

At least 2 factors adversely impacting KE's performance

ISLAMABAD: The federal government's reluctance to notify tariffs due to political considerations and delay in release of due subsidy arguably lacklustre performance of Karachi Electric (KE) adversely impacting power supply situation in Karachi.

National Electric Power Regulatory Authority (Nepra) has already issued a show cause Notice to KE for not fulfilling its contractual obligations. The KE is yet to send its response to notice.

Recently, Prime Minister, Imran Khan during a meeting of the federal cabinet directed that a public awareness campaign on rationale for enhancing K-Electric's tariffs and SNGPL's gas tariff should be launched. The matter would again be placed before the ECC.

The sources said, KE's quarterly tariff variations from July 2016 to March 2019 were determined by Nepra in December 2019 and are presently pending with the Power Division for notification.

Despite the decision by the Economic Co-ordination Committee (ECC) meeting on March 26, 2020 that the quarterly tariff decision would be notified in three months and Karachi's power consumer tariff would be brought in line with the rest of the country, the notification nearly five months later is yet to be issued. At the same time, quarterly tariff variations for the period April 2019 to March 2020 are also pending with Nepra for determination which add another Rs 117 billion to the total amount owed to the utility.

The sources said that Rs 188 billion is due to delays in the determination of tariff and subsequent notification have significantly impacted on KE's cash flows, straining the company's working capital position.

A review of K-Electric's 2019 financial statements corroborates this statement as its borrowings increased by Rs 80 billion over 2017 and has reached a historically high level. In the backdrop of COVID-19 and the resultant shortfall in recovery from consumer segments, these mounting receivables on account of Tariff Differential claims can challenge K-Electric's ability to meet operational costs and make full payments for power purchases and / or fuel supplies in the coming days as claimed in multiple letters written to the regulator and the Ministry of Energy (Power Division).

Sources in KE told this newspaper that despite these financial constraints, KE credited PKR 6.8 billion to consumers under the Prime Minister's relief package for Small and Medium Enterprises (SME Package) which is yet to be paid while at the same time it is continuing to invest in a 900 MW RLNG-fired power plant that is valued at \$ 650 million.

In a letter to Secretary Power, CEO KE said that Rs 6.8 billion credited to eligible consumers as prepaid electricity benefit has already been utilized. However, no amount has been released by MoE to KE in this respect which is further straining cash flows of the KE to an unsustainable position.

Further, ECC in its meeting dated March 26, 2020 decided that KE consumer-end tariff would be increased to the level of the rest of Pakistan with effect from July 1, 2020, however, this has not been notified as yet.

“We understand that based on recent developments, the tariff increase is expected to be further deferred for two months and would like to highlight that the impact of delay in notification would be of Rs 4.7 billion. Hence, we reiterate our request to please notify the increase in KE’s consumer-end tariff, as approved in ECC meeting or allocate Rs 4.7 billion subsidy to KE as incremental tariff differential claims due to delay in notification,” K-E added.

KE has further emphasized that the delay in tariff increase notification and pending release of prepaid electricity benefit credited to SMEs will have a cumulative effect of Rs 11.5 billion on the working capital of the company and currently KE’s borrowings to fund operational and working capital requirements have already reached an alarming level of Rs 109 billion. Thus, KE would not be able to make payments for power purchases and / or its fuel suppliers under these circumstances which may impact the sustainability of supply to consumers.