



# HAZARA ELECTRIC SUPPLY COMPANY (HAZEKO) LTD

## OFFICE OF THE CHIEF EXECUTIVE OFFICER

426/A, PMA LINK ROAD, JINNAHABAD, ABBOTTABAD

☐ [ceo.hazeco@gmail.com](mailto:ceo.hazeco@gmail.com): ☐ +992-920211

No. S16 CFO/HAZEKO/2025

Dated: 04/06/2025

The Registrar

National Electric Power Regulatory Authority (NEPRA)

NEPRA Tower, Ataturk Avenue (East)

Sector G-5/1, Islamabad.

### SUBJECT: SUBMISSION OF TARIFF PETITIONS AND REQUEST FOR GRANT OF INTERIM TARIFF FOR FY 2025-26

Hazara Electric Supply Company Limited (HAZEKO) has been incorporated under the Companies Act, 2017 and has recently been granted Distribution and Supply Licenses by the Authority. In compliance with the applicable regulatory framework, HAZEKO is submitting its separate tariff petitions for determination of tariffs for both licensed activities—Electric Power Distribution and Electric Power Supply—for the Financial Year 2025-26.

Given the emergent nature of our operations and in view of the time required for processing and approval of the filed tariff petitions, it is humbly requested that the Authority may kindly grant an interim tariff for both the Distribution and Supply functions of HAZEKO, to enable the Company to initiate its financial and operational functions without interruption.

We trust the Authority shall consider our request favorably. We remain available to provide any further clarification or data required in this regard.

(Qazi Muhammad Tahir)  
Chief Executive Officer

Forwarded please:

☒ For nec. action ☐ For Information

<input type="checkbox"/> DG (Lic.)	<input type="checkbox"/> DG (Admn/HR)
<input type="checkbox"/> DG (M&E)	<input type="checkbox"/> DG (CAD)
<input type="checkbox"/> DG (Tech.)	<input type="checkbox"/> DG (ATC)
<input type="checkbox"/> ADG (Trf.)	<input type="checkbox"/> ADG (Fin.)
<input type="checkbox"/> SLA	<input type="checkbox"/> Dir. (I.T)
<input type="checkbox"/> Consult (Tech.)	<input checked="" type="checkbox"/> Consult (CTBCM)

For kind information, please:

1. Chairman 2. M (Tech)  
3. M (Law) 4. M (Dev)

TARIFF (DEPARTMENT)

Dir (T-I)..... Dir (T-II).....

Dir (T-III)..... Dir (T-IV).....

Dir (T-V)..... Addl. Dir (RE).....

Date: 5-6-25

**HAZECO Tariff Petition under Section 20 for  
function of Supply of Electric Power for  
FY 2025-26**

# **HAZARA ELECTRIC SUPPLY COMPANY LIMITED**

## **PETITION FOR DETERMINATION OF CONSUMER END TARIFF**

**FOR FY 2025-26**

**Before**

**The Honorable National Electric Power Regulatory Authority**

### **I. PETITION SUMMARY**

#### **I.1. Details of Petitioner**

I.1.1. Hazara Electricity Supply Company Limited (HAZECO) is an Ex-WAPDA Distribution Company (DISCO), curved out from Peshawar Electric Supply Company Limited (PESCO), owned by the Government of Pakistan (GOP) and incorporated as a Public Limited Company on 31st October 2023 company registration No. 0243576 under section 16 of the Companies Act 2017.

I.1.2. Principal business of HAZECO is to provide electricity in Hazara Division of Khyber Pakhtunkhwa under License No. DL/10/2025 dated 23-05-2025 (the Distribution License) issued by NEPRA. NEPRA has also granted Electric Power Supply License (Supplier License) to HAZECO to act as Supplier of Last Resort (SoLR) in its designated service territory under License No. SOLR/10/2025 dated 23-05-205.

**I.2. HAZECO is represented by the following duly authorized officers:**

- |                             |                         |
|-----------------------------|-------------------------|
| • Engr. Qazi Muhammad Tahir | Chief Executive Officer |
| • Mr. Muhammad Aamir Zakee  | Chief Financial Officer |

## 2. GROUNDS FOR PETITION

Respectfully submitted,

2.1.1. That NEPRA, under the regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (hereinafter NEPRA Act), amended by the act of parliament, wherein, it has been enacted this Act shall be called the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act 2018, is responsible for regulating the electricity sector in Pakistan which includes determining the Revenue Requirement, tariffs and other terms and conditions for the supply of electricity by the Generation, Transmission and Distribution Companies and to recommend the same to the Federal Government for notification. For this purpose, NEPRA has laid down certain guidelines and procedures under the NEPRA Tariff Standards and Procedures Rules, 1998 and subsequent amendments made in the act. This petition is being filed in the light of updated NEPRA Act, wherein through the act of parliament the Distribution Function has been separated from the Commercial services of a Distribution Company, according to NEPRA Act, Distribution Licensee under section 20 shall be limited to ownership, operation, management or control of distribution facilities for the movement or delivery to consumer of electric power and clause 23 (E) wherein the term Electric Power Supply Licensee has been introduced, act states that "no person shall unless licensed by the Authority under this Act, engage in the supply of electric power to a consumer: provided that the holder of a distribution license on the date of coming in to effect of the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment Act, 2018) shall deemed to hold a license for supply of electric power under this section for a period of 5 years from the said date".

2.1.2. That HAZECO, being a bonafide power Distribution and Supply licensee, it requires adequate revenues in order to perform its obligatory duties prescribed by NEPRA under the NEPRA Act (amendment 2018), NEPRA Performance Standards (Distribution) Rules 2005, NEPRA Consumer Eligibility Criteria 2003, Distribution License of HAZECO and other Obligations as determined by NEPRA from time to time. The main source of funding available to the petitioner for their revenue requirements are; (i) internal efficiency improvements, (ii) generation of adequate revenue through tariff and (iii) funding / borrowings. Internal efficiency improvements require commensurate financial resources



either through borrowings or tariff. As per general principles of banking industry, international or local, the financial viability of borrowing organization is always taken as fundamental for lending decisions.

2.1.3. That in order to fulfill and perform its obligatory duties, as mentioned above, and to ensure financial viability of HAZECO by recovering its prudently incurred costs and reasonable return, in order to upkeep and maintain its existing distribution services / network and to support the future investments for expansion of distribution services / network, this Petition is being filed for FY 2025-26 through its Chief Executive Officer and other officers of HAZECO, who have been duly authorized to sign and file this petition by the Board Of Directors, HAZECO, copy of resolution is placed at **Annex-A**.

2.1.4. Following its separation from PESCO and recognition as a new distribution licensee by NEPRA, HAZECO will now independently submit its own tariff petitions based on its distinct operational requirements and cost structure. The financial estimates presented have been prepared using the bifurcated audited financial statements of PESCO pertaining to HAZECO. These have been further rationalized to incorporate the additional costs associated with the establishment and operationalization of a newly formed distribution company.

## **CONFIRMATION OF COMPLIANCE WITH TARIFF STANDARDS AND PROCEDURES**

2.2. This petition is being filed in accordance with the NEPRA Tariff Standards and Procedure Rules 1998 amended as on 02<sup>nd</sup> May, 2018 and the NEPRA Tariff Guidelines 2015.

<u>Rules reference</u>	<u>Requirement</u>	<u>Petition Reference</u>
3 (2) (a)	Name and address of petitioner	1.1
	Licensee details	1.1
	Representatives of Petitioner	1.2
(b)	Grounds giving rise to petitioner's interest	2
(c)	Grounds and facts for petition	3
(d)	Relief or Determination sought	4
(e)	Proposed changes in tariff	5.1.2
(f)	Summary of evidence	6

### 3. GROUNDS AND FACTS FORMING BASIS OF THE PETITION

The grounds and facts forming the basis of this petition are as under:

- 3.1.1. Under the 1997 NEPRA Act amended in 2018, NEPRA is responsible for determining tariffs and other terms and conditions for the supply of electricity by the Generation, Transmission and Distribution Companies and to recommend these to the Federal Government, subject to the need to comply with guidelines, not inconsistent with the provision of the NEPRA Act, laid down by the Federal Government. NEPRA is also responsible for determining the process and procedures for reviewing Tariffs and recommending Tariff adjustments.
- 3.1.2. Since HAZECO has now been separated from PESCO and being a new distribution licensee of NEPRA, is submitting its own tariff petition to NEPRA based on its own costs and needs.
- 3.1.3. This petition is filed in pursuant to the section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1957.
- 3.1.4. The Distribution Margin includes Salaries & Wages, Repairs and Maintenance, Travelling, Vehicle running and other expenses, Depreciation, Provision for Bad Debts and Return on Rate Base less Other Income. For tariff year 2025-26 Salaries and Post Retirement Benefits comprises of approx. 61.8% of the total DM cost of HAZECO, Whereas Repairs & Maintenance, Travelling and Vehicle running, other expenses, Depreciation constitute 2.1%, 0.5%, 1.1%, 4.3% & 7.4% respectively.
- 3.1.5. Based on the Bifurcated Financial Statements, HAZECO had a Distribution Margin (DM) of Rs. 3.23 /kWh for FY 2023-24 (excluding non-cash Post Retirement Benefits) on the basis of Audited Accounts and proposes DM (including Non-Cash portion of Post Retirement Benefit) of Rs. 4.90 /kWh for FY 2025-26, on account of increase in Asset Base, the Inflationary trend, Salaries, Pension and Maintenance of the Distribution Network etc.
- 3.1.6. NEPRA had determined PESCO's Multi-Year Tariff (MYT)—which included the service area now assigned to HAZECO—based on a trajectory of Transmission & Distribution (T&D) losses ranging from 21.33% in FY 2020-21 to 19.26% for FY 2024-25 (July to March).

However, during the same period, the actual T&D losses recorded in HAZECO's service area have been significantly lower, ranging from 17.49% in FY 2020-21 to 16.63% up to March 2025. This demonstrates a more efficient loss profile in HAZECO's jurisdiction compared to NEPRA's targets for the region under the PESCO umbrella. The year-wise comparison of actual T&D losses of HAZECO against the NEPRA-determined targets is provided in the table below:

<b>Year</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25 (Jul-Mar)</b>
Losses Actual (%age)	<b>17.42</b>	<b>16.89</b>	<b>15.23</b>	<b>16.63</b>	<b>15.59</b>
NEPRA Target (%age)	<b>21.33</b>	<b>20.73</b>	<b>20.16</b>	<b>19.71</b>	<b>19.26</b>

3.1.7. HAZECO losses are within the range allowed by the Authority, it is therefore requested that since losses have direct impact not only on financial position of HAZECO but also adversely affects the circular debt position, payable to CPPA-G and supplemental charges paid by CPPA-G to power generators, the same may be considered according to the economic conditions and environment of HAZECO for FY 2025-26.

## **4. RELIEF / DETERMINATION SOUGHT**

### **4.1. OBJECTIVES OF THE PETITION**

4.1.1. The aim of this petition is to obtain approval for the timely implementation of cost reflective tariff to yield HAZECO's required revenue for the FY 2025-26 and its recovery from consumers.

4.1.2. The implementation of cost reflective tariffs will benefit consumers and HAZECO, as it will;

- i. Enable HAZECO to improve service quality and reliability.
- ii. Enable the Company to pay its power purchase cost and play its role in mitigation of power shortage.
- iii. Provide adequate funds for the Operation, Maintenance and Expansion of Distribution Network.
- iv. Provide signals for efficient usage of distribution network and investment.
- v. Give price signal for efficient use of electricity.
- vi. Ensure the financial sustainability of HAZECO.

### **4.2. FEATURES OF THE PETITION**

4.2.1. The purpose of this petition is as follows:

- i. Sufficient average tariff to enable HAZECO to recover prudently incurred operating costs and earn a reasonable return on its regulatory asset base to meet with its cash flow requirements.
- ii. Incentive for HAZECO to make operating efficiencies.

### **4.3. TARIFF REVIEW FORMULA AND PROCESS**

4.3.1. The tariff formula provides a transparent and predictable way of determining HAZECO's distribution margin on annual basis. A formula is advantageous as it reduces uncertainty for the utility and for customers. It also provides a simple way for NEPRA to provide incentive to the company to reduce losses and/or make operating efficiencies as required.

#### 4.3.2. Tariff Methodology

For the purpose of the tariff determination methodology, the following is hereby defined:

- **Base Year**, in this application, **FY 2024-25**, means the year on which the annual tariff projection is being made.

4.3.3. For determination of Revenue Requirement, Power Purchase cost and Distribution Margin the following formulae have been proposed in the NEPRA Tariff Guidelines:

a) **Formula for Revenue Requirement:**

$$RR_D = PPP_D + DM_D \pm PYA_D$$

Where:

- $RR_D$  is the eligible distribution company's revenue requirement  
 $PPP_D$  is the power purchase cost for an eligible distribution company  
 $DM_D$  is the distribution margin for an eligible distribution company  
 $PYA_D$  is the prior year adjustment for an eligible distribution company

b) **Formula for Power Purchase Cost:**

$$PPP = PP(EC) \times Q(p) + PP(cc) + TC + MoF$$

Where:

- $PPP$  is the Power Purchase Price  
 $PP(EC)$  is the energy charge part of PPP  
 $Q(p)$  is quantity purchased by the company  
 $PP(cc)$  is the capacity charge part of PPP  
 $TC$  is the transmission cost  
 $MoF$  is the Market Operator Fee

c) **Formula for Distribution Margin:**

$$DM_D = RB_D * RORB_D + D_D + E_D + t_D \pm ORC_D$$

Where:

$DM_D$  is the eligible distribution company's Distribution Margin

$RB_D$  is the eligible distribution company's rate base

$RORB_D$  is the eligible distribution company's cost of capital

$D_D$  is the eligible distribution company's depreciation expense

$E_D$  is the eligible distribution company's expenses including but not limited to operation, maintenance and human resources

$t_D$  is the eligible distribution company's federal and provincial taxes (allowed as pass through)

$ORC_D$  is the eligible distribution company's other regulatory costs including other income

For adjustments with regards to the different components of the Distribution Margin will be reflected as follows:

- The O&M component of the Distribution Margin shall be indexed with CPI subject to adjustment for efficiency gains (X factor). Accordingly, the O&M will be indexed for next year according to the following formula:

$$O\&M_{Rev} = [O\&M_{Ref} \times (1 + (\Delta CPI - X))] + O\&M_{Actual} + N$$

Where:

$O\&M_{(Rev)}$  is Revised O&M Expense for the Current Year

$O\&M_{(Ref)}$  is Reference O&M Expense for the Reference Year which is controllable cost

$O\&M_{(Actual)}$  is Actual O&M Expense for the Current Year and is uncontrollable cost

\* $\Delta CPI$  is Change in Consumer Price Index published by Pakistan Bureau of Statistics latest available on 1<sup>st</sup> July against the CPI as on 1<sup>st</sup> July of the Reference Year in terms of percentage (excluding pay & allowances and pension)

X is Efficiency factor and may be allowed to the extent that the actual expenses are less than the determined instead of 30%, which is on a very higher side as CPI is not a true reflection of DISCOs expenses

N represents the cost of new hiring (excluding outsourced services such as bill distributors, drivers, etc.) and includes the impact of indexation for both controllable and uncontrollable costs. It accounts for expenditures not captured in the Base Cost, along with additional costs that are expected to arise due to the establishment and operationalization of a new distribution company.

*\* Note: Change in CPI may be used component wise instead of general NCPI, e.g., for vehicle expenses, NCPI under transport category should be used or it should be linked with PSO prices.*

4.3.4. Under the proposed tariff-setting methodology, the average retail tariff would consist of (i) the Power Purchase Price (PPP), which would be passed through to the end users in the retail tariff and (ii) the average distribution margin, which would be set on the formula-based methodology.



#### **4.4. HAZECO'S REVENUE REQUIREMENT**

4.4.1. The Revenue Requirement of HAZECO has two components i.e. pass through cost and Distribution Margin. The power purchase cost forms the major portion of the pass through cost which the company must pay on regular basis to ensure continuous flow of power in its distribution system. Distribution Margin is equally important as HAZECO must earn sufficient distribution margin and adequate stream of cash flow to maintain its system, discharge its financial commitments, invest to expand and maintain the network and to provide a reasonable return to the sponsors on their investment.

4.4.2. In view of the above, HAZECO is submitting the tariff petition for FY 2025-26 in light of the NEPRA (Amendment) Act 2018. Following are the cost categories to be considered as per the Tariff Guidelines:

- A) Power Purchase Price
- B) Distribution Margin
- C) Inadmissible Input Tax

#### **4.5. POWER PURCHASE PRICE (PPP):**

4.5.1. HAZECO pays Power Purchase Price in Rupees per kWh and Rupees per KW per month for the electricity it procures from CPPA-G or from other sources through CPPA-G, which would include the generation and transmission charges (regulated by NEPRA). This Power Purchase Price, adjusted for HAZECO's distribution losses, would then be simply added to HAZECO's overall distribution margin to work out retail tariff. Thus, the cost of the purchased electricity would be "passed through" to consumers through the retail tariff, without affecting HAZECO's distribution margin.

4.5.2. While passing through the PPP, all distribution companies experience some level of distribution losses, defined as the percentage of the difference between the units received by the company and the units invoiced to the consumers. The PPP should thus be adjusted such that HAZECO would be compensated for some losses, without hindering the incentive to eliminate the total losses.

$$PPP = \frac{\text{Unadjusted PPP}}{1 - L}$$

Where;

- Unadjusted PPP is the cost of electricity supply charged by CPPA-G or any other source at any given time;
- L is the target T & D losses for the year, defined as a percentage of purchased units, in accordance with a schedule established for the control period.

4.5.3. For the tariff year 2025-26, the following target of Transmission & Distribution losses is proposed for the consideration of the Authority:

YEAR	Technical Losses & Law & Order Margin	Administrative Losses	TOTAL T&D LOSSES
2025-26	7.99%	7.40%	15.39%

4.5.4. Based on the above formula, the compensation for T&D losses would be automatically adjusted for any changes in the power purchase cost.

4.5.5. The working of the power purchase cost for FY 2025-26 would be projected and approved by NEPRA based on the information provided by CPPA-G, NTDC & DISCOs with regards to generation plan (including existing plants and future plants), target of transmission and distribution losses and assumptions based on fuel prices, dollar devaluation and local and international CPI etc.

4.5.6. The actual PPP is regulated by NEPRA over the period, thus any subsequent increase / decrease in the PPP determined by NEPRA is adjustable as proposed in the petition.

*All the Power generated from different sources is procured by Central Power Purchasing Agency (CPPA-G) on behalf of DISCOs at the rates as per Authority's Determinations. The major sources of Power and their share in Energy are as under:*

Description	Generation	
	GwH	Share
Hydel	38,117	32%
Nuclear	23,576	20%
RLNG	23,032	19%
Coal (Local & Imported)	21,701	18%
Gas	11,777	10%
Others	2,597	2%

4.5.7. From the above table it is clear that 19% of total generation is expected on RLNG, Similarly, share of Coal (mainly Imported) is 18%, which means that variation in generation mix and oil prices will have greater impact on the cost of generation and will ultimately affect the consumer-end tariff.

4.5.8. Following the previous generation trend, the PPP has been projected for FY 2025-26 is as under:

Description	UoM	FY 2024-25	FY 2025-26
Energy Charges	(Rs. Mln)	28,018	28,584
Capacity Charges	(Rs. Mln)	44,419	45,277
Use of System Charges	(Rs. Mln)	5,091	5,224
Market Operator Fee	(Rs. Mln)	17	17
<b>Power Purchase Price (PPP)</b>	<b>(Rs./Kwh)</b>	<b>29.31</b>	<b>29.06</b>

4.5.9. The actual PPP is regulated by NEPRA over the period, thus any subsequent increase / decrease in the PPP determined by NEPRA may be adjusted on monthly/quarterly/biannual basis. The PPP is projected at Rs. 29.06/KWh for FY 2025-26.

#### **ADJUSTMENT MECHANISM:**

4.5.10. As per the existing Tariff Methodology, Power Purchase Price (PPP) references are subject to adjustment on monthly and quarterly basis. The adjustment on account of variation in fuel cost component of PPP is undertaken on monthly basis and reflected uniformly in the consumers' monthly bill as Fuel Charges Adjustment. Whereas, adjustment for remaining component of PPP i.e. Capacity Charges, Transmission charges, Market Operator Fee (MoF), impact of T&D losses, and Variable O&M is to be undertaken on quarterly basis, the same mechanism may be continued, however it would be more appropriate to consider the adjustment of remaining components of PPP (apart from fuel cost component) on monthly basis as well to make the tariff more cost reflective and to ensure timely recovery of the legitimate power purchase cost by HAZECO.

#### 4.6. DISTRIBUTION MARGIN:

4.6.1. The Distribution Margin consists of the following factors:

- Operation & Maintenance Expenses:
  - Operational Expenses:
    - Salary Wages & Other Benefits
    - Travelling Expenses
    - Vehicle Expenses
    - Other Expenses
  - Repair & Maintenance Expenses
  - Other Income
- Depreciation Expense
- Return on Rate Base
- Provision for bad debts

4.6.2. The sum of the O&M Cost, Depreciation, Provision for Bad Debts and RORB minus Other Income results in HAZECO's Distribution Margin, dividing this by the total units sold yields the average Distribution Margin per kWh. The actual DM of HAZECO for FY 2023-24 was Rs. 4.37 per unit and for FY 2025-26, it is proposed as under:

Description	UoM	FY 2023-24	FY 2024-25	FY 2025-26
O&M Cost	Rs./Kwh	2.97	3.11	3.42
Depreciation	Rs./Kwh	0.36	0.36	0.36
Return on Rate Bae	Rs./Kwh	1.24	1.11	1.31
Less Other Revenue	Rs./Kwh	(0.21)	(0.22)	(0.24)
<b>Distribution Margin</b>	Rs./Kwh	<b>4.37</b>	<b>4.35</b>	<b>4.86</b>

#### **Basis of Assumption for Distribution Margin for Distribution Function and Supply Function:**

##### **Salaries and wages:**

4.6.3. Actual salaries and wages of GSO Circle, PD GSC and PD C&O has been allocated to Supply Function (EPS), since these circles / directorates are responsible for construction,

rehabilitation, augmentation, maintenance and similar activities involved in Distribution Function for providing electricity to the end consumers.

4.6.4. The XEN offices comprise of technical as well as administrative staff, the salaries of technical and administrative staff such as XEN, SDO, line man, assistant line man, line superintendents etc. have been allocated to Distribution Function on actual basis except for meter readers, bill distributors and meter reading supervisors, and the same has been allocated to Supply of Electricity as their job description relates to billing and recovery.

4.6.5. Power Supply (Sale of Electric Power) comprises of actual expenditures of revenue offices and salaries and wages of meter reader, bill distributor and meter reading supervisors, since their primary role is administrative in nature comprising of billing to consumers, addition of new connections and recovery from consumers. Provision for doubtful debts is allocated to the Supply Business (Sale of Electric Power) along with partial allocation of depreciation for the furniture and fixtures, computer equipment, vehicles etc.

4.6.6. Moreover, the expenditure of HQ, and other offices has been allocated on the most suitable basis to Distribution Function or Supply of Power. Based on the above assumptions HAZECO O&M expenditure for FY 2025-26 is bifurcated as under:

<i>Rs. In Million</i>			
Financial Year	Distribution of Power (Xen/GSC/GSO/DEV/ HQ etc)	Supply of Power (ROs/Others/HQ etc)	Total
2024-25	4,443	2,502	6,945
2025-26	5,052	2,831	7,883

## O&M Expenses

4.6.7. O&M expenses include Salaries & Wages, Repair & Maintenance, Travelling, Vehicle Running and Other Expenses. Based on the impact of increase in inflation, salaries and other allowances, the Audited O&M Expense for FY 2022-23 and FY 2023-24 are Rs. 5,225 Million and Rs. 6,309 Million respectively and the projections for FY 2024-25 & 2025-26 are as per detail below:

## COMPARISON OF OPERATING AND MAINTENANCE EXPENSES

Rs. In Million

DESCRIPTION	FY 2024-25			FY 2023-24
	NEPRA Determination for PESCO (Incl. HAZECO)	Prov. Total	Variance	Audited
Salaries and Benefits	30,780	6,122	24,658	5,770
Repair and Maintenance	1,493	218	1,275	198
Traveling Expenses	444	56	388	51
Vehicle Expenses	320	112	208	75
Other Expenses	1,650	436	1,214	215
<b>Total</b>	<b>34,687</b>	<b>6,944</b>	<b>27,743</b>	<b>6,309</b>

4.6.8. The breakup of O&M cost for FY 2025-26 distributed between Distribution of Power and Supply of Power is as under:

Rs. in Million

Supply & Distribution of Power Business (Existing)			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	5,770	6,122	6,933
Repair and Maintenance	198	218	239
Traveling Expenses	51	57	72
Vehicle Expenses	75	112	159
Other Expenses	215	436	480
<b>Grand-Total</b>	<b>6,309</b>	<b>6,945</b>	<b>7,883</b>
<b>%Increase/(Decrease)</b>		<b>10%</b>	<b>14%</b>

The breakup of O&M cost for FY 2025-26 for Distribution of Power is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	3,814	4,047	4,583
Repair and Maintenance	189	208	229
Traveling Expenses	36	41	51
Vehicle Expenses	57	85	122
Other Expenses	30	62	68
<b>Grand-Total</b>	<b>4,127</b>	<b>4,443</b>	<b>5,052</b>
<b>%Increase/(Decrease)</b>		<b>8%</b>	<b>14%</b>



The breakup of O&M cost for FY 2025-26 for Supply of Power is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	1,956	2,076	2,350
Repair and Maintenance	9	9	10
Traveling Expenses	15	16	21
Vehicle Expenses	18	26	37
Other Expenses	184	374	412
<b>Grand-Total</b>	<b>2,181</b>	<b>2,502</b>	<b>2,831</b>
<b>%Increase/(Decrease)</b>		<b>15%</b>	<b>13%</b>

4.6.9. Salaries & Wages including employee's retirement benefits is the major component of O&M expense. The following additional increases are also made by GoP in its annual budget for FY 2024-25 along with various other impacts:

**Increase in Pay & Allowances announced for FY 2025-26:**

1. Expected increase in salaries (15%).
2. Impact of Additional recruitment.
3. Cost of new hiring is claimed as an additional item as HAZECO is facing severe shortage of resources and if HAZECO could not hire required staff the operations of the company would be unsustainable.
4. Employees Retirement Benefits have been based on the average of annual increase in the last two years audited figures.

5. Keeping in view the above increases, the Salaries and Wages are based on the Audited Financial Statement of HAZECO for FY 2023-24 and Provisional figure for FY 2024-25 and projected for FY 2025-26 are as under:

**I. Pay & Allowances (Existing Strength):**

Rs. In Million

Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Pay & Allowances	5,770	6,122	6,933

**II. New Recruitment:**

Description	FY 2026
	Prov.
New Hiring (Nos)	
Cost (Mln. Rs.)*	419

*\*The cost of new Recruitment is not included in the Salaries and Wages Cost and is covered through adjustment factor as variable "N" in the O&M adjustment mechanism.*

A comparison of HAZECO sanctioned strength and actual working strength is as under:

Description	Sanctioned Strength	Working Strength	Shortfall	% Shortfall
Qualified Professional			0	#DIV/0!
Staff			0	#DIV/0!
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>

4.6.10. The single year Tariff requirement has been laid down in the proposal and the rationale used is that the number of consumers in Jan 2024 and Jan 2025 were compared and the increase was worked out. The No of retirements in 2026 have been subtracted and new hiring of qualified professionals and staff have been worked out accordingly.

- 4.6.11. It is essential to mention here that these are only projections based on rationale and may be reviewed in the light of ground realities for the purpose of change in number or categories of staff. Furthermore, recruitments in HAZECO are mostly dependent on the NOC of Govt of Pakistan / Ministry of Energy (Power Division).
- 4.6.12. However, the then PEPCO has devolved all the matters regarding HR affairs of DISCOs being processed by the then PEPCO to DISCOs vide letter No. GMHR#5778-5810, dated 14-01-2021 conveying that respective BoDs should exercise the powers of the MD PEPCO which will bring an opportunity for the Company to proceed for HR requirements through its BoD against critical requirements as and when considered necessary or unavoidable.
- 4.6.13. HAZECO is currently working on **strength of 10,122 employees** approximately out of which **391 are officers** of different grades. The shortage of the staff is the main cause of losses and system constraints being faced by HAZECO at present.
- 4.6.14. The O&M expenses are one of the major unknowns for XWDISCOs in Pakistan due to many uncontrollable factors such as statutory implications arising out of increase in salaries (as announced by the Federal Government), increase in certain expenses due to growth in consumer base, this includes increase in maintenance expenses, meter reading expenses, whereas other expenses are directly linked to the rate of petroleum. The employees' cost includes costs related to salaries and benefits of all staff (administrative, operational and security).
- 4.6.15. To ensure an efficient, coordinated, economical distribution system and to build, maintain and operate the system more systematically, it will be employing a highly skilled and technically proficient team to manage all aspects of the distribution of power to ensure that all key commercial interests of all stakeholders are maintained, protected and prioritized.
- 4.6.16. The O&M cost needs to be bifurcated into controllable and uncontrollable cost components and the 'Uncontrollable costs' are requested to be trued-up at the end of every year and the 'Controllable costs' should be indexed every year with CPI change less agreed efficiency factor, adjustable in last two years, to pass on the benefit of system efficiency to the consumers.

#### **Controllable Cost:**

4.6.17. The controllable O&M costs are projected by assuming an inflation rate of 10%. The controllable cost during FY 2025-26 will also increase due to new projects (as envisaged in DM) and accordingly this new addition in per unit base cost of controllable component may be allowed in the related year in which project is planned to be completed and indexed subsequently as part of controllable cost component.

#### **Uncontrollable Cost:**

4.6.18. With regards to uncontrollable cost different growth rates are projected for different cost streams based on management experience. Uncontrollable cost factors could be affected by growth in employee benefits, consumer growth rates and growth in regulatory fee etc. The uncontrollable cost will also increase due to new projects (as envisaged in DIIP) and accordingly projected cost includes impact of new projects.

4.6.19. The detail of controllable and uncontrollable costs is as under:

<b>Controllable Costs</b>	<b>Uncontrollable Costs</b>
Travelling Expenses	Pay and Allowances – Existing
Office Supplies & Store handling	Rent, Rate & Taxes
Vehicle Expenses	Injuries & Damages
Power, Light & Water	Collection Expenses
Communication & Postage	Legal Charges
Advertising & Publicity	Management Fee
Subscription & Periodicals	Audit Charges
Misc. Expenses	
Bank Charges	
Insurance Premium	

#### **ADJUSTMENT MECHANISM:**

The following adjustment mechanism is proposed:

- The base year FY 2024-25 does not reflect the true cost and accordingly factor "N" is included to account for the new recruitments.
- Adjustment in Salary & Pension (including pension part of post-retirement benefit) may be linked with the Increase announced by GoP in Annual Budget on actual basis.
- 5% increase on account of Annual Increment may be allowed.

- d. The remaining allowances / benefits may be adjusted on the basis of CPI for controllable costs and on the basis of actual in case of uncontrollable costs.
- e. An additional variable “N” may be included to account for the New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc). against vacant positions and the same may be indexed.
- f. The O&M part of Distribution Margin shall be indexed with CPI (component wise).

Accordingly, the O&M will be indexed according to the following formula:

$$O\&M_{Rev} = [O\&M_{Ref} \times (1 + (\Delta CPI - X))] + O\&M_{Actual} + N$$

Where:

O&M (Rev)	is Revised O&M Expense for the Current Year
O&M (Ref)	is Reference O&M Expense for the Reference Year which is controllable cost
O&M (Actual)	is Actual O&M Expense for the Current Year and is uncontrollable cost
*ΔCPI	is Change in Consumer Price Index published by Pakistan Bureau of Statistics latest available on 1 <sup>st</sup> July against the CPI as on 1 <sup>st</sup> July of the Reference Year in terms of percentage (excluding pay & allowances and pension)
X	is Efficiency factor and may be allowed to the extent that the actual expenses are less than the determined instead of 30%, which is on a very higher side as CPI is not a true reflection of DISCOs expenses
N	is New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc), including indexation of controllable and un-controllable costs to account for the expenditure that is not in the Base Cost
* Note:	Change in CPI may be used component wise instead of general NCPI, e.g., for vehicle expenses, NCPI under transport category should be used or it should be linked with PSO prices.

## ii) REPAIR & MAINTENANCE EXPENSES:

4.6.20. Repair and Maintenance expenses have been assumed @ around 2% of the net Fixed Assets in operation. HAZECO has to maintain its old and over loaded system in order to ensure un-interrupted power supply to the consumers, moreover cost of material has also increased due to inflationary pressure. Therefore, Repair & Maintenance expenditure has been projected as Rs. 239 Million for FY 2025-26.

4.6.21. The repair & maintenance cost shall enable the company to ensure smooth and efficient functioning of the transmission and distribution system in operation. Moreover, it shall contribute to the benefit of the consumers at large by reducing power outages, system breakdowns and better service quality in addition to contribution in reduction of the T&D Losses. Foregoing in view, NEPRA is requested to allow full amount of the repair & maintenance projected for FY 2025-26. The repair and maintenance are mainly for standalone items necessary for keeping the system in operation with no additional benefits.

#### **Repair & Maintenance Cost for FY 2025-26**

4.6.22. The projected Repair & Maintenance for Distribution & Supply of Power Business for FY 2025-26 is as under:

Rs. in Million			
<b>Distribution &amp; Supply of Power Business</b>			
<b>Description</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	Audited	Prov.	Proj.
Repair And Maintenance	198	218	239
<b>%Increase/(Decrease)</b>		10%	10%

4.6.23. The projected Repair & Maintenance for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million			
<b>Supply of Power Business</b>			
<b>Description</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	Audited	Prov.	Proj.
Repair And Maintenance	9	9	10
<b>%Increase/(Decrease)</b>		10%	10%

4.6.24. Moreover, the projected Repair & Maintenance for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Repair And Maintenance	189	208	229
%Increase/(Decrease)		10%	10%

#### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- Adjustment in Repair & Maintenance may be linked with the percentage of Fixed Assets (i.e. 2% of the net Fixed Assets) in operation.

#### iii) TRAVELLING EXPENSES:

4.6.25. Travelling Expenses have been projected Rs. 72 Million, for FY 2025-26. The projected Travelling Expenses for Distribution & Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution & Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	51	57	72
%Increase/(Decrease)			26%

4.6.26. The projected Travelling Expenses for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	15	16	21
%Increase/(Decrease)			28%

4.6.27. Moreover, the projected Travelling Expenses for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	36	41	51
%Increase/(Decrease)			26%

#### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- a. Adjustment in Travelling Expenses may be linked with the CPI.

#### iv) VEHICLE RUNNING EXPENSES:

4.6.28. Vehicle Running Expenses have been projected Rs. 159 Million for FY 2025-26. The projected Vehicle Running Expenses for Distribution & Supply of Power Business for FY 2025-26 is as under:



Rs. in Million

Distribution & Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	75	112	159
%Increase/(Decrease)			42%

4.6.29. The projected Vehicle Running Expenses for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	18	26	37
%Increase/(Decrease)			42%

The projected Vehicle Running Expenses for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	57	85	122
%Increase/(Decrease)			42%

## ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- a. Adjustment in Vehicle Running Expenses may be linked with the CPI.

## v) OPERATING EXPENSES:

4.6.30. Other Expenses include Rent, Rates and Taxes, Utility expenses, communications, office supplies, professional fees, auditor's remuneration, outsourced services, management fees, electricity bill collection expenses etc.

Rs. in Million

Distribution & Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	215	436	480
%Increase/(Decrease)			10%

4.6.31. The projected Other Expenses for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	184	374	412
%Increase/(Decrease)			10%

4.6.32. The projected Other Expenses for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	30	62	68
%Increase/(Decrease)			10%

#### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- a. Adjustment in Other Operating Expenses may be linked with the CPI.

#### vi) DEPRECIATION

4.6.33. Depreciation is calculated on the basis of the value of existing Assets plus the additions in assets during the year. The assets are depreciated on straight line method as per utility practice i.e land @ 0 %, buildings and civil works @ 2%, Plant and machinery @ 3.5%, office equipment and mobile plant @ 10% and other assets @ 10% based upon these assumptions the figure for depreciation has been worked as under:

Rs. in Million

Distribution & Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	764	799	831
%Increase/(Decrease)			4%

4.6.34. The projected Depreciation for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	76	80	83
%Increase/(Decrease)			4%

4.6.35. The projected Depreciation for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	688	719	748
%Increase/(Decrease)			4%

#### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- Adjustment in Depreciation Expenses may be linked with the Gross Fixed Assets in operation.

#### viii) RETURN ON RATE BASE (RORB):

4.6.36. NEPRA allowed WACC to PESCO (incl. HAZECO) 20.4% for FY 2024-25 in its tariff determination for Adjustment/ Indexation of tariff for FY 2024-25 against the requested WACC of 21.27%, hence, the same needs to be reconsidered in view of the MYT determination wherein adjustments on account of variation in KIBOR is permissible on biannual basis. HAZECO has calculated WACC of 17.05% based on the following calculations:

\*Weighted Average Cost of Debt for FY 2024-25 include 3 month's Kibor plus 2% spread.

4.6.37. By incorporating the above adjustment of ERC, the calculation of WACC and RORB will be as under:

$$\text{WACC} = [14.47\% * 30\%] + [18.16\% * 70\%] = 17.05\%$$

4.6.38. HAZECO has no other source of revenue except Tariff to pay off the principal, interest and exchange risk payable to EAD except for consumer end Tariff and if not allowed, it will in any way effect the consumers as the same will be passed in the form of deficit financing resulting in financial hardship to the consumers.

4.6.39. HAZECO is of the opinion that return should be adequate enough to not only cover the cost of debt but also to cater for the exchange rate parity as well as reasonable return to the equity holders. Authority is therefore requested to allow RORB @17.05% WACC, including debt as per following calculations and further projection is also being made for FY 2025-26:

Description	UoM	2023-24	2024-25	2025-26
		Audited	Prov.	Proj.
Net Fixed Assets in Operation	[Mln Rs]	14,381	16,455	18,785
Add: Capital Work In Progress - Closing Bal	[Mln Rs]	5,498	6,366	8,568
Less: Cap. WIP-Deposit Portion	[Mln Rs]	1,100	1,202	1,304
Investment in Fixed Assets	[Mln Rs]	18,780	21,620	26,049
Less: Deferred Credits	[Mln Rs]	5,564	5,863	6,287
Regulatory Assets Base	[Mln Rs]	13,216	15,757	19,763
Average Regulatory Assets Base	[Mln Rs]	12,379	14,486	17,760
Rate of Return	[%age]	21.27%	17.05%	17.05%
Return on Rate Base	[Mln Rs]	2,633	2,470	3,028

4.6.40. The details of RORB is as under:

Rs. in Million

Distribution & Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
RORB	2,633	2,470	3,028
%Increase/(Decrease)			23%

4.6.41. The projected RORB for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
RORB	526	494	605
%Increase/(Decrease)			23%

4.6.42. The projected RORB for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
RORB	2,106	1,976	2,423
%Increase/(Decrease)			23%

ix) **PROVISION FOR BAD DEBTS:**

4.6.43. HAZECO is pursuing the recovery of arrears from its consumers but due to the worst law and order situation the recovery campaign is affected. Administrative & Political obligations do not allow us to take severe action against the defaulters. Moreover, disconnection creates law and order situation in terms of road blockade, blast of transmission towers and attacks on HAZECO staff, Grid Stations and offices.

4.6.44. Accordingly, provision for doubtful debts is made on the basis of ageing formula agreed with the Auditors and approved by BoD PESCO in its 75th meeting. Actual provision for FY 2022-23 was Rs. 356 Million & Rs. 545 million for FY 2023-24.

## **RECOVERY PLAN**

1. Prompt billing
2. Recording Correct Meter Reading
3. Delivery of bills in time.
4. Reconciliation of billing disputes with Govt. agencies.
5. Timely debit of Audit Notes.
6. Prompt disconnection of running defaulter consumer
7. Installation of ABC cables on high loss feeders in order to control theft of energy & to make effective disconnection so that defaulter consumers may be compelled to make payment of arrears.
8. Out of court settlement of disputed cases.
9. Recovery through HAZECO Police from defaulters.
10. Kuli Kachehri on weekly basis are being held on circle level to redress the genuine grievances of the consumers on the spot and to recover the outstanding dues from the defaulters.
11. Combing of feeders is being carried out through HAZECO field formations in their respective areas aiming at removal of direct hooks, replacement of sluggish and defective meters, proper meterization and accurate billing through MMR system so as to eliminate theft of energy, bring the defaulter as well as un-registered consumers in billing network and to recover the legitimate arrears of HAZECO.
12. Posting of Recovery Magistrate for recovery of outstanding arrears.
13. Recovery under Land Revenue Act, by Tehsildar Recovery Officer.

The detail of provision is as under:

Rs. In Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Recovery %age	99%	93%	94%
As Sales %age	0.7%	0.7%	0.6%
Provision for Bad Debts	545	556	567
%Increase/(Decrease)		2%	2%

**x) OTHER INCOME:**

4.6.45. The main sources of other income include Interest Income, Sale of Scrape, Amortization of Deferred Credit, Rental & Service Income etc whereas the Wheeling Charges and Late Payment Surcharge have been excluded as per decision of NEPRA.

4.6.46. The projected Other Income for Distribution & Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution & Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
Other Income	-443	-494	-550
%Increase/(Decrease)			11%

4.6.47. The projected Other Income for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Supply of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
Other Income	-139	-155	-172
%Increase/(Decrease)			11%



4.6.48. Whereas, the projected Other Income for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

<b>Distribution of Power Business</b>			
<b>Description</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	Audited	Act/Pro.	Proj.
Other Income	-305	-340	-378
<b>%Increase/(Decrease)</b>			11%

4.6.49. Based on above the projected Distribution Margin (DM) for Distribution & Supply of Power Business for FY 2025-26 would be as under:

Rs. in Million

<b>Description</b>	<b>Distribution &amp; Supply of Power</b>		
	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	Actual	Prov.	Proj.
O & M Expenses	6,309	6,945	7,883
Depreciation	764	799	831
RORB	2,633	2,470	3,028
<b>Gross DM</b>	<b>9,705</b>	<b>10,214</b>	<b>11,742</b>
Less: Other Income	- 443	- 494	- 550
<b>Net DM</b>	<b>9,262</b>	<b>9,719</b>	<b>11,193</b>

4.6.50. The projected Distribution Margin (DM) for Supply of Power Business for FY 2025-26 is as under:

Rs. in Million

Description	Supply of Power Business		
	2023-24	2024-25	2025-26
	Actual	Prov.	Proj.
O & M Expenses	2,181	2,502	2,831
Depreciation	76	80	83
RORB	526	494	605
<b>Gross DM</b>	<b>2,784</b>	<b>3,076</b>	<b>3,519</b>
Less: Other Income	- 139	- 155	- 172
<b>Net DM</b>	<b>2,645</b>	<b>2,921</b>	<b>3,347</b>

4.6.51. Whereas, the projected Distribution Margin (DM) for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Description	Distribution of Power Business		
	2023-24	2024-25	2025-26
	Actual	Prov.	Proj.
O & M Expenses	4,127	4,443	5,052
Depreciation	688	719	748
RORB	2,106	1,976	2,423
<b>Gross DM</b>	<b>6,921</b>	<b>7,138</b>	<b>8,223</b>
Less: Other Income	- 305	- 340	- 378
<b>Net DM</b>	<b>6,616</b>	<b>6,798</b>	<b>7,846</b>

#### 4.7. INADMISSIBLE INPUT TAX:

4.7.1. During FY 2024-25, the supply of electricity to Azad Jammu & Kashmir (AJK) has been classified as exempt from sales tax under the Finance Act, 2024. As per Section 8(2) of the Sales Tax Act, 1990, input tax adjustment is not allowed on supplies that are exempt. Consequently, the input tax credit related to these supplies is inadmissible, and the corresponding sales tax charged by CPPA-G on such purchases cannot be recovered. This inadmissible input tax will be borne entirely by HAZECO, resulting in an increased financial burden and a corresponding rise in the cost of power purchase. HAZECO requests that this amount be recognized as a legitimate expense and allowed as a pass-through item in tariff determination, in line with applicable regulatory guidelines. During FY 2024-25 (upto Mar-25) due to change in sales tax regulations an amount of Rs. 101 Million as Input Tax credit is not admissible under section 8(2) of Sales Tax Act, 1990 read with Rules 25 of Sales Tax Rules relating to exempt. The same may be allowed as per actual amount paid by HAZECO.

#### 5. INVESTMENT PLAN

**Development Program** has been projected as under:

DESCRIPTION	Unit	2025-26
Distribution of Power (DOP)	M Rs.	1,131
Energy Loss Reduction (ELR)	M Rs.	620
Secondary Transmission & Grids (STG)	M Rs.	2,336
Support Plan	M Rs.	629
Deposit works	M Rs.	647
<b>INVESTMENT IN LOCAL CURRENCY</b>	<b>M Rs.</b>	<b>5,363</b>

5.1.1. Based on the above projected Distribution Margin (DM) for Power Supply for FY 2025-26 and consolidated Revenue Requirement including Distribution Function on the projected Units, are as under:

Description	UoM	FY 2023-24 (Actual)	FY 2024-25 (Prov.)	FY 2025-26 (Proj.)
Power Purchase Price	Rs.Mln.	75,492	77,545	79,104
O&M Expenses	Rs.Mln.	2,181	2,502	2,831
Depreciation	Rs.Mln.	76	80	83
RORB	Rs.Mln.	526	494	605
<b>Gross DM</b>	Rs.Mln.	<b>2,784</b>	<b>3,076</b>	<b>3,519</b>
Less: Other Income	Rs.Mln.	- 139	- 155	- 172
<b>Net DM for SOP</b>	Rs.Mln.	<b>2,645</b>	<b>2,921</b>	<b>3,347</b>
DM for DOP	Rs.Mln.	6,616	6,798	7,846
<b>Consolidated DM</b>	Rs.Mln.	<b>9,262</b>	<b>9,719</b>	<b>11,193</b>
Taxation	Rs.Mln.	920	1,091	1,129
<b>Revenue Requirement</b>	Rs.Mln.	<b>85,673</b>	<b>88,355</b>	<b>91,426</b>

The Average Tariff for FY 2025-26 is assessed as under:

Description	UoM	FY 2023-24 (Actual)	FY 2024-25 (Prov.)	FY 2025-26 (Proj.)
Power Purchase Price	Rs./kwh	35.58	34.72	34.35
O&M Expenses	Rs./kwh	1.03	1.12	1.23
Depreciation	Rs./kwh	0.04	0.04	0.04
RORB	Rs./kwh	0.25	0.22	0.26
<b>Gross DM</b>	Rs./kwh	<b>1.31</b>	<b>1.38</b>	<b>1.53</b>
Less: Other Income	Rs./kwh	- 0.07	- 0.07	- 0.07
<b>Net DM for SOP</b>	Rs./kwh	<b>1.25</b>	<b>1.31</b>	<b>1.45</b>
DM for DOP	Rs./kwh	3.12	3.04	3.41
<b>Consolidated DM</b>	Rs./kwh	<b>4.37</b>	<b>4.35</b>	<b>4.86</b>
Taxation	Rs./kwh	0.43	0.49	0.49
<b>Revenue Requirement</b>	Rs./kwh	<b>40.38</b>	<b>39.56</b>	<b>39.70</b>

## **6. SUMMARY OF EVIDENCE & RELIEF SOUGHT:**

### **6.1. RELIEF / DETERMINATION SOUGHT**

In support of the petition in hand the standard formats are enclosed as per requirement;

- Approval of Category-wise Tariff for FY 2025-26 – Form 27
- Approval of Revenue Requirement for FY 2025-26– Form 20.
- Summary of Category-wise Revenue Requirement for FY 2025-26 - Form 27A.
- Any other relief

### **6.2. KEY ASSUMPTIONS TO THE FINANCIAL PROJECTIONS/ RELIEF SOUGHT**

- **Total Unit Sales:** The units projected for FY 2025-26 are 2,303 Million.
- **Target Transmission & Distribution Losses:** The losses have been projected at 15.39%, for FY 2025-26.
- The Financial Projections are made on the basis of existing notified tariff and actual T&D losses adjusted with the proposed tariff.
- That in view of the grounds and facts mentioned above, it is respectively prayed that while admitting and allowing this petition, the Tariff of HAZECO for the FY 2025-26 as per the actual expenditure of FY 2023-24, may very graciously be determined as proposed, keeping in view the following:
  - a. Ensuring the financial viability of the petitioner for the reliable supply of electricity to its over 829,001 consumers;
  - b. Timely Determination of Tariff along with its monthly adjustments or quarterly adjustments as proposed, providing sufficient time to the petitioner for the recovery of the Determined Revenue Requirement;
  - c. Fixing of target of T&D losses by taking a realistic approach;
  - d. Approving the investment plan of Rs. 5,363 Million for FY 2025-26 as projected.
  - e. Allowing Distribution Margin (DM) Rs. 11,193 for FY 2025-26 as projected.
  - f. To allow WACC @ 17.05%.
  - g. Any other relief.

The petitioner craves to grant of permission to raise additional grounds/points at the time of hearing, and also explain if any further points are raised during hearing proceedings.

Any other appropriate order deems fit by the honourable Authority may also be passed.

PETITIONER

THE HAZARA ELECTRIC SUPPLY COMPANY LTD

Through:



Engr. Qazi Muhammad Tahir

Chief Executive Officer HAZECO

**HAZECO Tariff Petition under Section 20 for  
function of Distribution of Electric Power for  
FY 2025-26**

# **HAZARA ELECTRIC SUPPLY COMPANY LIMITED**

## **PETITION FOR DETERMINATION OF CONSUMER END TARIFF**

**FOR FY 2025-26**

**Before**

**The Honorable National Electric Power Regulatory Authority**

### **I. PETITION SUMMARY**

#### **I.1. Details of Petitioner**

I.1.1. Hazara Electricity Supply Company Limited (HAZECO) is an Ex-WAPDA Distribution Company (DISCO), curved out from Peshawar Electric Supply Company Limited (PESCO), owned by the Government of Pakistan (GOP) and incorporated as a Public Limited Company on 31st October 2023 company registration No. 0243576 under section 16 of the Companies Act 2017.

I.1.2. Principal business of HAZECO is to provide electricity in Hazara Division of Khyber Pakhtunkhwa under License No. DL/10/2025 dated 23-05-2025 (the Distribution License) issued by NEPRA. NEPRA has also granted Electric Power Supply License (Supplier License) to HAZECO to act as Supplier of Last Resort (SoLR) in its designated service territory under License No. SOLR/10/2025 dated 23-05-205.

**I.2. HAZECO is represented by the following duly authorized officers:**

- |                             |                         |
|-----------------------------|-------------------------|
| • Engr. Qazi Muhammad Tahir | Chief Executive Officer |
| • Mr. Muhammad Aamir Zakee  | Chief Financial Officer |



## 2. GROUNDS FOR PETITION

Respectfully submitted,

2.1.1. That NEPRA, under the regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (hereinafter NEPRA Act), amended by the act of parliament, wherein, it has been enacted this Act shall be called the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act 2018, is responsible for regulating the electricity sector in Pakistan which includes determining the Revenue Requirement, tariffs and other terms and conditions for the supply of electricity by the Generation, Transmission and Distribution Companies and to recommend the same to the Federal Government for notification. For this purpose, NEPRA has laid down certain guidelines and procedures under the NEPRA Tariff Standards and Procedures Rules, 1998 and subsequent amendments made in the act. This petition is being filed in the light of updated NEPRA Act, wherein through the act of parliament the Distribution Function has been separated from the Commercial services of a Distribution Company, according to NEPRA Act, Distribution Licensee under section 20 shall be limited to ownership, operation, management or control of distribution facilities for the movement or delivery to consumer of electric power and clause 23 (E) wherein the term Electric Power Supply Licensee has been introduced, act states that "no person shall unless licensed by the Authority under this Act, engage in the supply of electric power to a consumer: provided that the holder of a distribution license on the date of coming in to effect of the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment Act, 2018) shall deemed to hold a license for supply of electric power under this section for a period of 5 years from the said date".

2.1.2. That HAZECO, being a bonafide power Distribution and Supply licensee, it requires adequate revenues in order to perform its obligatory duties prescribed by NEPRA under the NEPRA Act (amendment 2018), NEPRA Performance Standards (Distribution) Rules 2005, NEPRA Consumer Eligibility Criteria 2003, Distribution License of HAZECO and other Obligations as determined by NEPRA from time to time. The main source of funding available to the petitioner for their revenue requirements are; (i) internal efficiency improvements, (ii) generation of adequate revenue through tariff and (iii) funding / borrowings. Internal efficiency improvements require commensurate financial resources

either through borrowings or tariff. As per general principles of banking industry, international or local, the financial viability of borrowing organization is always taken as fundamental for lending decisions.

- 2.1.3. That in order to fulfill and perform its obligatory duties, as mentioned above, and to ensure financial viability of HAZECO by recovering its prudently incurred costs and reasonable return, in order to upkeep and maintain its existing distribution services / network and to support the future investments for expansion of distribution services / network, this Petition is being filed for FY 2025-26 through its Chief Executive Officer and other officers of HAZECO, who have been duly authorized to sign and file this petition by the Board Of Directors, HAZECO, copy of resolution is placed at **Annex-A**.

### **3. HAZECO'S REVENUE REQUIREMENT**

- 3.1.1. The Revenue Requirement of HAZECO for Distribution of Electricity has two components i.e Distribution Margin and Financial Charges. The Distribution Margin of Distribution (Non-Sale Elements) comprises of Actual salaries and wages of GSO Circle, PD GSC and PD C&O, XEN Operations etc. since these circles / directorates are responsible for construction, rehabilitation, augmentation and similar activities involved in Distribution (Non-Sale Elements) for providing electricity to the end consumers.
- 3.1.2. The XEN offices comprises of technical as well as administrative staff, the salaries of technical officer and officials such as XEN, SDO, line man, assistant line man, line supervisor etc. have been allocated to Distribution (Non-Sale Elements) on actual basis except for meter reader, bill distributor and meter reader supervisor, as the same has been allocated to Power Supply (Sale of Electric Power) as their job description relates to billing and recovery.
- 3.1.3. Moreover, the expenditure of HQ, and other offices has been allocated on the most suitable basis to Distribution (Non-Sale Elements) or Power Supply (Sale of Electric Power).
- 3.1.4. Distribution Margin is calculated in the light of NEPRA guidelines for determination of consumer end tariff and is equally important as HAZECO must earn sufficient distribution margin and adequate stream of cash flow to maintain its system, discharge its financial commitments, invest to expand and maintain the network and to provide a reasonable return to the sponsors on their investment.
- 3.1.5. In view of the above, HAZECO is submitting the tariff petition for FY 2025-26 in light of the Nepra (Amendment) Act 2018, under Section 20 for Distribution. Following are the cost categories to be considered for Distribution Licensee:

- A) Distribution Margin.
- B) Financial Charges.

### 3.2. DISTRIBUTION MARGIN:

3.2.1. The Distribution Margin consists of the following factors:

- Operation & Maintenance Expenses:
  - Operational Expenses:
    - Salary Wages & Other Benefits
    - Travelling Expenses
    - Vehicle Expenses
    - Other Expenses
  - Repairs & Maintenance Expenses
  - Other Income
- Depreciation Expense
- Return on Rate Base

3.2.2. The sum of the O&M Cost, Depreciation and RORB minus Other Income results in HAZECO's Distribution Margin, dividing this by the total units sold yields the average Distribution Margin per kWh. The bifurcated DM of HAZECO for Distribution Licensee for FY 2023-2024 was Rs. 3.12/kWh and the DM for FY 2025-26 is projected Rs. 3.41/kWh.

i) **O&M EXPENSES**

3.2.3. O&M expenses include Salaries & Wages, Repair & Maintenance, Travelling, Vehicle Running and Other Expenses. Based on the impact of increase in inflation, salaries and other allowances, the Audited O&M Expense for Distribution (Non-Sale Elements) FY 2023-24 are Rs. 4,127 Million and the projections for FY 2024-25 & 2025-26 are as per detail below:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	3,814	4,047	4,583
Repair and Maintenance	189	208	229
Traveling Expenses	36	41	51
Vehicle Expenses	57	85	122
Other Expenses	30	62	68
<b>Grand-Total</b>	<b>4,127</b>	<b>4,443</b>	<b>5,052</b>
<b>%Increase/(Decrease)</b>		<b>8%</b>	<b>14%</b>

*The Average O&M Expense (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	1.80	1.81	1.99
Repair and Maintenance	0.09	0.09	0.10
Traveling Expenses	0.02	0.02	0.02
Vehicle Expenses	0.03	0.04	0.05
Other Expenses	0.01	0.03	0.03
<b>Grand-Total</b>	<b>1.95</b>	<b>1.99</b>	<b>2.19</b>
<b>%Increase/(Decrease)</b>		<b>2%</b>	<b>10%</b>

3.2.4. Salaries & Wages including employee's retirement benefits is the major component of O&M expense. The following additional increases are also made by GoP in its annual budget for FY 2024-25 along with various other impacts:

**Increase in Pay & Allowances announced for FY 2025-26:**

1. Expected increase in salaries (15%).
2. Impact of Additional recruitment.
3. The cost of new hiring has been claimed as an additional requirement for the newly established HAZECO. In the absence of adequate staff hiring, the company will not be able to operationalize its functions effectively.
4. Employees Retirement Benefits have been based on the average of annual increase in the last two years audited figures.
5. Keeping in view the above increases, the Salaries and Wages are based on the Bifurcated Audited Financial Statement of HAZECO for FY 2023-24 and Provisional figure for FY 2024-25 and projected for FY 2025-26 are as under:

**I. Pay & Allowances (Existing Strength):**

Rs. In Million

Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Pay & Allowances	5,770	6,122	6,933

**II. New Recruitment:**

Description	FY 2026
	Prov.
New Hiring (Nos)	
Cost (Mln. Rs.)*	419

- 3.2.5. The requirement for a Single Year Tariff (SYT) has been presented in the proposal based on a rational and data-driven approach. The consumer base growth has been assessed by comparing the number of consumers in January 2024 and January 2025, and the increase has been duly quantified. In addition, the projected retirements during FY 2025–26 have been factored in, and based on this analysis, the need for new hiring of qualified professionals and essential staff has been determined to ensure operational readiness and regulatory compliance.
- 3.2.6. It is important to highlight that the projected human resource requirements presented herein are based on reasonable assumptions and operational forecasts, which may be revised as per ground realities during the course of implementation. Accordingly, the number and categories of staff may change depending on actual functional needs and regulatory considerations. Furthermore, the recruitment process at HAZECO will be carried out in accordance with the approved organogram and will also consider the manpower being transferred from PESCO under the bifurcation scheme. All recruitments will be undertaken in line with government policy guidelines and approvals from the competent forums.
- 3.2.7. However, the then PEPCO has devolved all the matters regarding HR affairs of DISCOs being processed by the then PEPCO to DISCOs vide letter No. GMHR#5778-5810, dated 14-01-2021 conveying that respective BoDs should exercise the powers of the MD PEPCO which will bring an opportunity for the Company to proceed for HR requirements through its BoD against critical requirements as and when considered necessary or unavoidable.
- 3.2.8. HAZECO is currently working on strength of 1,731 employees approximately out of which 58 are officers of different grades. The shortage of the staff is the main cause of losses and system constraints being faced by HAZECO at present.
- 3.2.9. The O&M expenses are one of the major unknowns for XWDISCOs in Pakistan due to many uncontrollable factors such as statutory implications arising out of increase in salaries (as announced by the Federal Government), increase in certain expenses due to growth in consumer base, this includes increase in maintenance expenses, meter reading expenses, whereas other expenses are directly linked to the rate of petroleum. The employees' cost includes costs related to salaries and benefits of all staff (administrative, operational and security).

- 3.2.10. To ensure an efficient, coordinated, economical distribution system and to build, maintain and operate the system more systematically, it will be employing a highly skilled and technically proficient team to manage all aspects of the distribution of power to ensure that all key commercial interests of all stakeholders are maintained, protected and prioritized.
- 3.2.11. The O&M cost needs to be bifurcated into controllable and uncontrollable cost components and the 'Uncontrollable costs' are requested to be trued-up at the end of every year and the 'Controllable costs' should be indexed every year with CPI change less agreed efficiency factor, adjustable in last two years, to pass on the benefit of system efficiency to the consumers.

**Controllable Cost:**

- 3.2.12. The controllable O&M costs are projected by assuming an inflation rate of 10%. The controllable cost during FY 2025-26 will also increase due to new projects (as envisaged in DM) and accordingly this new addition in per unit base cost of controllable component may be allowed in the related year in which project is planned to be completed and indexed subsequently as part of controllable cost component.

**Uncontrollable Cost:**

- 3.2.13. With regards to uncontrollable cost different growth rates are projected for different cost streams based on management experience. Uncontrollable cost factors could be affected by growth in employee benefits, consumer growth rates and growth in regulatory fee etc. The uncontrollable cost will also increase due to new projects (as envisaged in DIIP) and accordingly projected cost includes impact of new projects.



3.2.14. The detail of controllable and uncontrollable costs is as under:

Controllable Costs	Uncontrollable Costs
Travelling Expenses	Pay and Allowances – Existing
Office Supplies & Store handling	Rent, Rate & Taxes
Vehicle Expenses	Injuries & Damages
Power, Light & Water	Collection Expenses
Communication & Postage	Legal Charges
Advertising & Publicity	Management Fee
Subscription & Periodicals	Audit Charges
Misc. Expenses	
Bank Charges	
Insurance Premium	

#### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- The base year FY 2024-25 does not reflect the true cost and accordingly factor "N" is included to account for the new recruitments.
- Adjustment in Salary & Pension (including pension part of post-retirement benefit) may be linked with the Increase announced by GoP in Annual Budget on actual basis.
- 5% increase on account of Annual Increment may be allowed.
- The remaining allowances / benefits may be adjusted on the basis of CPI for controllable costs and on the basis of actual in case of uncontrollable costs.
- An additional variable "**N**" may be included to account for the New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc.) against vacant positions and the same may be indexed as proposed above.

- f. The O&M part of Distribution Margin shall be indexed with CPI (component wise).

Accordingly, the O&M will be indexed for next year according to the following formula:

$$O\&M_{Rev} = [O\&M_{Ref} \times (1 + (\Delta CPI - X))] + O\&M_{Actual} + N$$

Where:

O&M (Rev)	is Revised O&M Expense for the Current Year
O&M (Ref)	is Reference O&M Expense for the Reference Year which is controllable cost
O&M (Actual)	is Actual O&M Expense for the Current Year and is uncontrollable cost
*ΔCPI	is Change in Consumer Price Index published by Pakistan Bureau of Statistics latest available on 1 <sup>st</sup> July against the CPI as on 1 <sup>st</sup> July of the Reference Year in terms of percentage (excluding pay & allowances and pension)
X	is Efficiency factor and may be allowed to the extent that the actual expenses are less than the determined instead of 30%, which is on a very higher side as CPI is not a true reflection of DISCOs expenses
N	is New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc), including indexation of controllable and un-controllable costs to account for the expenditure that is not in the Base Cost
* Note:	Change in CPI may be used component wise instead of general NCPI, e.g., for vehicle expenses, NCPI under transport category should be used or it should be linked with PSO prices.

## ii) REPAIR & MAINTENANCE EXPENSES:

3.2.15. Repair and Maintenance expenses have been assumed @ around 2% of the net Fixed Assets in operation. HAZECO has to maintain its old and over loaded system in order to ensure un-interrupted power supply to the consumers, moreover cost of material has also increased due to inflationary pressure. Therefore, Repair & Maintenance expenditure has been projected for Distribution (Non-Sale Elements) as Rs. 229 Million for FY 2025-26.

3.2.16. The repair & maintenance cost shall enable the company to ensure smooth and efficient functioning of the transmission and distribution system in operation. Moreover, it shall contribute to the benefit of the consumers at large by reducing power outages, system breakdowns and better service quality in addition to contribution in reduction of the T&D

Losses. Foregoing in view, NEPRA is requested to allow full amount of the repair & maintenance projected for FY 2025-26. The repair and maintenance are mainly for standalone items necessary for keeping the system in operation with no additional benefits.

### Repair & Maintenance Cost for FY 2025-26

3.2.17. The projected Repair & Maintenance for Distribution of Power Business for FY 2025-26 is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Repair And Maintenance	189	208	229
%Increase/(Decrease)		10%	10%

*The Average Repair & Maintenance Expense (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Repair And Maintenance	0.09	0.09	0.10
%Increase/(Decrease)		5%	7%

### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- Adjustment in Repair & Maintenance may be linked with the percentage of Fixed Assets (i.e. 2% of the net Fixed Assets) in operation.

**iii) TRAVELLING EXPENSES:**

3.2.18. Travelling Expenses for Distribution (Non-Sale Elements) have been projected Rs. 51 Million FY 2025-26, respectively.

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	36	41	51
%Increase/(Decrease)			26%

*The Average Travelling Expense (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	0.02	0.02	0.02
%Increase/(Decrease)			7%

**ADJUSTMENT MECHANISM:**

The following adjustment mechanism is proposed:

- a. Adjustment in Travelling Expenses may be linked with the CPI.

**iv) VEHICLE RUNNING EXPENSES:**

3.2.19. Vehicle Running Expenses for Distribution (Non-Sale Elements) were Rs. 57 million for the FY 2023-24 and projected for FY 2025-26 as Rs. 122 Million.

## Vehicle Running Expenses for FY 2025-26

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	57	85	122
%Increase/(Decrease)			42%

*The Average Vehicle Expense (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	0.03	0.04	0.05
%Increase/(Decrease)			38%

### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- a. Adjustment in Vehicle Running Expenses may be linked with the CPI.

### v) OPERATING EXPENSES:

13.1.17. Other Expenses include Rent, Rates and Taxes, Utility expenses, communications, office supplies, professional fees, auditor's remuneration, outsourced services, management fees, electricity bill collection expenses etc.

## Other Operating expenses for FY 2025-26

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	30	62	68
%Increase/(Decrease)			10%

*The Average Other Expenses (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	0.01	0.03	0.03
%Increase/(Decrease)			7%

### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- a. Adjustment in Other Operating Expenses may be linked with the CPI.

### vi) DEPRECIATION

13.1.18. Depreciation is calculated on the basis of the value of existing Assets plus the additions in assets during the FY 2025-26, Actual depreciation for FY 2023-24 was Rs. 688 Million. The assets are depreciated on straight line method as per utility practice i.e land @ 0 %, buildings and civil works @ 2%, Plant and machinery @ 3.5%, office equipment and mobile plant @ 10% and other assets @ 10% based upon these assumptions the figure for depreciation has been worked as Rs. 748 Million for FY 2025-26.

## Depreciation Expense for FY 2025-26

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	688	719	748
%Increase/(Decrease)			4%

*The Average Depreciation Expense (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	0.32	0.32	0.32
%Increase/(Decrease)			1%

### ADJUSTMENT MECHANISM:

The following adjustment mechanism is proposed:

- Adjustment in Depreciation Expenses may be linked with the Gross Fixed Assets in operation.

### vii) RETURN ON RATE BASE (RORB):

13.1.19. NEPRA allowed WACC to PESCO (incl. HAZECO) 20.4% for FY 2024-25 in its tariff determination for Adjustment/ Indexation of tariff for FY 2024-25 against the requested WACC of 21.27%, hence, the same needs to be reconsidered in view of the MYT

determination wherein adjustments on account of variation in KIBOR is permissible on biannual basis. HAZECO has calculated WACC of 17.05% based on the following calculations:

\*Weighted Average Cost of Debt for FY 2024-25 include 3 month's Kibor plus 2% spread.

By incorporating the above adjustment of ERC, the calculation of WACC and RORB will be as under:

$$\text{WACC} = [14.47\% * 30\%] + [18.16\% * 70\%] = 17.05\%$$

3.2.20. HAZECO has no other source of revenue except Tariff to pay off the principal, interest and exchange risk payable to EAD except for consumer end Tariff and if not allowed, it will in any way effect the consumers as the same will be passed in the form of deficit financing resulting in financial hardship to the consumers.

3.2.21. HAZECO is of the opinion that return should be adequate enough to not only cover the cost of debt but also to cater for the exchange rate parity as well as reasonable return to the equity holders. Authority is therefore requested to allow RORB @17.05% WACC, including debt as per following calculations and further projection is also being made for FY 2025-26.



Description	UoM	2023-24	2024-25	2025-26
		Audited	Prov.	Proj.
Net Fixed Assets in Operation	[Mln Rs]	14,381	16,455	18,785
Add: Capital Work In Progress - Closing Bal	[Mln Rs]	5,498	6,366	8,568
Less: Cap. WIP-Deposit Portion	[Mln Rs]	1,100	1,202	1,304
Investment in Fixed Assets	[Mln Rs]	18,780	21,620	26,049
Less: Deferred Credits	[Mln Rs]	5,564	5,863	6,287
Regulatory Assets Base	[Mln Rs]	13,216	15,757	19,763
Average Regulatory Assets Base	[Mln Rs]	12,379	14,486	17,760
Rate of Return	[%age]	21.27%	17.05%	17.05%
Return on Rate Base	[Mln Rs]	2,633	2,470	3,028

The details of RORB is as under:

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
RORB	2,106	1,976	2,423
%Increase/(Decrease)			23%

The Average RORB (Rs./Kwh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
RORB	0.99	0.88	1.05
%Increase/(Decrease)			19%

#### viii) OTHER INCOME:

13.1.23. The main sources of other income include Interest Income, Sale of Scrape, Amortization of Deferred Credit, Rental & Service Income etc whereas the Wheeling Charges and Late Payment Surcharge have been excluded as per decision of NEPRA.

The projected Other Income for Distribution of power business for FY 2025-26 is as under:-

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
Other Income	-305	-340	-378
%Increase/(Decrease)			11%

The Average Other Income (Rs./Kwh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
Other Income	(0.14)	(0.15)	(0.16)
%Increase/(Decrease)			8%

13.1.24. Based on above the projections the Distribution Margin (DM) for FY 2025-26 for Distribution (Non-Sale Elements) of power business would be as under:

Rs. in Million

Distribution of Power Business				
Description	UoM	2023-24	2024-25	2025-26
		Actual	Prov.	Proj.
O & M Expenses	Rs.Mln.	4,127	4,443	5,052
Depreciation	Rs.Mln.	688	719	748
RORB	Rs.Mln.	2,106	1,976	2,423
<b>Gross DM</b>	Rs.Mln.	<b>6,921</b>	<b>7,138</b>	<b>8,223</b>
Less: Other Income	Rs.Mln.	- 305	- 340	- 378
<b>Net DM</b>	Rs.Mln.	<b>6,616</b>	<b>6,798</b>	<b>7,846</b>

*The Average DM (Rs./Kwh) for FY 2025-26 is assessed as under:*

Distribution of Power Business				
Description	UoM	2023-24	2024-25	2025-26
		Actual	Prov.	Proj.
O & M Expenses	Rs.Mln.	1.95	1.99	2.19
Depreciation	Rs.Mln.	0.32	0.32	0.32
RORB	Rs.Mln.	0.99	0.88	1.05
<b>Gross DM</b>	Rs.Mln.	<b>3.26</b>	<b>3.20</b>	<b>3.57</b>
Less: Other Income	Rs.Mln.	- 0.14	- 0.15	- 0.16
<b>Net DM</b>	Rs.Mln.	<b>3.12</b>	<b>3.04</b>	<b>3.41</b>

### 3.3. FINANCIAL CHARGES:

3.3.1. The Distribution Plan of the Company, which is integrated with the 132 KV network studies, envisages expansion and rehabilitation of the Company network during the 2025-26. The Company intends to invest an amount of PKR 3,811 Million through HAZECO own sources and Rs. 1,552 Million through consumer finance for the FY 2025-26 keeping in view its system requirements under the projects i.e. Secondary Transmission and Grid Stations (STG), Distribution of Power (DOP), Energy Loss Reduction (ELR) and Support Plan.

3.3.2. The details of investments proposed annually are detailed below:

DESCRIPTION	Unit	2025-26
Distribution of Power (DOP)	M Rs.	1,131
Energy Loss Reduction (ELR)	M Rs.	620
Secondary Transmission & Grids (STG)	M Rs.	2,336
Support Plan	M Rs.	629
Deposit works	M Rs.	647
<b>INVESTMENT IN LOCAL CURRENCY</b>	<b>M Rs.</b>	<b>5,363</b>

#### **4. SUMMARY OF EVIDENCE & RELIEF SOUGHT:**

##### **4.1. RELIEF / DETERMINATION SOUGHT**

In support of the petition in hand the standard formats are enclosed as per requirement;

- Approval of Category-wise Tariff for FY 2025-26– Form 27
- Approval of Revenue Requirement for FY 2025-26– Form 20.
- Summary of Category-wise Revenue Requirement for FY 2025-26- Form 27 (A).
- Any other relief

##### **4.2. KEY ASSUMPTIONS TO THE FINANCIAL PROJECTIONS/ RELIEF SOUGHT**

- **Total Unit Sales:** The units projected for FY 2025-26 are 2,303 Million.
- **Target Transmission & Distribution Losses:** The losses have been projected at 15.39% for FY 2025-26.
- The Financial Projections are made on the basis of existing notified tariff and actual T&D losses adjusted with the proposed tariff.
- That in view of the grounds and facts mentioned above, it is respectively prayed that while admitting and allowing this petition, the Tariff of HAZECO for the FY 2025-26 as per the actual expenditure of FY 2024-25, may very graciously be determined as proposed, keeping in view the following:
  - a. Ensuring the financial viability of the petitioner for the reliable supply of electricity to its over Approximately 829,001 consumers;
  - b. Timely Determination of Tariff along with its monthly adjustments or quarterly adjustments as proposed, providing sufficient time to the petitioner for the recovery of the Determined Revenue Requirement;
  - c. Fixing of target of T&D losses by taking a realistic approach;
  - d. Approving the investment plan of Rs. 5,363 Million for FY 2025-26 as projected.
  - e. Allowing Distribution Margin (DM) Rs. 7,846 million for FY 2025-26 as projected.
  - f. To allow WACC @ 17.05%.
  - g. Any other relief.

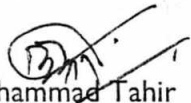
The petitioner craves to grant of permission to raise additional grounds/points at the time of hearing, and also explain if any further points are raised during hearing proceedings.

Any other appropriate order deems fit by the honourable Authority may also be passed.

PETITIONER

THE HAZARA ELECTRIC SUPPLY COMPANY LTD

Through:



Engr. Qazi Muhammad Tahir

Chief Executive Officer HAZECO