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Nepra reserves verdict on tariff hike

ISLAMABAD: The National Electric Power Regulatory Authority (Nepra) on Wednesday reserved its verdict on the 17-paisa per unit hike sought by the government to generate Rs17.2 billion additional revenue from consumers for power companies.

At a public hearing presided over by Nepra Chairman Tauseef H Farooqi, questions were raised by participants over continuously increasing power tariffs on the pretext of monthly fuel price adjustment, annual increases in base tariff and quarterly tariff adjustments and prior year adjustments and how these [tariffs] were getting unaffordable to the large populations.

Some participants also questioned why an increase of Rs3bn was being sought by the government on account of fuel costs while this component was part of the monthly fuel price adjustment and automatically recovered from the consumers.

Nepra chairman and members agreed to these questions and asked Joint Secretary Power Division Zargham Eshaq Khan to respond.

Mr Zargham conceded that power tariffs had become unaffordable but said the increases being made were under the laws and the rules. However, he argued that government was making other policy interventions including promotion of renewable energy projects and offering incremental power consumption at a flat rate of Rs11.97 per unit for relief.

The government was looking for another power tariff hike before the executive directors of the International Monetary Fund (IMF) take up approval of disbursement of second tranche of \$450 million under the recently concluded programme review by the fund mission.

Once cleared by Nepra later this month, the average electricity tariff would increase to about Rs13.69 per unit excluding general sales tax and some other taxes and duties from Rs13.51 per unit at present.

The increase in power tariff was one of the remaining agenda item between the IMF staff and Pakistan authorities on reaching agreement on first quarter review last week. "Work continues towards completing the remaining structural benchmarks for end-September," the IMF reported last week.

The increase in electricity tariff has been proposed for first quarter of the current fiscal year (July-September).

The power companies said they had to pay additional amounts on account of adjustments to capacity purchase prices, higher system losses and variation in operation and maintenance (O&M) costs during the quarter than previously allowed under their estimated revenue requirements.

The power companies have demanded the highest increase of Rs11.2bn on account of transmission and distribution losses, Rs3.5bn on account of higher fuel costs and Rs3.46bn increase for O&M charges.

The power companies have reported cumulative saving of about Rs1.5bn on account of capacity purchase price during the quarter.

The additional expenses of eight Discos have been reported to have gone higher than originally estimated. The expenses of two Discos — Faisalabad and Tribal Electric — have been reported on the lower side during the quarter.

These two Discos have proposed a benefit of Rs946m and Rs991m, respectively, to be passed on to the consumers because of their lower than estimated expenses.

According to tariff petitions, Lahore Electric has demanded the highest additional recovery of Rs5.05bn, followed by Rs3.7bn by Peshawar Electric and Rs2.5bn by Hyderabad Electric. Multan Electric has proposed Rs2.5bn additional cost to consumers, followed by Rs1.536bn by Gujranwala Electric and Rs1.529bn by Quetta Electric. The Islamabad Electric and Sukkur Electric have demanded recovery of about Rs1.445bn and Rs1.2bn in additional funds from its consumers.

The government has in recent months increased power tariff on account of quarterly adjustments for previous fiscal year (2017-18) by about Rs2.33per unit.

The current notified uniform weighted average electricity tariff stands at Rs13.51 per unit for all consumers as reported by the government to the IMF. This includes weighted average tariff of Rs11.95 per unit, inter-disco tariff rationalisation of Rs1.03 per unit, debt servicing surcharge of 43 paisa per unit and Neelum-Jhelum Surcharge of 10 paisa per unit.

In addition, the government also charges electricity duty, PTV fee, 17 per cent GST, fuel price adjustment etc.

As committed with IMF, the government has now finalised circular debt reduction plan in consultation with the IMF and the World Bank and the Asian Development Bank with quarterly targets for losses, collection, and accumulation of arrears (flow) by Discos.

The government has also given an undertaking to the IMF to ensure “regular and timely notifications for end-consumer tariffs in the electricity sector” through an automatic mechanism.

For this, the government is required to “submit to parliament by end-December 2019 changes to the Nepa Act to ensure full automaticity of the quarterly tariff adjustments and eliminate the gap between the regular annual tariff determination and notification by the government.