K-Electric from other sources, under-utilization of Power Plants etc. Observance of Economic Merit Order can also be established by using the compiled data. This Report gives month and Plant Wise Generation data, for the period from July 2010 to January 2016, of Power Plants supplying electricity into the K-Electric basket. From the compiled data it is clear that the dominant Generation (around 80%) from K-Electric's own Power Plants is through Gas, which is comparatively cheaper. Whistleblower has made its best efforts to ensure correctness of compiled data: however, it will welcome any corrections made by NEPRA or any stakeholders. In case no correction is made by NEPRA it will be assumed that the data compiled and submitted by Whistleblower is correct. The compiled data can be used for various analyses.

Through its earlier letters Whistleblower has requested the Authority to carry out a comprehensive investigative audit to assess financial and economic gain and/or loss to various stakeholders. The submitted data may be helpful for conducting the investigative audit. The lesson-learnt Report of this privatization has not yet been prepared and notified by NEPRA. It is important to note that Government is still providing subsidy to K-Electric, the amount of which has increased manifold after Privatization, but electricity consumers are still facing load shedding any paying higher tariff, Ex-WAPDA consumers after burdening themselves are still providing costlier electricity to K-Electric on cheaper rates. Consequently the biggest question before all of us is as to who is the beneficiary of this Privatization? It is also a known fact that the provision of TDS under the garb of Uniform Tariff is nothing but making a fool of consumers and giving undue benefit/advantage to the Investor and may be a door for the jugglery of figures to earn undue money. By not installing TOU meters, by having different Fuel Charges Adjustment



mechanism there is no uniform tariff. It, prima facie, appears that NEPRA does not have the capacity to regulate the Power Sector, specially the Vertically Integrated utility called K-Electric and similar entities.

Whistleblower has observed that after the consistent efforts and submissions of stakeholders, after taking a very long time NEPRA gave a few decisions on merit to provide justice to the consumers of electricity. However, due to legal flaws in the making of the decisions, all such Decisions of NEPRA, the Regulator, have been challenged by its' Licensee, K-Electric. Electricity being an expensive commodity non-prudent operation of the Utility for even one day has a huge financial cost. Ordinarily the Courts do not know technicalities and the direct and indirect financial implications of transactions in the Power Sector, unless they are assisted properly. It appears that since NEPRA is least bothered in protecting the consumers and the National economy (and K-Electric being the beneficiary) does not make any serious effort to assist the Honorable Courts to decide the cases in an expeditious manner. Whistleblower has requested NEPRA several times to provide the list of litigation cases wherein K-Electric has challenged the decisions of NEPRA. So far no such list has been provided to Whistleblower. Due to this attitude of NEPRA, Whistleblower is constrained to ask whether NEPRA and K-Electric are in collusion in burdening the electricity consumers and the National economy? It must be very clear to NEPRA that the per day financial impact of this imprudent Utility operation is not in millions but in multi-millions, but still NEPRA is not making any effort in such a manner as the situation demands.

It has also been learnt that K-Electric has huge outstanding payables of Sui Southern Gas Company (SSGC) but it is not paying





the same. It also surprising that K-Electric has no firm GSA with SSGC but NEPRA has granted it Generation License for around 1000 MW Power Plants which can only be operated on Gas fuel. For its operation K-Electric presses the NTDC and SSGC to provide cheaper electricity and gas to it without any legal commitment. K-Electric has always tried to settle the issues with all Agencies by presenting the electricity issue as an issue of Law and Order rather than to settle it with legal contracts. This is really an economic and social threat for the country's economy. The country's economy has already suffered a lot under this head.

In addition to the above, Whistleblower would like to draw the attention of the Authority towards a news item published in Business Recorder of 10 February 2016 wherein it is mentioned that Rs. 400 billion has been paid to K-Electric as Tariff Differential Subsidy since Privatization. This TDS was 9 billion in FY 2006 while it rose to 76 billion in FY 2013. It is also stated in the news item that the net loss of K-Electric in 2006 was Rs. 14.63 billion but within a few years after Privatization its earned a profit of Rs. 2.5 billion in FY 11-12, Rs. 28.3 billion in FY 2015 and Rs. 19 billion during the first half of this fiscal year (Dawn report of 24.02.2016).



	Unit Purchased	Unit billed	Losses	T&D Losses	Amount billed	Amount realized	%age Recovery
	(GWH)	(GWH)	(GWH)	(%)	Rs. Mln	Rs. Mln	Rs. Mln
2006-07	14877	9366	5511	37.04			
2007-08	15189	10051	5138	33.83			
2008-09	15267	9396	5871	38.46			
2009-10	15806	9905	5901	37.33			
2010-11	15433	10072	5361	34.74	107016	91559	85.56
2011-12	15259	10279	4980	32.64	114350	101431	88.70
2012-13	15824	10942	4882	30.85	142063	120560	84.86
2013-14	15991	11454	4537	28.37	173857	151366	87.06

Source: NEPRA's State of Industry Reports

Whistleblower understands that the earning/profitability of any Distribution Utility depends mainly on two main factors i.e. Losses and Revenue Collection. From the above Table it is clear that T&D losses of K-Electric are much more than those allowed by NEPRA. Further, the amount of the sold units are at an average of 86-87%. This means that K-Electric is losing on both fronts: then how it is making these huge profits needs to be investigated. Whether NEPRA has given it a Tariff which is much higher than the cost or K-Electric is making profits from somewhere else needs to be answered by NEPRA itself.

Whistleblower is surprised by the decision of the Authority for the quarter ended September, 2015. The Authority, while denying not to pass on the benefit of operation of K-Electric Power Plants on Combined Cycle mode to the consumers wrote that the Company's MYT is an efficiency based Tariff in which no fixed return was allowed to K-Electric except for gain that the Utility realizes by



bringing efficiency in its' operations. In view thereof, the Authority was of the view that the current MYT of K-Electric is set to expire in June 2016 and the matter under discussion shall be considered at the time of the determination of the new MYT for K-Electric.

It is really shocking to see how the Authority is favoring K-Electric by not observing even its own principle that as Fuel is a pass-through item, no adjustment shall be made till the time K-Electric conducts the Heat Rate of Tests all its newly-inducted Power Plants etc. It should be noted that K-Electric has been given a considerable amount under FIP and under the Agreement it was required to induct 1000 MW capacity in its system. K-Electric inducted these Plants back in 2009 and kept them running on open Cycle Mode against prudent Utility practices. This has resulted in a loss of billions of rupees to electricity consumers. Further, after a long delay of about 5 years when it commissioned the Steam Turbine, the Authority gave this argument in its Decision. All consumers must be surprised at this Decision of the Authority and would like to know under what circumstances and conditions the Authority has made this Decision? It needs to be noted that once K-Electric has inducted this Power Plant, why did it not comply with NEPRA's order that adjustments will be made as per the new Heat Rate? Why was this principle not applied at that time? Whistleblower has serious reservations about this decision of the Authority, which has exposed the position of the Authority qua its relationship with K-Electric and the electricity consumers.

With regard to down time of 420 MW Power Plants the Authority did not clearly order that these should be available and operated for supply of electricity. While in three other similar cases of PakGen, Lalpir and Saba Power the down time issue of Power Plants was



clearly mentioned. This is also a favor to K-Electric in the opinion of Whistleblower.

In the end Whistleblower would like to draw the attention of the Authority towards the very sensitive issue of the death of thousands of people in Karachi during last summer due to the heat wave coupled with load-shedding. Through its letter of 2 July 2015 Whistleblower has sent a detailed letter on this subject with the request to conduct an inquiry in the matter and issue a Report available in the public domain. However, even after the passing of 7-8 months, no Report stands issued. Whistleblower is a firm believer that if NEPRA is not going to conduct a judicious inquiry here, then all its responsible persons will face a serious inquiry on the day of Judgment, because it is a matter of human life with deaths running into thousands.

Whistleblower requests NEPRA to consider all our referred communications with this letter. The copies of all referred communications must be available in NEPRA's record and if a copy of any or all communications is required by NEPRA or any other stakeholder, Whistleblower will be happy to provide the same.

Yours faithfully,

  
Syed Adil Gilani  
Chairman

Annexure:

1. Report I (1 to 56 Pages)
2. Report II (1-75 Pages)

Copy to:

1. The Chairman, Senate of Pakistan, Islamabad.



3. The Secretary, Ministry of Finance, Pakistan Secretariat, Islamabad.
4. The Members of the National Electric Power Regulatory Authority through the Registrar, NEPRA Tower, Islamabad.
5. The Chairman, Transparency International-Pakistan.
6. Mr. Arif Bilwani, 24-Modern C.H Society, Block-3, Shaheed-e-Millat Road, Karachi.
7. Mr. Aneel Mumtaz, G-25, Askari Apartment-3, School Road, Cantt., Karachi.
8. M/s Anwar Kamal Law Associates, 1-Turner Road, Lahore-54000.

(all with copies of Report I and Report II)

  
Syed Adil Gilani  
Chairman

# REPORT - I

(Page Nos. 11 - 67)

At the very outset it is clarified that assistance from the citizens of Pakistan, electricity consumers and other stakeholders to NEPRA on electric power related issues is a voluntary act and they are not in any manner liable to do so. Further, the stakeholders provide assistance to the Authority in good faith, public interest and to the best of their understanding, knowledge and information available with them. The purpose of assistance to the Authority is to sensitize the Authority on the issues which require thorough analysis by the Sector specialist, having full knowledge and information on the issues raised at Authority level to bring efficiency in the system. It is a known fact that Investors protect their interest by appointing highly qualified Consultants the cost of which service they recover from the electricity consumer. NEPRA allows such recovery while approving their Tariff. It is also a knownfact that Investors always want to maximize their profits on their investment and in doing so burden the consumers/subscribers of their product. Therefore, in order to ensure that the investor does not over-charge for its product and that the consumer should pay the prudent and justified cost along with reasonable return on the investment of the investor, the concept of an independent Regulatory Authority was conceived and

implemented. Based on this very concept, the National Electric Power Regulatory Authority (NEPRA) has been established in Pakistan to ensure that the investor shall not make gains beyond justified return on cost. The consumers, who generally have no organized voice would be protected by the Regulator through its strong economic decision making and monitoring mechanism. For performing this Regulatory duty for them, the consumers pay a fee to NEPRA through their electricity Tariff. Although the fee is ostensibly paid by the investor but not from its own pocket. In actual fact, the investor includes the expense of fee paid to NEPRA and to the Consultant in its Tariff and the Tariff is to be paid by the electricity consumers. Therefore, NEPRA is legally, ethically and morally bound to protect the interest of consumers in an honest, fair, just and transparent manner. The duty of NEPRA, a quasi-judicial Authority, is to provide justice and not to manage the Power Sector. The Sector will automatically be managed if justice is ensured. The details of the fee which has been paid by the consumers to NEPRA during the last 8 years is compiled from the figures given in NEPRA's Annual Reports:

Sr. No.	Year	Amount in Million Rupees
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1	2006-07	359.454
2	2007-08	422.997
3	2008-09	493.213
4	2009-10	319.057
5	2010-11	358.281
6	2011-12	414.564
7	2012-13	459.604
8	2013-14	555.256
9	2014-15	Not available

2. It is an acknowledged fact that private citizens have time, knowledge, resource, information and other constraints in assisting the Authority in a more comprehensive manner. It was decided that whatever be the issues observed, they should be presented before the more resourceful, exclusive Regulator of Electric Power in Pakistan to carry out analysis on each issue pointed out and to publish an independent Report for the clarity of mind of the stakeholders and to bring efficiency in the Power Sector. A brief introduction of the Karachi Electric Supply Corporation (KESC) and issues in its' Privatization and post-Privatization is presented before the Authority for review and immediate remedial measures.
  
3. K-Electric Limited (KEL), formerly Karachi Electric Supply Corporation (KESC), was incorporated in 1913. KEL is a

Vertically Integrated Utility that generates, transmits, distributes and sells electricity in Karachi and its adjoining areas.

4. In view of severe constraints in the availability of capital, which led to inadequate investment in generation capacity and transmission infrastructure, massive deterioration in governance and heavy losses in Power Sector in Pakistan including KESC, it was decided by the Government of Pakistan (GoP) to restructure the Power Sector of Pakistan. The Strategic Plan for the Privatization of Pakistan Power Sector was prepared in 1992. The Regulator i.e. National Electric Power Regulatory Authority was established in 1997 to oversee the privatization process and to regulate the Power Sector of Pakistan.
5. Although the Strategic Plan does not examine the KESC but it was advised by the Team which prepared it that the ultimate Power Sector structure delineated for WAPDA should be considered carefully as a model for the privatization of KESC. It was stated in the Strategic Plan that the Team does not believe that privatizing KESC as a vertically integrated electric utility will induce competition

or be compatible with the future structure of the industry proposed in the Strategic Plan.

6. Despite the above advice given in the Strategic Plan, the privatization of KESC was initiated as a vertically integrated utility while at the same time the vertically integrated WAPDA was disintegrated into three separate functions i.e. Generation, Transmission and Distribution. As learnt from the news items, Articles, the Privatization process of KESC since its beginning was under criticism, in the media, as the first successful Saudi-based bidder Company, Kanuz Al Watan, refused to buy KESC without giving any reason and suffered a loss of Rs. 10 billion paid as Guarantee money. Later on, the second highest bidder, namely Hassan Associates was offered purchase of this Utility. Ultimately, without any re-bidding, the Utility was sold to a consortium formed by the said Hassan Associates with Saudi based Al-Jummaiah Group at a throw-away price of Rs. 15.86 billion. The then Union leader was of the opinion that the assets of KESC were of the value of more than Rs.300 billion at that time. It was also reported that at the time of Privatization GoP was already in commitment to pay around Rs. 14.5 billion under Financial Improvement Plan (FIP) of which Rs. 4 billion was already there in KESC's account.

Furthermore, at the time of privatization the GoP took all the liabilities of KESC then outstanding and the utility was privatized as a liability-free organization. The ultimate aim of the full of concessions privatization was to bring technical and economic efficiency in K-Electric System for affordable electricity, to get rid of subsidies and continuous injecting of amount in the Utility by GoP. Unfortunately, the objective of privatization was not achieved as the Utility has not achieved the desired efficiency and the GoP is still injecting huge amounts in the KEL system as a Subsidy.

7. The Al-Jummaiah Group failed to manage the Utility in an efficient manner and in March 2008 handed over the Utility to a Dubai- based new management Abraaj Company registered in Cayman, Latin America. The Government of Pakistan facilitated the Company by signing an Amended Agreement and the Share Purchase Agreement (SPA). It is unfortunate that both documents (Amendment Agreement and SPA) were not made public despite the requests of stakeholders. Transparency International (TI) through its letter of 10<sup>th</sup> July 2009 (available on web) while highlighting the serious issues with regard to KESC privatization and taking over of this Utility by Abraaj also highlighted the non-furnishing of

the Contract Agreements (Amended Agreement and the SPA) but none of the organizations responded to it. Making such public documents 'confidential' has made the whole process non-transparent. It is on record that one of the Citizens' forums in the name of Shehri knocked at the doors of the relevant agencies i.e. NEPRA, Ministry of Water and Power, Privatization Commission to provide copies of these documents but it could not succeed in getting these documents from any of the Agencies. In its effort it finally approached the Federal Ombudsman to direct the concerned Agency to provide these documents. The Wafaqi Mohtasib, vide cases Nos. K/377/13, K/748/13 & K/745/13 very kindly ordered to provide the document but, despite clear orders of the Federal Ombudsman in favor of Shehri to provide these documents, none of the Agencies was ready to provide these documents even in compliance of the Ombudsman's Order.

8. Through its letters of 8<sup>th</sup>, 10<sup>th</sup>, and 11<sup>th</sup> July 2009 (all available on the web) TI has highlighted the serious issues with regard to KESC privatization and its post privatization affairs. However, for reasons best known to the concerned quarters, observations could not be addressed. Anyone can easily note that after the taking

over of the Utility by Abraaj, blessings poured into the Company's business from all sides. The Company succeeded in getting favors of the dealing organizations and NEPRA, the Regulator. With all favors and blessings the Company started its journey from loss to to huge profits but all this is at the cost (i) of non-optimal use of the country's resources, (ii) the national economy, (iii) the consumers of other DISCOs and (iv) the interest of K-Electric's consumers. The reasons behind the success story of K-Electric Company (at the cost of National and consumers' interest) were being brought into the knowledge of NEPRA by the stakeholders from time to time during hearings held in relation to Fuel Charges Adjustments: the Audio recordings and their transcripts as well as written submissions of the stakeholders must be available in NEPRA's record. Here we would like to sum-up some of those issues, which comes in our knowledge, on which concessions/favors were given to the K-Electric, these are as follows:

- A) Waiver of 4% Price Cap on Fuel Price Variation as provided in the Determination on which Privatization was carried out:** NEPRA has determined a Seven-year Multiyear Consumer-end Tariff for KESC on 10 December 2002 (available on NEPRA's website). The Privatization

bids were submitted by the bidders after taking into consideration the Authority's Determination dated 10.12.2002 which was Capped for seven years. The Determination of the Authority also consists of the Adjustment of Fuel Price Mechanism. It was stated in the Determination that if the allowed increase/decrease in the average Sale Rate due to Fuel Price variation in a certain Quarter is greater than 2.5% of the prevailing average Sale Rate, the Adjustment will be restricted to 2.5% and the remaining burden/relief shall be carried forward to the next Quarterly Adjustment.

The request of KESC to remove this Cap was declined by NEPRA when it was requested prior to Privatization but NEPRA approved waiver of this Cap vide its Determination NEPRA/R/TRF-51/KESC-2006/6671-74 dated September 14, 2006 despite the opposition of almost all stakeholders including the Ministry of Finance and the Ministry of Water and Power.

Further, the Ministry of Water and Power also filed a Reconsideration request against this decision of the Authority but NEPRA declined the same vide its Decision NEPRA/R/TRF-51/KESC-2006/7435-38 dated November

14, 2006 (all Decisions of NEPRA are available on its website).

This post-Privatization favor of NEPRA is neither fair nor understandable. Had this action been taken by NEPRA prior to Privatization, it would definitely have positively impacted the bid price/share value.

**B) Increase of Ps. 15/kWh in base Tariff (that too subject to indexation) after opening of Past and Closed Transaction and that too post-Privatization i.e. Opening of Seven years Capped Multiyear Tariff prior to maturity of its control Period to increase Ps. 15/kWh:** The bids to buy the shares of KESC and taking control of it were submitted by the bidders after taking into consideration the Authority's Determination dated 10.12.2002 which was Capped for seven years. NEPRA, vide para 99 of the Determination, categorically put a future price Cap for seven years subject to indexation factors.

While approving the waiver of Adjustment of Fuel-price mechanism given in the Determination of 2002 through its' Determination dated 14 September 2006, it was stated in para 39 of the Determination "that removal of



4% price cap on quarterly adjustment mechanism for fuel price and power purchases cost shall not affect or alter the base tariff. The base Tariff which has been fixed for 7 years shall continue for the tariff control period ---"

Further, KESC in its reply to various explanation /show cause cases (Meter rent, Bank Charges etc.) and during Public Hearings used to take the stand that its Multiyear Tariff is a 'closed and past' transaction which is Capped for a certain control period.

However, NEPRA vide its Determination NEPRA/TRF-133/KESC-2009/1330-1333 dated December 23, 2009 NEPRA not only altered the base Tariff and increased Ps. 15/unit but also revised the control period to seven years from the date of this Determination, despite the fact that almost all stakeholders and 2 out of 5 of the then Members of the Authority (namely Mr. Maqbool Ahmed Khawaja and Mr. Shoukat Ali Kundi) were against the opening of the Capped Multiyear Tariff prior to completion of its' control period. The Dissenting Notes of both the Members are attached with the Authority's Determination.

The Stakeholders kept agitating this issue in almost all Public Hearings and Mr. Arif Bilwani lodged a formal complaint in 2012 which was decided by NEPRA in favor of K-Electric in 2015 after an inordinate delay of more than two years. During the Hearing Mr. Bilwani agitated this issue again and filed a Review request before NEPRA which is still pending before NEPRA for decision. It is estimated that this Ps. 15/kWh must have increased to Ps. 20/kWh due to indexation and the per month revenue which K-Electric is gaining due to this Decision of NEPRA must be in billions of rupees on monthly basis. NEPRA's taking of inordinately longer time to decide the issue goes in favor of K-Electric.

This post-Privatization favor by NEPRA is neither fair nor understandable. Had this action also been taken by NEPRA prior to Privatization, it would have attracted other bidders and would definitely have impacted the bid price positively.

- C) Non revision of allowed 6.1% Average Auxiliary Consumption despite change in Generation pattern from RFO to Gas:** Historically the electricity generation of KESC's own system was dominated by the steam generated in the boilers. Therefore considering the factor

that more Auxiliary consumption is used when electricity is generated by using steam generated in boilers, that too on RFO fuel, the Authority allowed 6.1% average Auxiliary consumption. Subsequently KESC replaced/inducted around 1000 MW Gas turbines/engines based Power Plants, which generate electricity with no use of steam Generator i.e. boiler and require less Auxiliary to generate electricity. Further, KESC has decommissioned its' old Steam Turbine Power Plants which were consuming higher auxiliary power to generate electricity. However the Authority, while approving the modification in the License of KESC to the extent of replacement/induction/decommissioning of these Power Plants, did not review the average Auxiliary consumption threshold. Despite the fact that the Authority has to look into the details of the impact on Tariff of the proposed Modification, as provided under the Application Modification Procedure Regulations prior to the approval of the Modification, the Authority has totally ignored this aspect and approved the Modification with the same level of Auxiliary consumption. It is also important to mention that this issue has been raised several times before the Authority by stakeholders but the Authority has not

2008 decided that KESC may be treated at par with Discos for Tariff purposes instead of on Marginal-Cost basis and accordingly decided that Rs 31.0 billion appearing in the books of KESC as payable to NTDC, being the difference between Marginal-Cost basis and the Discos' rate for the period June 2006 to July 2008 will be settled by the GoP with PEPCO/NTDC.

Details of this issue can be read from the Tariff Petition filed by KESC vide No. DD R&ASP/071/453 dated June 02, 2008 and Determination of the Authority issued vide No. NEPRA/R/TRF-101/KESC-NTDC-2008/276-79 dated September 29, 2008 (Determination available on NEPRA website and the Tariff Petition has probably been removed from the website).

It is important to note that the difference of Marginal-Cost and Discos' rate Tariff is quite huge and the main beneficiary of this difference is the Company at the cost of the consumers of XWDISCOs.

It is more important that this incentive was neither available nor known to the bidders who participated in the bidding process of KESC conducted in 2005. If this

incentive would have been known to the bidders, it would certainly have increased the bidding amount.

This is probably the biggest favor conferred on KESCL and one which is recurring in nature. This favor has been given to K-Electric without considering the loss to the National economy and the consumers of XWDISCOs. The amount of loss on this account is in billions of rupees and is a recurring loss.

It is a fact that K-Electric, neither in the past nor now, is contributing to the National Power Projects like Neelum Jhelum Surcharge nor any other Surcharges which consumers of other DISCOs are paying in their electricity bills. Notwithstanding all that is stated, if this favor was necessary, for any reason whatsoever, then the concept of two separate 'Baskets' should have been reviewed to avoid economic losses due to operation of Power Plants without observing the merit order.

**F) KEL is drawing Power from NTDC against the spirit of the provision/decision and against economic operation of the Power Plants/prudent Utility**

**Practices:** It is important to mention that there are two separate electricity 'Generation Baskets' in Pakistan; one

is the NTDC and the other is the KESC Generation Basket: Economic Merit Order is maintained in the two Baskets separately. The Economic Merit Order of the Power Plants operating in the two Baskets separately will be different if these Power Plants are placed under one Generation Basket. Further, if we compare the weighted average RFO, HSD and Gas based Generation in the KESC and NTDC Baskets then respective cost of Generation on each Fuel in the KESC system is lower than in the NTDC system.

In the light of the above facts we understand that ECC was not apprised about the complete facts while it was making the above decision and it appears that the above referred ECC decision was made without consideration of the complete facts. Further, NEPRA which is actually sitting on top of the Power Sector of Pakistan and is the exclusive Regulator of the Power Sector in Pakistan, knowing the fact that the ECC decision is not economically and technically prudent, neither refused to accept and implement the decision nor referred the issue to the concerned forum along with full facts for its review and reconsideration. It may be noted that the decision of ECC is not binding on the Regulator. Furthermore, in the decision ECC used the word 'may': this means the ECC

give a direction and NEPRA had to look into the details of the issue and give its final decision which should have been economically and technically prudent. Unfortunately NEPRA did not perform its job in the matter.

**G) Purchase of Power by K-Electric from NTDC despite the fact that the Plants available in K-Electric System are not utilized to their Full Capacity - Power Sector is facing financial loss of around Rs. 1.5 to 2 billion per month on account of this un-economic and non-prudent operation of Power Plants:** After going through the Petition of KESC dated June 02, 2008 one can easily judge that the Power Purchase by K-Electric from NTDC was foreseen and requested to meet the load demand of KESC system once all its electricity Generation resources are exhausted. However, after the above referred decision of ECC, KESC used to draw power from NTDC to the tune of 650 MW without exhausting the electricity Generation capacity available in its Basket. It is relevant to mention that NTDC operates its costliest Plants to generate power which it supplies to K-Electric despite the fact that the cost of electricity Generation in the KESC system is lower than the costliest Generation in the NTDC system, which NTDC generates to supply to KESC. Sometimes this cost difference reaches to more than Rs. 6/kWh. And in this

condition when comparatively cheaper cost electricity in the K-Electric system is available and the same is not being used. Instead, NTDC operates the costliest Power Plants and supplies the costlier Generated electricity to K-Electric at an average Basket rate. This does nothing but burdens the consumers of XW DISCOs and the Exchequer in billions of rupees on monthly basis.

KESC and NTDC executed the Power Purchase Agreement on 26.01.2010. Besides other details, there are certain terms and conditions given in the PPA which clearly spell the condition under which KESC can purchase the electric power from NTDC. In this regard Article 2.1 and 6.1 of the PPA are relevant and are reproduced hereunder:

Article 2.1 of the PPA executed between NTDC and KESC on 26.01.2010:

(a) Subject to and in accordance with the terms of this Agreement from and after the Effective Date, KESC, after meeting its demand through the available energy, may request NTDC to provide electric power in a quantity which is reasonably required by it to meet with its requirements but limited to the Capacity.



(b) Subject to and in accordance with the terms of this Agreement from and after the Effective Date, NTDC shall sell to KESC electric power in a quantity which is reasonably required to meet with the requirement of KESC limited to the Capacity at the Delivery Points.

(c) In case KESC draws more power than the capacity agreed for 60 minutes then the NPCC shall notify KESC Control Centre to immediately reduce its load to the extent of the excess and if KESC Control Centre fails to do so then NTDC may temporary disconnect any one of the circuit of Interconnection Facility till the load be reduced to Capacity.

Article 6.1 of the PPA executed between NTDC and KESC on 26.01.2010:

(a) Request for Despatch: KESC shall inform NPCC by means of a written Despatch Instruction from KESC (which Despatch Instruction shall be given one Day ahead by 1200 hrs) about its estimated quantity of electric power which is reasonably required to meet its requirements but limited to the Capacity for the following Day on hourly basis.

(b) Energy Availability Confirmation: Upon receipt of Despatch Instruction from KESC (which Despatch Instruction shall show separately a request for reasonably required electric power from NTDC but limited to the Capacity). NPCC (which shall be deemed to always be acting on behalf of NTDC) shall confirm the availability thereof by 1400 hours with NTDC on the following day.

From the above it is clear that KESC can only purchase power from NTDC once all its available capacity is exhausted. The spirit of this provision was only to meet the electricity demand of K-Electric and not to provide costlier Generated electricity to K-Electric at a cheaper rate while burdening the consumers of XWDISCOs.

NEPRA was supposed to approve the Power Purchase Agreement executed between NTDC and KESC after its clause-by-clause due diligence and after consultation with the Stakeholders under the provisions of the Interim Power Procurement Regulations, 2005 but the PPA was neither approved as provided in IPPR nor notified. It is surprising that while approving the Tariff and PPA of very small Generation companies (Plants commissioned as NCPPs), NEPRA conducted more than one hearing and modified even the mutually signed agreement between

DISCOs and the NCPPs and after its approval the same was notified in the official Gazette: why this exercise was not adopted in the case of K-Electric is not understandable. Further, NEPRA was required to monitor the economic impact of this decision from the very first month of its execution but unfortunately NEPRA did not make efforts in the beginning and resultantly billions of rupees of Pakistan and of Pakistani electricity consumers have been lost and drained (still draining) after benefitting K-Electric alone at the cost of other Stakeholders.

- H) Underutilization of Generation Power Plants in K-Electric System:** K-Electric maintains an independent Generation Basket which comprises the KESC's own dual fuel (RFO and Gas) Power Plants, Gas Fuel Power Plants, RFO based IPPs exclusive for KESC, small Generation Power Plants like KANUPP, Steel Mills, IIL etc. A month-wise Generation data sheet has been compiled and from the compiled data it emerges that the Generation Power Plants available in the KESC system, own as well as IPPs, were not utilized to their full capacity despite the fact that demand was available in the System. The compiled data-sheet is attached for review and correction by K-Electric and NEPRA; we will appreciate if the sheets, after their

correction wherever needed, are returned to us for our record.

It is more surprising that while not utilizing the Power Generation capacities to their full capacity, KESC was continuously drawing power to the extent of 650 MW from the NTDC system. Although the existing arrangement of Power supply from NTDC system to K-Electric is not at all prudent, but if at all it is necessary for NTDC to supply electricity to KESC then for Economic Despatch of Power Plants operating in Pakistan it is necessary to have only one Generation Basket in the country and the operation of the Power Plants of K-Electric should also be placed in the Basket of NTDC in order to operate these Plants as per their Economic Merit Order.

It is important to mention that in 2009 KESC was fined for Rs. 300,000 (maximum fine of that time) by NEPRA vide its order No. NEPRA/R/LAG-05/10046 dated 13.10.2009 on the charge of under-utilization of its own as well as IPP Power Plants available in its system. The details can be read in para 11.2.1 to 11.2.11 of the referred order.

While imposing the fine on under-utilization of the Power Generation Capacity, it was further directed by NEPRA that "If KESCL continues with the practice of reducing or underutilizing its generation capacity from IPPs strict punitive action will be taken against it in future." However, from the compiled data-sheet it is clear that KESC did not bother to follow NEPRA's instructions and continues to underutilize not only its own Power Plants but it also did not utilize the IPPs Power Plants to their full capacity. On the other hand, for reasons best known to it, NEPRA remained silent and did not bother to monitor its own direction of 2009, the violation of which is causing loss of billions of rupees to the economy and electricity consumers.

It is also a known fact that not only the Stakeholders but two of the then members of the Authority, namely Mr. Maqbool Ahmed Khawaja and Mr. Shaukat Ali Kundi, through their Dissenting Notes given in the decision of Monthly and Quarterly Adjustments, kept agitating the underutilizing of the Power Plants by KESC. However, three out of the five Members, by over-ruling the comments of the Stakeholders and the two Members of the NEPRA Authority and ignoring the violation of their own directions by KESC, kept allowing the Adjustments

to KESC. Dissenting Notes of the two Authority Members during the period 2010 to 2013, are given in the Decisions of the Authority listed below and available on NEPRA's website:

NEPRA/TRF-133/KESCL-2009/4428 dated June 4, 2010;

NEPRA/TRF-133/KESCL-2009/5017-5020 dated June 30, 2010;

NEPRA/TRF-133/KESCL-2009/3314-3317 dated October 28, 2010;

NEPRA/TRF-133/KESCL-2009/3911-3914 dated November 15, 2010;

NEPRA/TRF-133/KESCL-2009/4240-4243 dated December 3, 2010;

NEPRA/TRF-133/KESCL-2009/4525-4528 dated December 15, 2010;

NEPRA/TRF-133/KESCL-2009/4771-4774 dated December 27, 2010;

NEPRA/TRF-133/KESCL-2009/161-164 dated January 13, 2011;

NEPRA/TRF-133/KESCL-2009/935-938 dated February 15, 2011;

NEPRA/TRF-133/KESCL-2009/2889-2992 dated April 19, 2011;

NEPRA/TRF-133/KESCL-2009/3180-3183 dated May 3, 2011;

NEPRA/TRF-133/KESCL-2009/4836-39 dated June 30, 2011;

NEPRA/TRF-133/KESCL-2009/4829-4832 dated June 30, 2011;

NEPRA/TRF-133/KESCL-2009/7909-7912 dated September 8, 2011;

NEPRA/TRF-133/KESCL-2009/9787-9790 dated October 17, 2011;

NEPRA/TRF-133/KESCL-2009/4134-4137 dated May 02, 2012;

NEPRA/TRF-133/KESCL-2009/4759-4762 dated May 26, 2012;

NEPRA/TRF-133/KESCL-2009/6988-6991 dated August 8, 2012;

NEPRA/TRF-133/KESCL-2009/5143-5147 dated May 29, 2013.

From the above it is clear that in this matter also NEPRA allowed K-Electric to get away with non-prudent utility practices and did not take any action for a long time. And after a long time, when it did take some action to save its skin, NEPRA did not observe the due legal process. Resultantly, it gave an opportunity to KESC to challenge the Decisions of NEPRA before the Honorable Courts and to get interim Orders against legally flawed Decisions of NEPRA. It is also unfortunate that in such complex matters no one is assisting the Courts in a proper manner to get the cases decided and K-Electric is reaping the benefit of the situation at the cost of its' consumers. It is important that in 2009 KESC paid the fine imposed by NEPRA on underutilization.

It has been learnt that in the case of underutilization NEPRA took note of the underutilization in later years i.e. in the year 2013. It monitored its direction for the first time after 4 years. However, as stated above, Decisions of the NEPRA are challenged and K-Electric succeeds in obtaining Injunctive orders against the Decisions of the Authority due to legally flawed Decisions of the Authority. As no stakes of NEPRA are involved, NEPRA is not making due efforts to get the final order from the Honorable Court. Since this situation is in favor of K-Electric, it is enjoying the fruit of the situation due to non-performance of NEPRA and at the cost of consumers and the National economy.

**I) Operation of Power Plants on Open Cycle Mode:** K-Electric replaced its Korangi and Site Gas Turbines with small Gas Engines and also replaced its KTPS Power Plant with 220 Korangi Combined Cycle Power Plant. These Gas-based Power Plants, with a cumulative capacity of around 300MW, were kept running on Open Cycle Mode for a period of around six years. Operation of Gas-based Power Plants using pipeline quality Gas as Fuel on Open Cycle Mode is nothing but a National crime, specially in a country where electricity is short of the demand and is more expensive than in the Region.



Operation of Power Plants on Open Cycle Mode for around six years means that K-Electric kept wasting 45 MW, Fuel free electric Power, due to its ill-planning or K-Electric did not give importance to the larger and greater National and consumers' interest against its smaller private interest.

It is surprising to note that while approving the Tariff and PPA of very small Generation companies (Plants commissioned as NCPPs), taking note of the operation of the small capacity Power Plants(NCPPs), NEPRA gave a clear time-line of a maximum of 9 months to convert their Open Cycle Power Plants to Combined Cycle. In its Decision, NEPRA clearly mentioned that the Tariff for these Open Cycle small Power Plants, after the given time span, will automatically convert into the Tariff of Power Plants operating in Combined Cycle Mode irrespective of whether the Power Plants converted into a Combined Cycle mode or not. However, why NEPRA was not vigilant on this issue in the case of K-Electric defies understanding.

- J) Non-Installation of Time of Use (TOU) Meters and Billing as per TOU Meters by K-Electric in violation of the Authority's Decision:** It is mentioned in Para 23.5 of

the Authority's Determination NEPRA/TRF-133/KESC-2009/1330-1333 dated December 23, 2009 that the provision of TOU Tariff for consumers having load in excess of 5 KW as provided in the case of other DISCOs, is not available under the existing schedule of Tariff and terms and conditions of supply of KESCL to its residential, commercial, small industrial, bulk-supply and Agricultural consumers. And vide Para 23.7 the Authority gave its decision that "In view of the above, the Authority has decided to modify the existing terms and condition of supply as per petitioner's request as well as revised schedule of tariff attached herewith Annexure-E and Annexure-F respectively."

Under Annexure E attached to the Authority's Determination of December 23, 2009 it is stated under almost each category of consumers (A-1, A-2, B-1, B-2, B-3, B-4, C-1, C-2, C-3, D-1) that " All existing consumers having sanctioned load of 5 KW and above shall be provided ToU metering arrangement and converted to A-1(b) Tariff by the Company no later than June 30, 2011. Till such time they will be billed under tariff A-1(a). " " All new consumers having sanctioned load of 5 KW and above shall be provided ToU metering arrangement with

effect from 1st January 2010 and shall be billed on the basis of tariff A-1(b) as set out in the Schedule of Tariff'.

KESC filed Motion for Leave for Review against the Decision of the Authority vide its letter No. DDRA&SP/ET040/ dated January 5, 2010 and on ToU metering it stated that "At present KESC has no ToU metering arrangement for any of its consumers, whereas per new tariff structure, almost all existing consumers, having sanctioned load of 5 KW and above, shall be provided ToU metering by June 30, 2011. Whereas all new consumers having sanctioned load of 5 KW and above shall be provided ToU metering with effect from 1st Jan, 2010.

#### Ground of review

KESC has over 2 million consumers, with about 40% having load of 5 KW and above. Conversion of these consumers on ToU metering involve lengthy procedures, requires meters, material and manpower. KESC in its submission of Terms and conditions of the Authority, in December, 16 2008, had proposed the completion of said process by June 30, 2013. It is therefore requested that the time for conversion for all consumers, having load of 5

KW and above, on ToU metering, may be enhanced to June 30, 2014. Accordingly the date for providing ToU metering to new consumers may be enhanced from January 2010 to July 2010."

In its decision issued vide No. NEPRA/R/TRF-133/KESC-2009/3097-3100 dated October 15, 2010 against the above stated Motion for Leave for Review submitted by KESC, under para 31, the Authority decided that "The Authority has, therefore decided to accept KESCL request for extension in time limit for provision of ToU meters and other suggested amendments, wherever required, in the existing terms and conditions of KESCL as approved and attached herewith as Annexure-I".

It is unfortunate that even after the lapse of almost five years, KESC has not been able to provide ToU metering to its consumers. This simply means consumers of K-Electric are being discriminated against and KESC is getting advantages and benefit out of it. But the Regulator is silent on this violation, for reasons best known to it.

**K) In-efficient burning of Gas in Power Plants:** One of the prime objectives of the privatization of KESC was to bring economic and technical efficiency. However, it is observed

that in most of the cases while making its decisions NEPRA did not consider the economic aspects. Most of the cases decided by NEPRA are based on financial analysis which is obviously not in the larger interest of the country's economy. The Modifications approved by NEPRA in the Generation License of KESC were not technically, economically and contractually justified and thus not only are these causing huge loss now but in the next 20-25 years these Modifications will give enormous loss to the economy.

Notwithstanding the comments which have already been submitted before NEPRA on the issue of induction of inefficient Power Plants not only by us but by other stakeholders as well, it is noted that K-Electric is burning Gas in inefficient Power Plants in its existing Generation fleet leaving the efficient Power Plants to operate to their partial capacity. All Stakeholders know that K-Electric must be having its reasons in doing so but NEPRA is supposed to monitor whether the factors due to which K-Electric is burning the scarce Pipeline quality Gas inefficiently are beyond control and have no engineering and technical solution or the problem can be fixed by some engineering solution. The burning of Gas in BQPS-I Power Plants really defies understanding.

It is important to note that K-Electric is using Pipe line quality Gas in BQPS-I Power Plant which only has an efficiency of around 31% while not using its more efficient (36 - 51%) Gas Power Plants. Why NEPRA has not taken any action on the in-efficient burning of Pipeline quality Gas in K-Electric Power Plants must be known to it but this silence of NEPRA is causing huge financial loss to Pakistan and the electricity consumers of K-Electric.

**L) Accounting of Gas and Oil Generated units in dual fuel Power Plant which are burning both fuels simultaneously:** It is relevant to mention that electricity is generated through BQPS-I Power Plants by using RFO and Gas fuel simultaneously. It is difficult to segregate the Units generated by using Gas fuel from those generated by RFO fuel. In the past NEPRA itself conducted a study with regard to the swindling of oil of billions of rupees in the Power Plants of GENCOs which were Generating electricity by simultaneously using RFO and Gas fuel in Boilers. Accounting of Units generated on Gas and Oil in dual fuel fired Boilers carries a huge financial impact. This issue gains more importance in the case of a Vertically Integrated Utility, like K-Electric, where all functions are in the hands of one Company. Furthermore, the Company is buying oil from Byco, which

also has a common business relationship and interest. Unfortunately NEPRA never made any effort to check this aspect despite the requests of the Stakeholders for technical and engineering audits.

- M) **Non-approval of Heat Rates on newly inducted Power Plants in the K-Electric System:** It needs to be noted that NEPRA has not approved and notified the Heat Rates of K-Electric's new Power Plants despite the fact that NEPRA, vide the order of its Tariff Determination given in December 2009, clearly mentioned that KESCL shall not be allowed any Adjustment in Tariff on account of Fuel price variation till the approval of Heat Rates of such Power Plants. It is also a known fact that the issue of the operation of K-Electric's Power Plants without observing the Economic Merit Order was not only being highlighted by the Stakeholders but also by the Members of the Authority but even after the lapse of many years the matter is still unresolved. NEPRA has neither approved the Heat Rate nor could establish that K-Electric is operating its Power Plants as per Economic Merit Order. However, as an adhoc arrangement, the Authority kept on granting its Provisional approval in Adjustment cases of K-Electric.

- N) Non Approval of the Authority for Power Acquisition for Purchases from External Sources:** Vide its Tariff Determination given in December 2009 NEPRA directed KESCL to obtain approval of the Authority for Power Acquisition along with the agreed rate and other terms and conditions for purchases from external sources. It is important to note that the Tariff of all Generation Companies, after approval by NEPRA, is notified in the Gazette of Pakistan either in the form of Tariff Determination or Power Acquisition Request but in cases of K-Electric system the approval and notification of Tariff for purchases from external sources like KANUPP, Pakistan Steel, IIL, Anoud etc. are not available on NEPRA's website. Why NEPRA is choosing to ignore it must be known to NEPRA. It is a legal provision of NEPRA Tariff (Standards& Procedure) Rules that a Licensee can charge only such Tariff which is published in the official Gazette.
- O) Non Payment of profit on Security Deposit:** Prior to its privatization and even post-Privatization till 2012, KESCL kept on paying interest at the rate of 5% on Security Deposit amounts but since 2012 it discontinued this practice. NEPRA was informed about this fact but helpless consumers could not get justice from it.



**P) Collective Punishment to Electricity Consumers in the name of Load Shedding:** KEL classified its distribution area on the basis of technical and administrative losses; the areas are classified on the basis of incurring of losses i.e. Low Loss, Medium Loss, High Loss and Very High Loss. KEL has adopted a self-made policy for load shedding which is based upon the rate of loss incurred. It is a known fact that in the areas where KEL is facing losses, all the consumers are not involved in electricity theft. In even High Loss areas more than 50% consumers of electricity used to get the electricity honestly and were paying their electricity bills regularly. In case some electricity consumers are involved in electricity theft it is the duty of KEL and the Government to deal with those thieves as per law: but punishing the law-abiding citizens, who are in a majority due to some people who are in a minority, is illegal and a violation of the Constitution of Pakistan. It is the worst form of 'GhundaGardi' by the Utility. KEL has sufficient installed Capacity and ideally their electricity consumers should not be subjected to load shedding. In case, at some point of time, KEL has to shed the load then it should observe the load-shedding as per the criteria given in NEPRA's Rules. This issue was raised before NEPRA several times

but NEPRA did not bother to take action against this illegality. Reasons for not taking any action against this illegality must be best known to NEPRA.

- Q) Collection of Rs. 8 per month per consumer by K-Electric in the name of Bank Collection Charges:** KEL was given Multiyear Tariff in 2002. Prior to this Multiyear Tariff KEL was collecting Bank Charges @ Rs.2/- from its consumers. While determining MYT, NEPRA therefore merged these Bank Charges in the base Tariff, which is subject to indexation. Thereafter KEL was not charging any amount in the name of Bank Charges.

In July 2010 NEPRA allowed KEL to collect Bank Collection Charges @ Rs. 8/- per month per consumer, for reasons best known to NEPRA.

The Stakeholders kept agitating before NEPRA against the illegal collection of these Bank Charges by K-Electric. NEPRA again initiated formal proceedings on this issue of Bank Charges in 2013 and after taking two years NEPRA gave its decision in March 2015. In the meantime K-Electric kept on collecting these illegal Bank Charges from their consumers. In the 2015 decision, NEPRA mentioned that the approval of NEPRA for allowing Bank

Collection Charges was made incorrectly for the reason that KEL concealed the facts at that point of time. In its decision of 13.03.2015 NEPRA mentioned that the permitted amount of Rs. 2/- in 2002-03 under the head of O&M Cost as Bank Collection Charge expense reached to Rs.6.23/- in 2013-14 due to indexation mechanism. In its decision NEPRA not only stopped KEL to charge Rs. 8/- as Bank Collection Charges from its consumers but also directed for intimation of the amount which KEL had collected (in duplicate) from its consumers on account of Bank Collection Charges @ Rs. 8/- since 2006, for its adjustment and refund.

K-Electric filed Motion for Leave for Review against the Decision of the Authority in April 2015 which was decided by the Authority on October 27, 2015 i.e. after taking more than 6 months. NEPRA dismissed the Review Petition. The Decision of NEPRA is available on its website. But again the consumers have not been able to get relief on this account.

It is a serious finding of NEPRA that K-Electric has concealed material facts. This attitude of the Utility, which is providing an essential service to the millions of consumers, the cost of which is in billions of rupees is

very serious and requires strong monitoring from the Regulator.

In the past K-Electric was also found involved in such cases; in 2011, K-Electric by misinterpreting the Fuel Charge Adjustment Notification had over-recovered from its consumers on account of monthly Fuel Charges Adjustments for the months the July 2009 to March 2010 and had reimbursed the over-recovered amount upon the Authority's Directive issued vide letter TCD 09/627-28 dated 01.02.2011.

**R) Charging of Meter Rent by K-Electric:** During Hearings the Stakeholders kept on agitating the issue of charging of Meter Rent by K-Electric. However, NEPRA has initiated its proceeding in this matter in June 2013 and announced its Decision in January 2015. The Decision is available on NEPRA's website. It is matter of concern that NEPRA took 18 months to decide this issue. Through its decision NEPRA declared charging of Meter Rent unjustified and ordered K-Electric not to charge it and to refund the amount which has been collected from the consumers on this account. Further, a fine of Rs. 10 million was also imposed on K-Electric. However, consumers of K-Electric have not been able to get the

benefit of this order and as usual K-Electric did not accept this Decision of the Regulator like its other Decisions. This clearly shows that NEPRA does not have the capacity and capability to Regulate one K-Electric.

While making the argument in support of its judgment NEPRA argued that:

"KE was given multi-year tariff by the Authority in year 2002. As per spirit of multi-year tariff, the tariff was locked for certain period of time and during the locked period, KE cannot claim any other expense or charges, any other cost in any head to the consumer and it can only claim certain determined adjustments and variations as expressly provided in the multiyear tariff determination and its adjustment mechanisms. Further, KE, being a distribution licensee can charge only such rates, tariff and other charges as determined/approved by the Authority and notified in the official gazette."

"The investor at the time of privatization of KE, while carrying out the due diligence, was fully aware of the fact that the meter rent is the integral part of the revenue as such denial of this is against the rules of privatization."

Despite acknowledging these facts NEPRA not only opened the seven years' locked tariff midway but also extended the seven year period to 11 years. Further, NEPRA kept allowing KE various charges, rates etc. which were not there at the time of privatization.

Further, while giving the argument in support of its claim, KE also argued that "The meter rent is recovered from the consumers as cost for replacement of meter which is charged after a certain period of time as per utility practice. The cost of replacement is borne by KE, in compliance with Consumer Service manual, and not charged to the consumers. Currently, the TOU meters are also being replaced by KE, without recovering cost from the consumers."

Despite the above statement KE failed to provide TOU metering facilities to their consumers while consumers all over country are enjoying TOU meter rates.

- S) Supply of Electricity to Consumers through hook connection instead of providing regular electric connection:** The issue of provision of electric supply through hook, un-metered connection instead of providing regular metered connection was agitated before

NEPRA by various stakeholders during hearings since 2012-13. Again after long processing of the case NEPRA gave its direction in 2014. Again in this case, K-Electric did not accept this direction of the Regulator NEPRA, and got an injunctive order from the Sind High Court. The injunctive/Stay orders from the Sindh High Court against the decisions of a quasi-judicial Authority clearly shows poor processing of the case while making decision in NEPRA and non-follow-up of the cases before Courts. This attitude of NEPRA may be due to the fact that in these cases NEPRA does not have a stake, rather the consumers of K-Electric are facing the adverse effects of NEPRA's legally flawed Decisions. This clearly shows that NEPRA does not have the capacity and capability to Regulate just one K-Electric.

**T) Audit of Rs. 10.10 billion given by the Government of Pakistan to K-Electric under Financial Improvement Plan and US\$ 361 million which K-Electric had to invest as per the Agreement:** The Stakeholders kept agitating before NEPRA during Public Hearings about the approval of NEPRA on Investment Plan and the implementation of the Approved Plan by K-Electric. This was also an issue on which KESC was fined in 2009 and it K-Electric was directed to place its detailed Investment

Plan and implementation status on its' website. But consumers of K-Electric have not been able to see the NEPRA approved Investment Plan on either the NEPRA or the K-Electric website. Investment of K-Electric and utilization of FIP amount by K-Electric on the Projects which did not have prior approval of NEPRA is not legally justified as such spending may not be prudent.

**U) Addition of 1000 MW Generation Capacity by K-Electric as per Agreement:** K-Electric was required to add 1000 MW Generation capacity in its system as per the Implementation Agreement. The total installed capacity of K-Electric at the time of Privatization was 1801 MW and as of now i.e. in January 2016 it is 1874.79 MW. This means the net addition in K-Electric generation system is of 73.79 MW instead of the required addition of 1000 MW. Although K-Electric has commissioned new Power Plants of 1034 MW but after decommissioning, leasing out and replacement the net addition in generation capacity of K-Electric's own Generation facility is only 73.79 MW. Further, it is noted that K-Electric added all its new Power Plants with Gas as their primary Fuel despite the fact that it does not have any firm Gas Supply Agreement. In this way this addition may be considered as an imprudent addition.



**V) Induction of comparative in-efficient Gas Power Plant by K-Electric in its generation System:** K-Electric replaced its old Gas Turbines installed at Korangi and Site Power Stations with smaller Gas engines of 3.2 MW capacity each. These engines are using Pipeline quality Gas as their fuel. The efficiency of these Plants is in the range of 36%. The induction of 36% efficiency Power Plants operating on Gas having calorific value in the range of above 900, in the year 2010, is criminal. These smaller engines are not even suitable for a big Utility like K-Electric. It is surprising how NEPRA has allowed K-Electric to install these Plants in its Generation system. It needs to be noted that in 2010, the Gas-based Power Plants having efficiency in the range of 58-60% were available in the electric Power Market and even the Gas-based Power Plants which NEPRA allowed in 2005-06 had efficiency in the range of 51.2%.

K-Electric also added a 220MW Gas-based Power Plant at Korangi which has efficiency in the range of 41%. The induction of 41% efficiency Power Plant operating on Gas having calorific value in the range of above 900, in the year 2010, is criminal. It is again surprising how NEPRA has allowed K-Electric to install these Plants in its Generation system. It needs to be noted that in 2010, the

Gas-based Power Plants having efficiency in the range of 58-60% were available in the electric power market and even the Gas-based Power Plants which NEPRA allowed in 2005-06 had an efficiency in the range of 51.2%.

The efficiency of the latest 560 MW Power Plant which was inducted in the K-Electric Generation fleet during 2013-14 is also low as compared to the Gas based Power Plants which were available in the electric Power Market at that point in time.

Due to un-economic selection and induction of these inefficient machines, for the next 25-30 years Pakistan will remain deprived of extra MWs which could have been available in the country, without using any extra fuel, if more efficient machines had been inducted in the system. Why inefficient machines were selected is another question which NEPRA as well as K-Electric need to answer.

**W) Non acceptance of Claw-back mechanism given in the**

**Determination:** The Determination of K-Electric provides a mechanism for the sharing of profit, which K-Electric earned, with its consumers. With all the above favors K-Electric started earning profits in 2011-12 but did not

want to share the profit with its consumers as per the given Claw-back mechanism given in the Determination. K-Electric in this case also filed a Petition in the Sindh High Court and the case is pending before the Court. In fact, due to the 650 MW being taken from NTDC, which in actual fact is from the consumers of XWDISCOs, NTDC ought to be claiming a share in the profits of K-Electric on the same basis as the consumers of K-Electric and passing it on to the consumers of XWDISCOs.

**X) Overbilling Issue in K-Electric:** Upon a leaked E-mail a news item was published in newspapers of September 2012 regarding over-billing of 50 units to all category of consumers in the K-Electric system. Further, the Supreme Court of Pakistan also referred the case of over-billing to NEPRA. Vide its decision dated 12.06.2014 issued in the matter of six complaints referred by to it by the Human Rights Cell, Supreme Court of Pakistan against KESC regarding Bogus/Assessed/Average/Theft billing by KESC, NEPRA held that the Management of KESC was involved in a plan of over-billing. It was also noted by the Authority that K-Electric was issuing the detection bills without observing the codal formalities. A detailed thirteen page Decision is available on NEPRA's website. K-Electric, as usual, again approached the Sindh

High Court in this matter. K-Electric consumers are still looking for the final decision.

- Y) Over-Charging from three consumer categories by K-Electric due to the fault of NEPRA:** The Mechanism for Quarterly Adjustment was approved in the Tariff Determination of NEPRA dated 23 December 2009. As per the Mechanism, Quarterly Adjustments for the period from July 2009 to March 30, 2010 were made by NEPRA vide its Decision dated June 30, 2010. Through this decision K-Electric was allowed Rs. 2.79/kWh uniform increase for all categories of consumers except life line consumers. However, it was noted by NEPRA in 2012 that three categories of consumers were erroneously adjusted on the higher side while one category was adjusted on lower side. The detail of this is given below:

Tariff Categories	Adjustment that should have been made	Erroneous Adjustment made	Consumers over/under charged by K-Electric
A1-Residential1-100 units	2.79	3.33	Over charged by 54 paisas

A1-Residential 101-300 units	2.79	2.99	Over charged by 20 paisas
A1-Residential 301-700 units	2.79	3.19	Over charged by 40 paisas
D1-Agriculture	2.79	2.67	Under charged by 12 paisas

The above over/under charging was continued without any notice from July 2009 to January-March 2012. A corrigendum was issued by NEPRA on 20.11.2012 to rectify this error which was in favor of K-Electric but K-Electric, as usual, approached the Sindh High Court against the legally flawed Decision of the quasi-judicial Authority and is still getting the benefit of NEPRA's error.

**Z) Disconnection of electricity connection of Industrial Consumers by K-Electric on account of under-utilization of sanctioned load:** It is surprising that K-Electric on one hand is under-utilizing its Power Plants despite the load demand in its system, but to the contrary it was disconnecting the electricity of those industrial consumers which were under-utilizing the electricity vis-à-vis their sanctioned load. Industrial consumers

submitted their complaint before NEPRA during the Hearing in March 2012. Vide its order dated March 12, 2012 the Authority restrained K-Electric from disconnecting electricity connections on account of the above reason. K-Electric, as usual, again went to the Sindh High Court against this decision of NEPRA.

It is important to state that we have requested NEPRA more than once to provide the list of Writ Petitions which K-Electric has filed against the Decisions of the Authority but it is not clear why NEPRA is reluctant to provide even this information. In fact NEPRA should place a list of all litigation against it in a separate section on its otherwise well-maintained website.

**AA) Failure of K-Electric to maintain the laid down standards of SAIFI, SAIDI and Overall Standard:**

NEPRA has passed an order against K-Electric vide its letter NEPRA/R/SA(Tech)/ LAD-01/14609 dated October 5, 2015 and imposed a fine of Rs. five million for non maintaining the SAIFI, SAIDI and overall Standard but consumers of K-Electric did not know about the deposit of the fine amount by K-Electric.

**AB) Replacement of Copper Conductor by Aluminum**

**Conductor:** The issue of replacement of Copper with Aluminum Conductor is being agitated by various Stakeholders for the last many months during the Hearings. It is a known fact that the Conductor used in K-Electric Distribution system was made of copper. The reason for using copper Conductor was that it is the best Conductor after Silver: with the same weight and size the current-carrying capacity of the copper Conductor is more and on top of it all, its life in coastal areas is more than the Aluminum Conductor. In a city like Karachi, where load is concentrated, the use of the copper Conductor is recommended. Furthermore, it is also a known fact that market price of even the old copper Conductor is more than three times that of the new aluminum Conductor. The reason for removing the copper Conductor and using aluminum Conductor in its place in the Distribution system is perfectly understandable to all save NEPRA.

**AC) Death of more than 1200 people in the Karachi heat-**

**wave coupled with load-shedding:** In the hot summer days of 2015 more than 1200 people lost their life within 2 to 3 days due to the heat-wave coupled with the heavy load-shedding in the city of Karachi. NEPRA initiated the

enquiry in this matter and notified a Fact Finding Committee. Unfortunately, after the lapse of 6 to 7 months of the incident, the Report of NEPRA on this issue has not yet come in the public. It was predicted in one news article that the summer of 2016 will be warmer than 2015; therefore, it is necessary to make the Fact Finding Report of NEPRA public so that the required steps are taken before time to avoid loss of human life.

**AD) Permission to K-Electric to lease its two Units of Bin Qasim Power Plants, accumulated capacity of 421 MW to K-Energy for their conversion from RFO to coal fuel:** NEPRA has approved the K-Electric-proposed Modification to lease out its almost 16/17 years old, inefficient Power Plants to K-Energy for their conversion to Coal Fuel despite opposition of almost all Stakeholders. While making this decision, NEPRA was aware of the fact that the price of oil is at a much lower level, and as per Oil Market prediction, the prices will be in the lower range till at least 2020. NEPRA was also aware of the fact that several new efficient Coal-based Power Plants (3000-4000MW) are coming in the coastal area of Karachi. In this situation, the permission of NEPRA to K-Electric for this modification is quite strange. The economics of the



NEPRA-decision needs to be made public as it has not been available in the public domain.

It is further surprising that NEPRA excluded the 420 MW Generation capacity from the Generation License of K-Electric with effect from the date of Modification. This favor of NEPRA provided K-Electric an opportunity to claim/adjust its' installed capacity to a lower level. In this way, K-Electric will get itself absolved of the charges of under-utilization. It is worth noting that NEPRA, while approving the Coal Conversion cases of AES Lalpir, AES PakGen and Saba Power has clearly mentioned in its Decision that their Power Plant will remain available for dispatch during construction period except for the last six months when the Complex will be completely shutdown.

**AE) Induction of Rental Power Plants in K-Electric System:**

Aggreko Rental Power Plant kept on supplying around 50 MW Power to K-Electric system during January 2009 to March 2011 without obtaining the Generation Licence and Tariff from NEPRA. NEPRA has not disclosed this fact before the Supreme Court of Pakistan when the Honorable Court was adjudicating the cases of Rental

Power Plants in Pakistan. The cost of Electricity purchased from this RPP was higher than other comparable Gas Based Power Plants. Why NEPRA has not taken any action against K-Electric for this illegal activity is still a question to be replied by NEPRA. With regard to this issue NEPRA was quite aware but did not discharge its duties under the provisions of its Act, Rules and Regulations. A News item published in 'The Nation ' dated November 16, 2011 with regard to Aggreko is reproduced here which clearly shows the actions and inactions of each stakeholder including NEPRA:

**“...NEPRA warns KESC of heavy fine -**  
ISLAMABAD - Finding an alleged attempt of forgery, the National Electric Power Regulatory Authority (NEPRA) has believed to warn the Karachi Electric Supply Company (KESC) of serious consequence if the same is repeated in future, The Nation learnt reliably. NEPRA further directed to hush up the matter and warned not to indulge in similar nature of matter in future, sources said on Tuesday.

'NEPRA has taken serious notice over hefty forgery attempt of KESC under the head Rental Service Charges (RSC), sources said adding that though agreement of Karachi City first rental Power Plant with Aggreko Rental Power Plant was expired in March but the KESC in its desperate bid had tried to get approve worth of Rs 5 crore and forty lakh from the authority. They were of the opinion that NEPRA has secured the hard-pressed power consumers by not approving hefty charges of Aggreko Rental Power Plant in a Karachi Electric Supply Company's desperate bid where it has ultimately faced the music by the authority.

The NEPRA while reprimanding the KESC has further denied giving go ahead to the above said extra burden (RSC) of millions of rupees for the month of April to over-burdened power consumers, sources added.

It was also learnt that NEPRA has warned the KESC of heavy fines and punishment if the same nature of forgery is done in future. Electricity had been purchased on Rs15 and 40 Paisa per unit from the

Aggreko Rental Power Plant though tariff for other rental Power Plants run on gas was decided at Rs5 to 6. Sources have further informed that no international competitive bidding was done in 2008 viewing the acute shortage of electricity in the metropolitan city of Karachi. Available documents with The Nation have further confirmed the info and also disclosed that the KESC had attempted to approve Rs5 crore and forty lakh from the authority under the head RSC for the month of April to add salt to the hard pressed power consumers though no electricity was produced in that month to meet the growing power needs after the expiry of agreement with Aggreko Rental Power Plant.

NEPRA has taken severe notice of this hefty forgery and warned of heavy punishment/fines if same is repeated in future.

It is relevant to note that 50MW Aggreko Rental Power Plant was installed by the Karachi Electric Supply Company in Haroonabad site in 2009 and Sindh Chief Minister Qaim Ali Shah inaugurated it.

This rental plant has provided some 679MW electricity till March 2011.

In 2008-09 only 163MW and in 2009-10, some 358MW and in 2010-11, only 158MW electricity could be produced."

**AF) Receiving heavy amount of Subsidy from Government of Pakistan:**

Although no record is available in the public domain as to how much subsidy has been given by the Government of Pakistan to K-Electric since 2005, after its Privatization, however it is learnt that the amount of subsidy given to K-Electric by GoP is the highest amongst all the DISCOs. It is also learnt that the amount of subsidy given by GOP to K-Electric is almost equal to the total cumulative amount of subsidies claimed by all the DISCOs together. Has NEPRA carried out any audit of the subsidy amount? The year-wise subsidy given to K-Electric prior and post-Privatization should be available in the public domain.

**AG) Uniform Electricity Tariff for end-consumers across the Country:**

The Government of Pakistan adopted a policy of uniform Electricity Tariff for end-consumers across the country. K-Electric is also getting a huge subsidy amount from GOP under the garb of this uniform Tariff. In actual fact, there are some fundamental differences in K-Electric and XWDISCOs system (independent Generation Basket, different Fuel Price Adjustment mechanism and non-application of TOU Tariff by K-Electric) due to which the Electricity Bill which consumers of K-Electric and XWDISCOs are paying are not uniform.

K-Electric maintains its own Generation Basket which comprises Electricity from its own Generation Facilities and also from the Power Purchases. This means that in Pakistan there are two Generation Baskets working independently of each other and that too without considering the economics of Electricity Generation in each other's systems. The Electricity Generation in K-Electric's own Generation system is dominated by Gas Fuel after its comparative in-efficient burning. Thus, based on the stated reasons and a different Fuel Price Adjustment Mechanism in XWDISCOs and K-Electric systems, the per Unit Adjustment in consumers' bills of K-Electric and XWDISCOs on account of Monthly Fuel Charges Adjustment is different. This means that

effectively the per Unit cost of electricity being paid by K-Electric and XWDISCOs' consumers is different even if their notified Tariff be the same. The monthly Fuel Charges Adjustment (Rs./kWh) for 7 to 8 months for K-Electric and XWDISCOs consumers as determined by NEPRA is compiled below for understanding the issue:

	Apr.	May	Jun	Jul	Aug	Sep	Oct	Nov.
FCA for K-Electric Consumers (Rs./kWh)	0.250	(0.240)	0.03	(0.7796)	(0.9154)	(0.1167)	(0.56)	
FCA for XWDISCOs Consumers (Rs./kWh)	(1.8613)	(2.6872)	(2.1974)	(2.1374)	(2.6016)	(2.8800)	(1.8147)	(2.0657)

Due to non-installation and non application of TOU rates, the Electricity Bills of K- Electric and XWDISCOs being paid by their consumers are not effectively uniform even if their notified Tariff be the same.

It is important to mention that K-Electric is the only Vertically Integrated Utility in Pakistan and even more so is a Privatized entity. One of the main purposes of

Privatization was to get rid of subsidies and to bring efficiencies in the Utility to reduce the Electricity cost for end-consumers. In the case of K-Electric, after Privatization, the amount of subsidy from GoP to K-Electric increased manifold. In these circumstances what was the reason to privatize this Utility?

**AH) Heavy Payable of K-Electric:**

Various Stakeholders which are supplying Electricity or Fuel to K-Electric complained that K-Electric is not paying them in time goods/commodities for the supplied. The dispute on payment and timely payment between K-Electric and SSGC has been published in Newspapers several times. The delay in payment to IPPs was also the substance of a Show Cause Notice issued to K-Electric in 2009 by NEPRA. It is learnt that K-Electric's payables to SSGC are still in the range of Rs.58 billion. The story available on the website under the below stated caption also requires NEPRA to get details from its Licensee about its total payables:

**"Rangers' report on SSGC-KESC affairs questioned by Govt dated October 01, 2015".**

**AI) The K-Electric story from loss to profit:**



For an Electricity supplying Utility/Company, Transmission and Distribution Losses (T&D Losses) and recovery of its dues from Electricity consumers are two important factors which are responsible for the Company's profit and loss. In case of K-Electric T&D losses of the Company are more than the target allowed to it and similarly the recovery is below 100%. Under these circumstances how has the company turned itself from losses to profit? All other Utilities in Pakistan and the Electricity consumers would like to know this secret as by implementing the same the other loss-making Companies can also pull their business from loss to profit.

**AJ) Snap shot of meter reading on Consumers' Electricity**

**Bills:**

To avoid excessive billing and ensure accurate meter-reading, K-Electric and other DISCOs were directed to print on the bill snap-shots of meter-reading, both previous and current. It was mentioned that the implementation of this direction of the Authority should not be later than 30<sup>th</sup> June 2015. Till date, like other Directions, this Direction of NEPRA has also not been complied with by K-Electric and its' consumers are still

getting their Electricity bills without snapshots of the meter-reading. The above summary shows that NEPRA has again failed, for reasons best known to NEPRA alone, to get compliance of its' Direction from K-Electric.

**AK) Purchase of Oil by K-Electric from Byco:**

The Power Company's (K-Electric) Share Holders Association (SHA) has many times pointed out about the shady business deals between K-Electric and Byco—a sister company owned by the Power Utility's Abraaj-led Management. On several occasions during Hearings, SHA raised the following issues:

- K-Electric is purchasing oil from Byco which is a sister concern of K-Electric.
- The way of delivering oil on trucks by Byco to K-Electric is suspicious, as it is very easy to steal the oil and factiously increase the supplied quantity by anyone involved in the management of trucks.
- The K-Electric Management has caused an intentional loss of more than three billion rupees to the Company by purchasing 50MW Power from

Aggreko, a Dubai-based company having a previous relationship with the Abraaj Group.

- The Tariff Adjustment on the basis of Fuel consumption is still unclear as there is no third party or NEPRA's representative to monitor or inspect how much Furnace oil is consumed at K-Electric's Power Plants. The Fuel adjustment is still being made on the basis of the data provided by K-Electric.

As usual NEPRA has not taken any serious action to investigate these allegations and has rejected the same. However, these charges need to be investigated in the light of the fact that K-Electric is producing Electricity from its Power Plants by using Gas and RFO Fuel in its Boilers simultaneously. It is a serious matter and needs to be confirmed how Gas and RFO based Generation is being segregated, specially when NEPRA itself carried out a study of 'Swindling of Oil' of more than Rs.30 billion in GENCOs on the same basis.

The earning of profit by the Company from loss, despite the higher T&D Losses and without 100% revenue

recovery also demands that NEPRA look into the charges of SHA more seriously.

**AL) Extending the date of Multi Year Tariff is favor to K-**

**Electric:** Extending the date of MYT, and that too with several concessions and favors and without revising the T&D Losses and other Benchmarks to a further improved level, is a very serious matter. The story/news item on its legality, published in the 'Express Tribune' dated June 25, 2013, is interesting and is available on the website under the caption "Government continues to level

allegations against KESC: THE EXPRESS

TRIBUNE > PUPAKISTAN > SINDH":

By Our

Correspondent:

Published: June 25, 2013

(<http://tribune.com.pk/story/568278/government-continues-to-level-allegations-against-kesc/>)"

In addition to the above, the following are some News Articles and letters written by some responsible person(s)/organizations with a view to improve the situation but the Authorities sitting at the helm of affairs are not serious in taking the issues into consideration and want the situation to continue: this may either be due to their capacity or capability issues or for other reasons which they may know better.

9. NEPRA is requested to constitute an independent Commission comprising consultants and professionals of national and international repute to analyze the above highlighted and any other issues to prepare a first credible 'Lesson Learnt Report' on the Privatization of K-Electric. The Commission may also be empowered to order Forensic Audit wherever felt necessary. The issue of electricity is the backbone of the country's economy and for economic survival of Pakistan the proposed Commission and Report are essential. The Pakistani economy and citizens have already suffered a lot due to electric power issues in the country, hence, immediate orders of NEPRA are required in the matter.

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# R E P O R T - I I

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Month-wise (March 2010 to April 2016) Generation Data (74 sheets) in respect of all Power Plants supplying Electricity in K-Electric Generation Basket including K-Electric Own Generation and Power Purchases:

- Net Plant Capacity
- Unit sent out on Oil
- Unit sent out on Gas
- Plant Utilization Factor
- Plant Under-utilization Factor
- Fuel Cost in million rupees
- Fuel Cost Component (Rs./kWh)
- Share of KE Own, NTDC, IPPs and Small Power Generators
- Un-utilized Generation Capacity (%) of KE Own and IPPs

Details of Plant wise Generation Capacity (Net) of KE Power Plants as per Schedule-II of Modified Generation Licenses

Compiled data of un-utilized Generation Capacity (%) - KE & IPPs

Compiled data of Fuel share in Generation of KE from its own Power Plants

Cost of Power Purchase of KE Own, IPPs and RPP from March 2010 to April 2016

Yearly picture of Plant utilization