



National Electric Power Regulatory Authority Islamic Republic of Pakistan

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Registrar

No. NEPRA/ADG(Tariff)/TRF-606/ 2454-58

March 14, 2024

Subject: **Determination of the Authority in the matter of Petition filed by Faisalabad Electric Supply Company Limited (FESCO) for Determination of Distribution Tariff Under MYT Regime for the FY 2023-24 to FY 2027-28 [Case # NEPRA/TRF-606]**

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (total 43 pages).

2. The Decision is being intimated to the Federal Government for the purpose of notification in the official Gazette pursuant to Section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 within 30 days from the intimation of this Decision. In the event the Federal Government fails to notify the subject tariff Decision or refer the matter to the Authority for reconsideration, within the time period specified in Section 31(7), then the Authority shall notify the same in the official Gazette pursuant to Section 31(7) of NEPRA Act.

Enclosure: As above


(Engr. Mazhar Iqbal Ranjha)


Secretary,
Ministry of Energy (Power Division),
'A' Block, Pak Secretariat,
Islamabad

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
3. Chief Executive Officer, Central Power Purchasing Agency Guarantee Limited (CPPA-G), Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad
4. Chief Executive Officer, Faisalabad Electric Supply Company Limited (FESCO), FESCO Headquarter, Abdullah Pur, Faisalabad



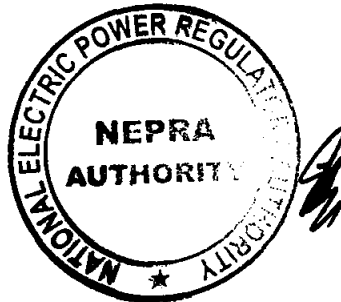
**National Electric Power Regulatory Authority
(NEPRA)**

PETITION NO: NEPRA/TRF-606/FESCO-2023

**DETERMINATION OF DISTRIBUTION TARIFF PETITION
FOR
FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED (FESCO)
FOR THE FY 2023-24 – FY 2027-28
UNDER
NEPRA TARIFF (STANDARDS AND PROCEDURE) RULES - 1998**

Islamabad

14th May, 2024

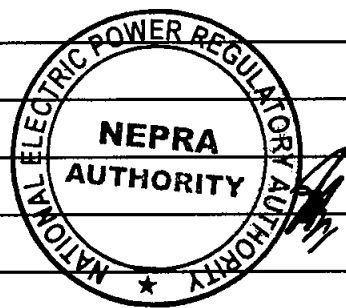


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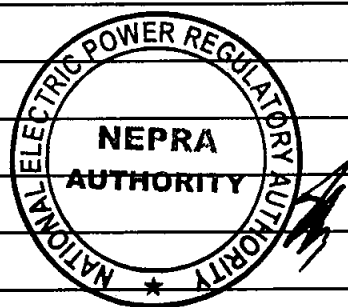
Abbreviations

CpGenCap	The summation of the capacity cost in respect of all CpGencos for a billing period minus the amount of liquidated damages received during the months
ADB	Asian Development Bank
AMI	Advance Metering Infrastructure
AMR	Automatic Meter Reading
BoD	Board of Director
BTS	Base Transceiver Station
CAPM	Capital Asset Pricing Model
CDP	Common Delivery Point
COSS	Cost of Service Study
CPPA (G)	Central Power Purchasing Agency Guarantee Limited
CTBCM	Competitive Trading Bilateral Contract Market
CWIP	Closing Work in Progress
DIIP	Distribution Company Integrated Investment Plan
DISCO	Distribution Company
DM	Distribution Margin
DOP	Distribution of Power
ELR	Energy Loss Reduction
ERC	Energy Regulatory Commission
ERP	Enterprise resource planning
FCA	Fuel Charges Adjustment
FY	Financial Year
GIS	Geographical Information System
GOP	Government of Pakistan
GWh	Giga Watt Hours
HHU	Hand Held Unit
HT/LT	High Tension/Low Tension
HSD	High Speed Diesel
IGTDP	Integrated Generation Transmission and Distribution Plan
IESCO	Islamabad Electric Supply Company Limited
KIBOR	Karachi Inter Bank Offer Rates





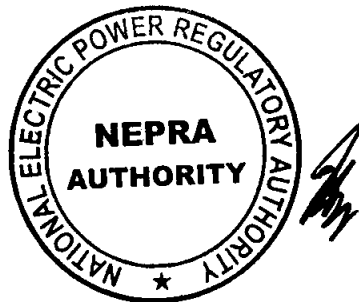
KSE	Karachi Stock Exchange
KV	Kilo Volt
kW	Kilo Watt
kWh	Kilo Watt Hour
LPC	Late Payment Charges
MDI	Maximum Demand Indicator
MMBTU	One million British Thermal Units
MoWP	Ministry of Water and Power
MVA	Mega Volt Amp
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
NOC	Network Operation Centre
NTDC	National Transmission & Despatch Company
O&M	Operation and Maintenance
OGRA	Oil and Gas Regulatory Authority
PEPCO	Pakistan Electric Power Company
GEPCO	Gujranwala Electric Power Company Limited
PDEIP	Power Distribution Enhancement Investment Program
PDP	Power Distribution Program
PPA	Power Purchase Agreement
PPAA	Power Procurement Agency Agreement
PPP	Power Purchase Price
PYA	Prior Year Adjustment
R&M	Repair and Maintenance
RAB	Regulatory Asset Base
RE	Rural Electrification
RFO	Residual Fuel Oil
RLNG	Re-gasified Liquefied Natural Gas
RoE	Return on Equity
RORB	Return on Rate Base
ROR	Rate of Return





SBP	State Bank of Pakistan
SOT	Schedule of Tariff
STG	Secondary Transmission Grid
SYT	Single Year Tariff
T&D	Transmission and Distribution
TFC	Term Finance Certificate
TOU	Time of Use
TOR	Term of Reference
TPM	Transfer Price Mechanism
USCF	The fixed charge part of the Use of System Charges in Rs./kW/Month
UOSC	Use of System Charges
WACC	Weighted average cost of capital
WAPDA	Water and Power Development Authority
XWDISCO	Ex-WAPDA Distribution Company

Matter of





**DETERMINATION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY
FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED (FESCO) FOR DETERMINATION
OF DISTRIBUTION TARIFF UNDER MYT REGIME FOR THE FY 2023-24 TO FY 2027-28**

CASE NO. NEPRA/TRF-606/FESCO-2023

PETITIONER

Faisalabad Electric Supply Company Limited (FESCO), West Canal Road, Abdullahpur,
Faisalabad.

INTERVENER

NIL

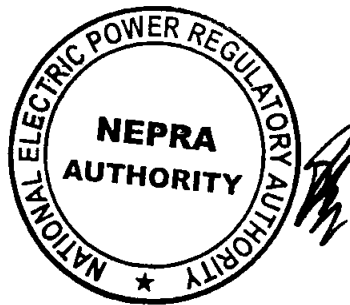
COMMENTATOR

NIL

REPRESENTATION

Chief Executive Officer and along-with its Technical and Financial team

Mate J

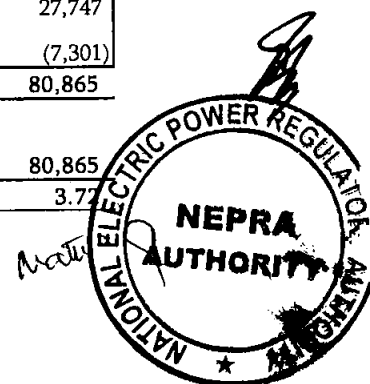




1. **Background**

- 1.1. The amendments in the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 was passed by the National Assembly on 15th March, 2018, which was published in the official Gazette on 30th April 2018 (the “**Amendment Act**”), resulting in restructuring of the energy sector. One of the fundamental changes as per the amendment Act is the introduction of a competitive retail energy sector, wherein, supply function has been segregated from the distribution license.
- 1.2. As per the amended Act, function of sale of electric power traditionally being performed by the Distribution Licensees has been amended under Section 21(2)(a), whereby ‘sale’ of electric power has been removed from the scope of ‘Distribution Licensee’ and transferred to ‘Supply Licensee’.
- 1.3. The Section 23(E) of the Act, provides NEPRA with the powers to grant Electric Power Supply License for the supply of electric power. Section 23E(1), however, provided that the holder of a distribution license on the date of coming into effect of the Amendment Act, shall be deemed to hold a license for supply of electric power under this section for a period of five years from such date. Thus, all existing Distribution Licensees were deemed to have Power Supplier Licenses, to ensure distribution licensees earlier performing both the sale and wire functions, can continue to do so. Subsequently, the Authority vide order dated 09.05.2023, granted distribution license to FESCO on a non-exclusive basis for a period of 20 years till May 2043. Similarly, the Petitioner has also been granted, Electric Power Supply License as a Supplier of Last Resort (SoLR) for the supply of electric power within its Service Territory on a non-discriminatory and non-exclusive basis, for a period of 20 years till April 2043 vide order of the Authority dated 27.12.2023.
- 1.4. In view thereof, Faisalabad Electric Supply Company Limited (FESCO), hereinafter called “the Petitioner”, being a Distribution as well as a Supplier of Last Resort (SoLR) filed separate tariff petitions for the determination of its Distribution and Supply of Electric Power Tariff under the MYT Regime for a period of five years i.e. from FY 2023-24 to FY 2027-28, in terms of Rule 3 (1) of Tariff Standards & Procedure Rules-1998 (hereinafter referred as “Rules”).
- 1.5. The Petitioner, inter alia, has requested distribution cost for the five years period as detailed below;

Description	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Units Received	GWh	19,423	20,308	21,328	22,385	23,426
Units Lost	GWh	1,698	1,702	1,712	1,710	1,696
% of T&D Losses	%	8.74%	8.38%	8.03%	7.64%	7.24%
Units Delivered	GWh	17,725	18,606	19,616	20,675	21,730
O&M	Mln Rs.	32,551	39,765	43,889	48,226	52,538
Depreciation	Mln Rs.	4,838	5,599	6,357	7,135	7,881
Return on Regulatory Asset Base (RoRB)	Mln Rs.	17,484	20,438	22,988	25,531	27,747
Other Income	Mln Rs.	(5,954)	(6,347)	(6,573)	(6,997)	(7,301)
Distribution Margin	Mln Rs.	48,919	59,455	66,661	73,895	80,865
PYA	Mln Rs.	1,825				
Revenue Requirement	Mln Rs.	50,744	59,455	66,661	73,895	80,865
Net Average Sale Rate	Rs./kWh	2.86	3.20	3.40	3.57	3.77





2. Proceedings

- 2.1. In terms of rule 4 of the Tariff standard and Procedure Rules, 1998 (hereinafter referred to as "Rules"), the petition was admitted by the Authority. However, considering the fact that the Supply license of the Petitioner as a deemed supplier was valid only till April 2023, the Authority decided to deliberate the term of the MYT period as a separate issue during the hearing. Since the impact of any such adjustments has to be made part of the consumer end tariff, therefore, the Authority, in order to provide an opportunity of hearing to all the concerned and meet the ends of natural justice, decided to conduct a hearing in the matter.
- 2.2. Hearing in the matter was scheduled on August 10, 2023, for which notice of admission / hearing along-with the title and brief description of the petition was published in newspapers on July 26, 2023 and also uploaded on NEPRA website; Individual notices were also issued to stakeholders/ interested parties.

3. Issues of Hearing

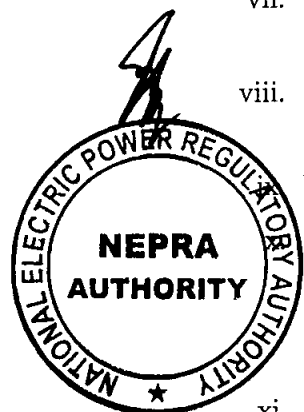
- 3.1. For the purpose of hearing, and based on the pleadings, following issues were framed to be considered during the hearing and for presenting written as well as oral evidence and arguments;

- i. Whether the request of Petitioner to allow MYT for a period of five years is justified?
- ii. Whether the Petitioner has properly utilized the allowed investment and achieved consequent prospective benefits or otherwise?
- iii. Whether FESCO has deposited the required amount in the Post Retirement Benefit fund in line with the amount allowed by the Authority in previous MYT?
- iv. Whether the requested O&M cost, Depreciation and other income is justified?
- v. Whether the salaries, allowance and post-retirement benefits shall linked with GoP increase or otherwise?
- vi. Whether the requested RORB along-with determinant factors and annual adjustment mechanism as requested by the Petitioner is justified?
- vii. What should be the adjustment mechanisms during the MYT? Whether there should any efficiency factor (X Factor)?
- viii. Whether the request of the Petitioner for replacement hiring, Additional hiring and creation of divisions/sub-division is justified?

Whether the requested PYA, is justified?

Whether the existing Tariff Terms and Conditions needs to be modified (including the request of Cold Storage to charge "B Industrial Supply" Category tariff instead of "A-2 Commercial" category tariff), and keeping in view the amendments in Consumer Service Manual or otherwise?

- xi. Whether the existing fixed charges applicable to different consumer categories needs to be revised and requires any changes in mechanism for charging of such charges based on Actual MDI or Sanction Load or otherwise? Whether there should any Fixed Charges on consumer's categories who are currently not paying any fixed charges?
- xii. Whether the concerns raised by the intervener/ commentator if any are justified?



xiii. Any other issue that may come up during or after the hearing?

4. Filing Of Objections/ Comments

- 4.1. Comments/replies and filing of Intervention Request (IR), if any, were desired from the interested person/ party within 7 days of the publication of notice of admission in terms of Rule 6, 7 & 8 of the Rules.
- 4.2. During the hearing, the Petitioner was represented by its Chief Executive Officer along-with its technical and financial teams; On the basis of pleadings, evidence/record produced and arguments raised during the hearing, issue-wise findings are given as under;

5. Whether the request of Petitioner to allow MYT for a period of five years is justified?

- 5.1. The Authority noted that the Petitioner has filed its MYT Petition for a period of five years i.e. FY 2023-24 to FY 2027-28, however, the Supply license of the Petitioner is valid only till April 2023. In view thereof, the Authority decided to deliberate the matter during the hearing.
- 5.2. The Petitioner submitted that the petition has been filed in accordance with the Rule 3(1) of Part II and Rule 4(7) of NEPRA Tariff Standards and Procedure Rules 1998 and NEPRA Performance Standards (Distribution) Rules 2005. As per Rule 17 (3) (1) of Tariff Rules for recovery of any and all costs prudently incurred to meet the demonstrated needs of their consumers. It also stated that the Authority has directed FESCO to file MYT Tariff Petition for next five year i.e. FY 2023-24 to 2027-28 vide decision in the matter of adjustment/ Indexation of tariff for the FY 2021-22 under MYT regime as per applicable guidelines, rules and procedures. The Petitioner during the hearing submitted that its 5 years Investment Plan has already been approved by the Authority and in line with approved investment plan, tariff control period of 05 years is requested to be considered. Regarding Supply License FESCO submitted that application for supply License has already been filed before the Authority for consideration, therefore, for supply activity, tariff for 05 year may also be granted.
- 5.3. The Authority, observed that at the time of filing of the Petition, the Petitioner's Supply license as a deemed supplier was valid only till April 2023. However, subsequently the Authority vide order dated 27.12.2023, allowed the Petitioner, Electric Power Supply License as a Supplier of Last Resort (SoLR) for supply of electric power within its Service Territory on a non-discriminatory and non-exclusive basis, for a period of 20 years till April 2043. Further, the Authority also approved the investment of the Petitioner for a period of five (05) years i.e. from FY 2023-24 till FY 2027-28. In view thereof, the Authority has decided to approve the tariff request of the Petitioner under the MYT tariff regime for a control period of five years i.e. from FY 2023-24 till FY 2027-28. The terms & conditions, given by the Authority, in the Distribution and SoLR license, as modified from time to time, of the Petitioner would be applicable during the MYT control period.
6. Whether the Petitioner has properly utilized the allowed investment and achieved consequent prospective benefits or otherwise?

- 6.1. The Petitioner on the issue presented the following during the hearing;



Description	FY 2018-19		FY 2019-20		FY 2020-21		FY 2021-22		FY 2022-23		Total	
	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual
STG	2,828	880	3,252	797	2,722	2,052	2,616	3,849	1,637	5,903	13,055	13,481
DOP	878	731	959	652	937	837	778	1,721	842	2,363	4,394	6,304
ELR	792	1,269	1,427	1,775	1,615	1,940	2,156	2,264	2,698	3,841	8,688	11,089
Others	4514	633	914	87	-	196.59	-	169.5	-	20.1	5,428	1,106
Total	9,012	3,513	6,552	3,311	5,274	5,026	5,550	8,004	5,177	12,127	31,565	31,980

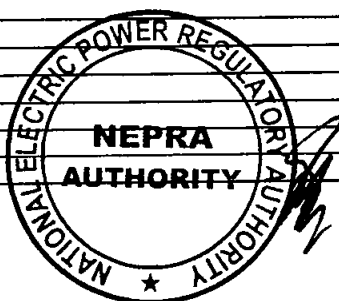
- 6.2. The Petitioner provided following details regarding prospective benefits of investment made during previous MYT.

Description	Actual	Actual	Actual	Actual	Actual/
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Provisional FY 2022-23
NEPRA Target - %	10.24	10.1	9.76	9.34	8.84
Actual Losses - %	9.82	9.56	9.28	9.1	8.59
Savings - %	0.42	0.54	0.48	0.24	0.25
Units Saved -MkWh	63	79	77	43	40
Financial Impact – Rs. Mln	882	1,353	1,228	910	991

- 6.3. The Authority noted that performance of Petitioner under different investment heads allowed in the previous MYT was discussed and deliberated, during the proceedings of the Petitioner's five years investment plan for the FY 2023-24 to FY 2027-28, which was subsequently decided by the Authority vide decision dated 20.04.2023. In view thereof, the Authority considers that this issue need not to be discussed in the instant determination again.

7. Whether the requested O&M cost, Depreciation and Other Income is justified?
8. Whether the salaries, allowance and post-retirement benefits shall linked with GoP increase or otherwise?
9. Whether FESCO has deposited the required amount in the Post Retirement Benefit fund in line with the amount allowed by the Authority in previous MYT?
- 9.1. The Petitioner requested the following O&M costs, depreciation charges and Other Income in its tariff petition;

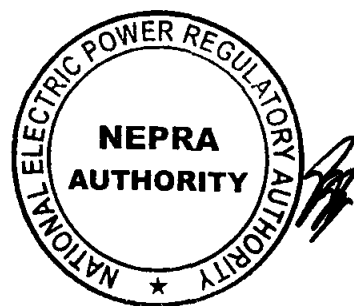
Operating and Maintenance Cost Breakup (PKR Millions)					
Description	FY 24	FY 25	FY 26	FY 27	FY 28
Salaries Wages & Benefits	12,294	13,603	15,004	16,506	18,053
Financial Impact of PM Assistance Package	82	82	82	82	82
Financial Impact of Replacement Hiring	2,224	3,068	3,866	4,594	5,071
Financial Impact of creation of new offices	1,260	4,649	4,878	5,107	5,349
Pay, Allowances & Employees Benefits of GENCO Employees adjusted in FESCO	67	74	82	90	99
Impact of Outsource of Security Guards	254	266	279	293	308
Retirement Benefits	13,325	14,657	16,123	17,736	19,509
Repair & Maintenance	1,147	1,267	1,349	1,437	1,530
Travelling Expenses	451	498	530	565	602
Transportation	723	798	850	905	964
Telephone	35	38	41	43	46
Licensing Fee	127	140	149	159	169
Stationery Expense	41	46	49	52	55
New Recruitment Expense	81	89	95	101	108
Miscellaneous	444	490	522	556	592
Total	32,552	39,765	43,899	48,226	52,538





Depreciation Expense (PKR Millions)					
Description	FY 24	FY 25	FY 26	FY 27	FY 28
Depreciation Expense	4,838	5,599	6,357	7,135	7,881

Other Income Breakup (PKR Million)					
Description	FY 24	FY 25	FY 26	FY 27	FY 28
Profit on the Bank Deposit	2,236	2,375	2,254	2,330	2,237
Meter/ Service Rent	53	54	54	54	54
Reconnection Fee	25	26	27	26	25
Gain on installation of new connections	654	587	590	577	604
Repair, testing and inspection fee	44	47	43	45	45
Recovery of late delivery charges	167	131	145	148	141
Service fee on collection of Electricity Duty and PTV License fee	116	120	115	117	117
Quarter rent FESCO colonies	7	7	7	7	7
Non-utility operations	88	93	85	89	89
Excess deposit work receipt written back	43	50	53	49	51
Total	3,432	3,489	3,373	3,440	3,370
Amortization of deferred credits	2,522	2,858	3,200	3,557	3,931
Total Other Income	5,954	6,347	6,573	6,997	7,301



9.2. The Petitioner provided the following justification regarding amount requested under each head of account;

- ✓ O&M cost has been bifurcated into Employee Related Cost (ERC) comprising Salaries, Wages, Post-Retirement Benefits and Non-Employee Related Cost (NERC) including Repair & Maintenance, Transportation & Conveyance, Bills Collection Charges, Regulatory Licensing Fee, Stationery and other O&M expenses. The ERC is requested to be allowed as per increase in Salaries and Post-Retirement Benefits announced by the GoP till FESCO remains in the public sector. This is due to the reason that FESCO had adopted and following the National Pay Scales of the Federal Government, hence, any increase by the GoP is being directly passed on to the active and retired employees in their salaries and pensionary benefits. The non-employee related cost shall be indexed every year with CPI less any efficiency factor (X).
- ✓ Pay & Allowances is attributable to the annual increment, impact of promotions, up-gradations and 25% Adhoc Relief Allowance for FY 2023-24 and 15% Adhoc Relief Allowance (each year) for rest of tariff control period.
- ✓ Retirement benefits shall be increased @ 10% per year for the tariff control period.
- ✓ Pay & allowances for FY 2023-24 have been estimated to Rs. 12,294 Million Similarly, Rs. 13,603 Million, Rs. 15,004 Million, Rs. 16,506 Million & Rs. 18,053 Million for FY 2024-25, 2025-26 2026-27 & 2027-28, respectively have been requested/proposed for Distribution Business. Pay & allowances and employee benefits including retirement benefits constitute a major portion of the Company's O&M expenses.

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Basic Pay, Allowance & Employee Benefits (PKR Million)

Description	FY 24	FY 22	FY 23	FY 24	FY 25
Projected Cost	12,294	13,603	15,004	16,506	18,053

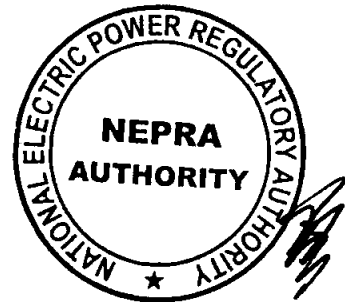
- ✓ In compliance of NEPRA directions, FESCO established a separate Post Retirement Fund w.e.f. 27.08.2014. An amount of Rs. 16,661 Million upto December-2022 has been accumulated in the fund. Presently there are two sources of deposits in the Trust Fund. First one is the net amount after payment of liabilities to retired pensioners out of the gross provisions being allowed by Authority. The second source is the amount of profits being earned on the deposits of the Trust Fund. The more funds transferred in the Trust Accounts, the more profit can be earned and the trust fund would quickly be able to generate sufficient revenues/plan assets for meeting the payments to pensioners and cater for active employees' provisions as well. At that point, no further revenue through tariff would be required for provisions against post-retirement benefits resulting into reduced consumer end tariff. The Authority is requested to allow projected staff retirement benefits for Tariff control period subject to its adjustment as per actual results of Actuaries Reports and Audited Financial Statements.
- ✓ Post-Retirement Benefits have been projected for 2022-23 on the basis of last actuarial Valuation Report with estimated average 10% increase from FY 2023-24 till FY 2027-28 as under.

Provision For Staff Retirement Benefits (PKR Millions)

Description	FY 24	FY 25	FY 26	FY 27	FY 28
Total Provision for Re	17,380	19,118	21,029	23,132	25,446
Projected Cost -Wire	13,325	14,657	16,123	17,736	19,509

Post-Retirement Benefits Break-up (PKR Millions)

Description	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
Pension	13,796	15,176	16,694	18,363	20,199	22,219
Leave encashment	337	370	407	448	493	542
Medical	828	910	1,001	1,101	1,212	1,333
Free Supply (Retired)	839	923	1,015	1,117	1,228	1,351
Total	15,800	17,380	19,118	21,029	23,132	25,446
% Change		10%	10%	10%	10%	10%



- ✓ Keeping in view the increasing Staff Retirement Benefits Obligations of the Company coupled with financial constraints following proposals are given to make the Company's already created Post Retirement Benefit Fund a fully funded entity:
 - Allow past years actual provisions charged on the basis of Actuaries Reports in line with provisions of IAS-19 being requested as Prior Year Adjustment (PYA).
 - For the Tariff Control Period, allow the projected provisions of staff retirement benefits subject to adjustment on actual basis.
- ✓ Bifurcation of O&M Cost: The O&M Cost has been bifurcated into salaries, wages & post-retirement benefit and other O&M Cost. Pay & Allowances and Post-Retirement

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benefits treated as directly passed through as per government increases, whereas, Repair & Maintenance & other O&M cost to be indexed with CPI

- ✓ Repair & Maintenance and Other O&M Cost is assumed to be indexed with CPI for Tariff control period. The forecasted inflation rates used in this tariff petition for the tariff control period are 21.94%, 10.46%, 6.50%, 6.50% & 6.50% respectively. The source of these inflation rates is the global business data platform website "statista.com".
- ✓ Depreciation is charged on the straight-line method so as to diminish the cost of an asset over its estimated useful life. As per Company's policy, building and civil works are depreciated @ 2%, feeders and grids & equipment's @ 3.5%, other plant/equipment and vehicles @ 10%. The depreciation for FY 2023-24 to FY 2027-28 has been estimated on the original cost of the assets.
- ✓ Other Income includes mark-up on bank deposits, amortization of deferred credit and income from other sources. As there is no clear trend found during the past, hence, other income have been assessed on the basis of last five year moving average except for the amortization of deferred credit which has been calculated @ 3.5% on the accumulated balance of contributions against connection installed / deposit works i.e. consumer financed assets. The Late Payment Surcharge has been excluded from the total Other Income as per decision of NEPRA in the Tariff determination of FY 2014-15 till 2022-23. The other income will be adjusted as per mechanism prescribed in the NEPRA Tariff Guidelines for determination of consumer end tariff.
- ✓ Replacement hiring and additional hiring, has been planned, for induction of the following number of employees during tariff control period against existing yard stick.

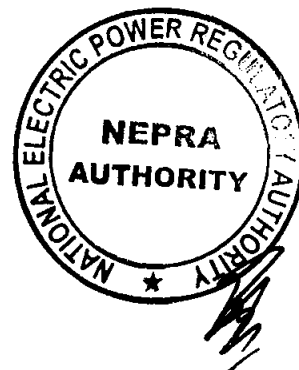
Replacement Hiring against existing Yardstick

Description	FY 24	FY 25	FY 26	FY 27	FY 28
No. of Employees	4,599	1,531	1,382	1,101	499
Projected Cost (Rs. Million.)	2,224	3,068	3,866	4,594	5,071

- ✓ Company is a staff deficient by 44% having presently working strength of 13,538 No. of employees against the sanctioned strength of 24,030 in different cadres. Therefore, the company has planned for induction of above stated number of employees during the tariff control period. The following manpower statistics as of October 31, 2022 highlights the shortage of staff in the company:

Vacancy Position as on 31.10.2022

Description	Sanctioned	Held	Vacant	% Vacant
A- Professionals				
Engineers	380	272	108	28%
Others	197	84	113	57%
Sub Total	577	356	221	38%
B- Staff				
Technical	12,649	7,264	5,385	43%
Clerical	3,328	1,485	1,843	55%
Non-Technical	7,476	4,433	3,043	41%
Sub Total	23,453	13,182	10,271	44%
Grand Total	24,030	13,538	10,492	44%



- ✓ Company has the deficiency of workforce by 44%. Deficiency at officers level is 38%, whereas, at staff level 44%. Deficiency at Engineers level is 28%. Deficiency at Technical staff level is 43%. Therefore, FESCO has been requesting NEPRA for allowing cost of hiring staff at positions where it is under-staffed. The deficiency and the associated financial impact will successively increase over the years, as the Company's consumer base is continually expanding. The consumer base of the company is expected to be increased at average rate of 5% or 0.290 Million consumers per year.
- ✓ In order to meet the technical and operational targets, it is proposed that 4,599 vacancies are to be filled by the Company during FY 2023-24. This recruitment will increase the first year i.e. 2023-24 of the tariff control period O&M by Rs. 2,224 Million. In the same manner Projected cost of Rs. 3,068 Million, 3,866 Million, 4,594 Million & Rs. 5,071 Million have been proposed for recruitment against vacant posts under existing yardstick of FESCO during FY 2024-25, 2025-26, 2026-27 & 2027-28 respectively.
- ✓ FESCO's Plan for creation of new offices along with additional hiring for newly created offices. Following number of employees for Distribution Business during tariff control period against human resource requirement of the proposed new office creation is requested and tabulated below;

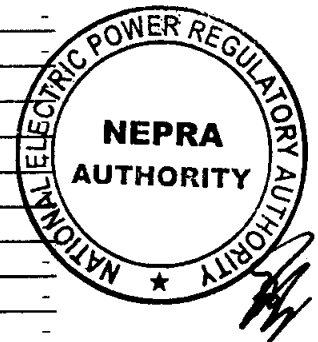
New induction against creation of new offices

Description	FY 24	FY 25	FY 26	FY 27	FY 28
No. of Employees	2,368	6,308	-	-	-
Projected Cost (Rs. Million.)	1,260	4,649	4,878	5,107	5,349

- ✓ FESCO has planned to create following new Circles, Divisions & Sub Divisions during Tariff control period keeping in view the expected consumers growth, improvement in quality of service to the existing and new customers, accurate meter reading, timely disposal of consumers complaints, reduction in T&D losses, administrative control etc. Detail is given in the Table as under.

Creation of New Circles, Division & Sub Division (Nos.)

Description	FY 24	FY 25	FY 26	FY 27	FY 28
Circles (Operation)	1	1	-	-	-
Circle (Civil Works)	1	-	-	-	-
GSO Circle	-	1	-	-	-
Divisions (Operation)	4	6	-	-	-
Civil Works Division	1	-	-	-	-
GSO Divisions	-	2	-	-	-
GSC Divisions	-	2	-	-	-
M&T Divisions	-	2	-	-	-
Constructions Divisions	-	2	-	-	-
Sub Divisions (Operation)	12	29	-	-	-
Civil Works Sub Division	3	-	-	-	-
GSO Sub Divisions + Gangs &	-	9	-	-	-
GSC Sub Divisions	-	3	-	-	-
Constructions Sub Divisions	-	4	-	-	-
Total	22	61	-	-	-



9.3. The Authority observed that the Petitioner revised its requested amounts under different heads in its presentation during the hearing. The Petitioner submitted that it has calculated/ worked out the O&M Cost and Depreciation Expenses on projected results of FY 2023 for



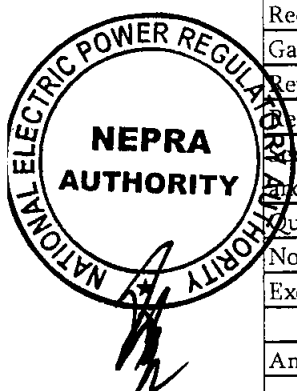
1st Year of the Tariff Control period i.e. FY 2023-24 and requested to determine O&M expenses for 1st Year of Tariff Control Period provisionally subject to change on the basis of submission of Audited Accounts of FY 2023. Thereafter, it shall be adjusted/ indexed – annually, on reference or base year actual results.

- 9.4. The Petitioner presented the following numbers for the FY 2023-24, during hearing of its instant Petition for both its Distribution and Supply function;

Description	FY 24	FY 25	FY 26	FY 27	FY 28
Salaries, Wages & Benefits	14,842	16,346	17,960	19,695	21,565
Financial Impact of PM Assistance Package	100	100	100	100	100
Financial Impact of Replacement Hiring	2,691	3,723	4,712	5,617	6,289
Financial Impact of creation of new offices	1,588	5,730	6,012	6,294	6,577
Pay, Allowances & Employees Benefits of GENCO Employees adjusted in FESCO	67	74	82	90	99
Impact of Outsource of Security Guards	254	266	279	293	308
Retirement Benefits	17,380	19,118	21,029	23,133	25,445
Repair & Maintenance	1,209	1,336	1,422	1,515	1,613
Travelling Expenses	496	547	583	621	662
Transportation	737	814	867	923	983
Telephone	54	60	64	67	72
Licensing Fee	162	179	191	204	217
Bill Collection Charges	430	451	474	497	522
Stationery Expense	375	415	442	471	501
New Recruitment Expense	90	99	106	112	120
Miscellaneous	775	856	912	972	1,035
Total	41,248	50,114	55,235	60,604	66,109
Rs./kWh	2.33	2.69	2.82	2.93	3.04

Depreciation	FY 24	FY 25	FY 26	FY 27	FY 28
	Projected				
Assets at Start of the Year	129,474	151,406	175,185	198,854	223,139
Net Addition in Assets	21,932	23,779	23,669	24,285	23,379
Assets at the End of the Year	151,406	175,185	198,854	223,139	246,518
Depreciation for the year	4,838	5,599	6,357	7,135	7,881

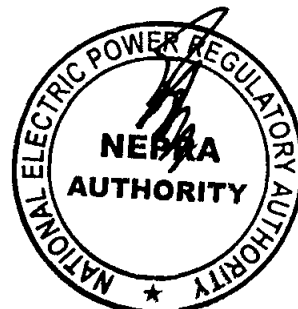
Other Income	FY 24	FY 25	FY 26	FY 27	FY 28
Profit on the Bank Deposit	2,236	2,375	2,254	2,330	2,237
Meter/ Service Rent	53	54	54	54	54
Reconnection Fee	25	26	27	26	25
Gain on installation of new connections	654	587	590	577	604
Repair, testing and inspection fee	44	47	43	45	45
Recovery of late delivery charges	167	131	145	148	141
Service fee on collection of Electricity Duty and PTV License fee	116	120	115	117	117
Quarter rent FESCO colonies	7	7	7	7	7
Non-utility operations	88	93	85	89	89
Excess deposit work receipt written back	43	50	53	49	51
Total	3,432	3,489	3,373	3,440	3,370
Amortization of deferred credits	2,522	2,858	3,200	3,557	3,931
Total Other Income	5,954	6,347	6,573	6,997	7,301
Rs./kWh	0.34	0.34	0.34	0.34	0.34



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- 9.5. Regarding Pay & Allowances, the Petitioner presented during the hearing that FESCO being owned by Federal Government adopted Government notifications towards increase in Salaries, Allowance and employees benefits, hence salaries and allowance shall linked with GOP increase. The Petitioner requested to true-up Salaries and allowances at the end of every year. Post-Retirement Benefits, should be linked with GoP increase, however FESCO has requested to true up the same as per provision for post-retirement benefit fund on the basis of Actuarial Valuation Report at the end of every year
- 9.6. Regarding Depreciation, the Petitioner presented that Depreciation Expense is based on the Opening Gross Fixed Assets plus projected addition based on the Investment allowed by Authority in Distribution Integrated Investment Plan (DIIP).
- 9.7. Regarding Other Income the Petitioner submitted that Amortization of deferred credit calculated @ 3.5% on the accumulated balance of contributions against connection installed/ deposit works i.e. consumer financed assets. The rest of Other Income has been assessed on the basis of last five year moving average.
10. The Authority noted that revenue requirement of XWDISCOs, generally include the following;
- Power Purchase Price (PPP)
 - Distribution/Supply Function Costs
 - Prior Year Adjustments, if any.
11. **Power Purchase Price (PPP)**
- 11.1. The Petitioner submitted their projections regarding Power Purchase price (PPP) for FY 2023-24. The PPP is major component of the consumer-end tariff, which accounts for around 90% of total consumer-end tariff. The Authority while rebasing of consumer-end tariff for the FY 2023-24, determined PPP for all XWDISCOs including the Petitioner, vide decision dated 14.07.2023. The Federal Government notified the determined PPP references for the FY 2023-24, vide SRO dated 26.07.2023, from July 2023. Accordingly, from July 2023 onward, all the monthly FCAs & quarterly adjustments are being allowed based on the notified PPP references for the FY 2023-24.
- 11.2. In view thereof, the Authority has decided that the PPP of the Petitioner for the FY 2023-24, already notified vide SRO 26.07.2023, shall be included as part of the overall Revenue requirement of the Petitioner for the FY 2023-24. Since Power purchase price pertains to supply function, therefore, same has been accounted for in revenue requirement of supply function.
- 11.3. The Distribution/Supply function costs of XWDISCOs include the following major components;
- Operation & Maintenance Expenses (O&M)
 - Salaries & Wages
 - Post-Retirement Benefits
 - Other OPEX
 - Repair & Maintenance Expenses
 - Travelling Allowance
 - Vehicles Fuel and Repair & Maintenance



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▪ Other Miscellaneous Expenses

- Depreciation
- Return on Rate Base (RORB) ($RAB \times WACC$)
- Other Income (*deducted from the Revenue Requirement*)

11.4. The amended NEPRA Act under Section 31(3), *inter alia*, has prescribed that the following general guidelines shall be applicable to the Authority in the determination, modification or revision of rates, charges and terms & conditions for provision of electric power services;

"(a) tariffs should allow licensees the recovery of any and all cost prudently incurred to meet the demonstrated needs of their customers Tariff."

(b) tariffs should generally be calculated by including a depreciation charge and a rate of return on the capital investment of each licensee commensurate to that earned by other investments of comparable risk;

(c) tariffs should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service;

(d) tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve the efficiencies in the cost of providing the service and the quality of service;"

11.5. Further, as per NEPRA determination of Consumer-end-Tariff (Methodology & Process) Guidelines, 2015, the Authority shall choose a base year for the purpose of determining the affected company's revenue requirement under multi-year tariff regime or annual tariff regime. "Base Year" has been defined as the year on which the annual or multiyear tariff projection is being made, which may be a historical financial year, for which the actual results/audited accounts are available. It may be a combination of actual results and projected results for the same financial year or it may be a pure projection of a future financial year.

11.6. Considering the fact that the MYT has been filed for the period pertaining to the FY 2023-24 to FY 2027-28, and the cost for the FY 2024-25 i.e. test year, is being assessed as reference cost during the MYT control period, the Authority has decided to consider the costs as per the provisional accounts of the Petitioner for the FY 2022-23 along-with subsequent additional information provided by the Petitioner for FY 2022-23, as base year. Here it is pertinent to mention that audited accounts of the Petitioner for the FY 2022-23, are not available.

11.7. The Authority considers that for projections or assessment of OPEX costs, the two commonly used approaches are the Ex-Ante approach and the Ex-Post approach. In a regime where the allowed OPEX is determined Ex-Ante, there will inevitably be deviations between the allowed and actual OPEX in the form of efficiency savings or losses. Thus resulting in two broad options, one that the utility bears all savings or losses, i.e. no action is taken by the Regulator. The 2nd that the utility shares the savings or losses with consumers. The former provides the utility with a profit incentive to cut costs, but at the same time places the utility at greater financial risk in the face of losses. The latter somewhat dilutes efficiency incentives, but also limits the losses/gains for the utility and its customers.

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However, the widely used approach is that no adjustments to allowed Revenues or OPEX allowances are made in the next period to compensate for a deviation from allowed OPEX in the current period except for certain allowed adjustments in terms of CPI etc.

- 11.8. Accordingly, keeping in view the guidelines given in the Act, request of the Petitioner, information provided by the Petitioner subsequently and decisions of the Authority in similar cases, the head wise assessment of the Petitioner under each of requested costs is discussed hereunder;

12. **Pay & Allowances;**

- 12.1. The Authority noted that head of Salaries, Wages and Other Benefits include employees Pay & Allowances and Post-retirement benefits and accounts for over 89% of the Petitioner's total O&M costs, excluding depreciation. The Authority understands that employees of XWDISCOs are hired on Government pay scales, thus, any salary increase announced by the Federal Government in Fiscal Budget is also applicable on the employees of XWDISCOs, and the Petitioner is required to pay its employees, increases in salaries & wages announced by the Federal Government through Budget. Therefore, salaries & wages cost of employees can be considered as un-controllable cost for XWDISCOs as long as they remain in public sector.

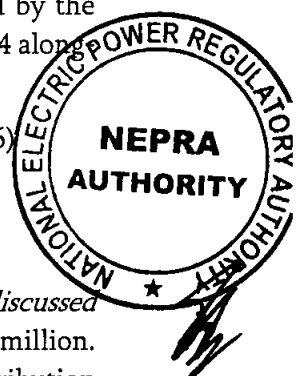
- 12.2. Considering the fact that the cost for the FY 2023-24 is being assessed, which would be used as reference during the MYT control period, the Authority has taken into consideration the costs as per the provisional accounts of the Petitioner for the FY 2022-23, information shared by the Petitioner subsequently in this regard. The Authority is of the view that since the previous MYT of the Petitioner has ended on 30.06.2023, therefore, it would be appropriate to account for the actual cost of the base year while projecting Salaries, Wages and Other benefits for the FY 2023-24, as any gain/loss of the previous MYT control period may not be carried forward in the new MYT.

- 12.3. The actual total cost as provided by the Petitioner for the FY 2022-23, under Salaries & Wages (excluding postretirement benefits, discussed separately) is Rs.13,217 million. The said amount has been considered as base cost and following increases as approved by the Federal Government on Salaries and Wages in the Federal Budget for the FY 2023-24 along with impact of annual increment i.e. 5% have been incorporated thereon;

- ✓ Adhoc relief allowance @ 32.5% on avg. - 30% (BPS-17-22) & 35% (BPS 1-16)
- ✓ Annual increment @ 5% of basic pay for 7 months
- ✓ Adhoc relief allowance FY 2021-22 revised based on revised basic pay scale

- 12.4. Accordingly, the cost of Salaries & Wages (*excluding postretirement benefits, discussed separately*), for both the Distribution and Supply Functions works out as Rs.15,345 million. The same is hereby allowed to the Petitioner for the FY 2023-24 for both its distribution and Supply Functions as reference cost, to be adjusted in the remaining control period as per the adjustment mechanism prescribed in the instant determination.

- 12.5. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Salaries, Wages and other benefits costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of Salaries, Wages and other benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used.



Thus, the cost of Salaries, Wages and other benefits (excluding postretirement benefits) for the FY 2023-24 pertaining to the distribution function works out as Rs.12,705 million.

- 12.6. The assessed Salaries & Wages costs for the FY 2023-24 i.e. Rs.12,705 million, shall be considered as the reference cost for future adjustment/ indexation of Salaries & Wages expenses, in the remaining tariff control period as per the mechanism given in the instant determination.
- 12.7. Here it is also pertinent to mention that DISCOs have been allocated GENCO employees and are drawing their salaries from DISCOs. The impact of such cost has been included by DISCOs in their Pay and Allowance cost for the FY 2022-23. While assessing Salaries, wages & Other Benefits for the FY 2023-24, the cost for the FY 2022-23, as provided by the Petitioner has been considered, therefore, impact of GENCO employees transferred to the Petitioner, if any, has already been accounted for in the cost being allowed for the FY 2023-24. The Petitioner is directed to provide proper details of employees allocated to it by providing proper Employees wise details, their pay scales, terms of adoption in DISCOs, approvals of competent authority for such adoption, placement in DISCOs and Financial impact of Pay & Allowances of such employees as well.
- 12.8. Considering the fact that employees of XWDISCOs are hired on Government pay scales, and any salary increase announced by the Federal Government in the Federal Budget is applicable on the employees of the Petitioner, therefore, being un-controllable cost, the Authority has decided to actualize the Pay & Allowances cost of the Petitioner, based on its audited accounts for the relevant year for its existing employees. The impact of any such adjustment would allowed as part of PYA in the next indexation/ adjustment request or tariff determination as the case may be.

13. **Additional Recruitment**

- 13.1. The Authority observed that Salaries & Wages cost for the FY 2022-23, as per the information provided by the Petitioner, has been considered as base cost, therefore, impact of any new recruitment made till FY 2022-23 has already been accounted for. For future recruitment to be carried out in FY 2023-24 and onward, the Authority understands that allowing cost of additional hiring, upfront would be unfair with the consumers, without considering/ analyzing the benefits of such recruitment. The Authority understands that it will be in a better position to adjudicate on the issue once the Petitioner provides details of the actual cost incurred in this regard and substantiates the same with the quantified benefits accrued. Although, the Authority has decided to actualize the Pay & Allowances cost of the Petitioner, based on its audited accounts for the relevant year, however, that would only be to the extent of existing employees. Accordingly, the Petitioner is directed to provide detail of additional recruitment actually made during each year, along-with its financial impact and quantified benefits accrued, for consideration of the Authority, in its subsequent adjustment/ indexation request.

14. **Post-Retirement Benefit**

- 14.1. The head of Post-retirement benefit includes employees' pension, free electricity and medical facility. Here it is pertinent to mention that since employees of XWDISCOs are hired on Government pay scales, therefore, any pension increase announced by the Federal Government in the Budget is applicable on the retired employees/ pensioners of DISCOs.

- 14.2. The Petitioner has requested the following amounts under its post-retirement benefits cost during the MYT control period;

Description	2023-24	2024-25	2025-26	2026-27	2027-28
	Requested				
Pension Liability	15,176	16,694	18,363	20,199	22,219
Leave Encashment Benefits	370	407	448	493	542
Medical Facilities to Retired Employees	910	1,001	1,101	1,212	1,333
Free Electricity Supply to Retired Employees	923	1,015	1,117	1,228	1,351
Total-Retirement Benefits	17,380	19,118	21,029	23,132	25,446

- 14.3. It is pertinent to mention here that the Authority in its previous determinations, considering the overall liquidity position in the power sector and in order to ensure that XWDISCOs fulfil their legal obligations with respect to the post-retirement benefits, directed the XWDISCOs to create a separate fund in this regard. The rationale behind creation of separate fund was to ensure that DISCOs record their liability prudently as the funds would be transferred into a separate legal entity, which would also generate its own profits, as it would be kept separate from the Company's routine operations, thus reducing the Distribution Margin and eventually consumer-end tariff in longer run.
- 14.4. In compliance with the Authority's direction, the Petitioner has created a separate Fund for its post-retirement benefits and provided following details of its pension fund and Payments;

	NEPRA allowed amount	Amount Paid to Pensioners	Amount to be Transferred to Fund	Fund Balance
FESCO	2015-16	3,242	2,319	923
	2016-17	4,952	3,420	1,532
	2017-18	5,447	4,001	1,446
	2018-19	5,447	4,957	490
	2019-20	11,376	5,555	5,821
	2020-21	8,775	5,821	2,954
	2021-22	9,653	6,280	3,373
	2022-23	9,653	7,991	1,662
	Total	58,545	40,344	17,679



- 14.5. From the above table, it is clear that the Petitioner has complied with the earlier directions of the Authority and deposited excess amount in the Fund. In view thereof, the Authority has also decided to allow the Petitioner, provision for Post-retirement benefits, for the FY 2023-24.
- 14.6. Here it is pertinent to mention that since audited accounts of the Petitioner for the FY 2022-23, are not yet available, therefore, information provided by the Petitioner for the FY 2022-23, has been relied upon for working out provision for post-retirement benefits for the FY 2023-24.
- 14.7. The amount for the FY 2023-24, has been worked out by applying pension increases announced by the Federal Government in Budget FY 2024, on the amount provided by the Petitioner for the FY 2022-23. The Authority observed that the amount requested by the Petitioner for the FY 2023-24, is reasonable and hence the same is allowed to the Petitioner for its both Distribution and Supply of Power Functions. Thus, the Petitioner is allowed an amount to Rs.17,380 million as provision for post-retirement benefits, for the FY 2023-24, as per its request, for its both Distribution and Supply of Power Functions.

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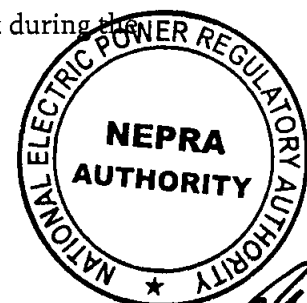


- 14.8. The Petitioner is directed to deposit the amount of provision, over and above their actual post-retirement benefit payments, in the Fund and in case of failure to deposit the excess amount in the Fund, the same shall be adjusted/deducted in the subsequent tariff determination and from thereon, only actual amounts paid and amount transferred into the fund would be allowed.
- 14.9. Since the Audited accounts of the Petitioner, do not provide bifurcation of post-retirement benefits in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of post-retirement benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of post-retirement benefits for the FY 2023-24, pertaining to the Distribution Function, works out as Rs.13,325 million, to be adjusted in the MYT Control period as per the adjustment mechanism provided in the instant determination.
- 14.10. Considering the fact that the Petitioner is obligated to pay to its pensioners, the pension increases announced by the Federal Government, therefore, being an un-controllable cost, the Authority has decided to actualize the post-retirement benefits cost of the Petitioner for the relevant year, based on its audited accounts. The impact of any such adjustment would allowed as part of PYA in the next indexation/ adjustment request or tariff determination as the case may be.

15. **Repair & Maintenance Costs**

- 15.1. The Petitioner has requested the following regarding repair & maintenance cost during the control period;

Description	2023-24	2024-25	2025-26	2026-27	2027-28
	Requested (Distribution +Supply)				
R&M-Building Civil Works	37	41	44	47	50
R&M-Other Physical Property	95	105	112	119	127
R&M-General Plant	55	61	65	70	74
R&M-Distribution Plant	1,021	1,128	1,201	1,280	1,363
Total-Repair & Maintenance	1,209	1,336	1,422	1,515	1,613



- 15.2. No doubt that the adherence to service standards and improvement of customer services is only possible through continuous repair and maintenance of distribution network, however, at the same time the Petitioner has also been allowed huge CAPEX of over Rs.124 billion during the MYT control period from FY 2023-24 till FY 2027-28, for making additional investment in Fixed Assets, resulting in new, expensive and efficient equipment, leading to overall reduction in R&M cost and increasing the total Assets base.
- 15.3. Considering the fact that the cost for the FY 2023-24 is being assessed, which would be used as reference during the MYT control period, the Authority has taken into consideration the costs as per the provisional accounts of the Petitioner for the FY 2022-23 / information shared by the Petitioner subsequently in this regard. The Authority is of the view that since the previous MYT of the Petitioner has ended on 30.06.2023, therefore, it would be appropriate to account for the actual cost of the base year while projecting O&M expenses and other Misc. expenses for the FY 2023-24, as any gain/loss of the previous MYT control period may not be carried forward in the new MYT.
- 15.4. In view of the foregoing and keeping in view the current approved tariff methodology, the Authority has decided to allow an amount of Rs.982 million under R&M head, for the FY 2023-24, after incorporating the inflationary impact on the R&M cost, as per the provisional

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accounts of the Petitioner for the FY 2022-23, for its both Distribution and Supply Functions, excluding amount related to meters. NCPI as of December 2022 has been applied, as per the provisional accounts of the Petitioner for the FY 2022-23, to work out the Repair and Maintenance expenses for FY 2023-24. Here it is pertinent to mention that the Petitioner itself has requested that all other expenses are increased by CPI-X during the entire tariff control period including Repair & Maintenance. The same is hereby allowed to the Petitioner for the FY 2023-24 for both its distribution and Supply Functions. The allowed cost for the FY 2023-24, shall be considered as maximum cap, subject to downward adjustment only in case actual figures of FY 2022-23 as per the Petitioner's audited accounts, remain lower than its provisionally provided figures.

- 15.5. Since the Audited accounts of the Petitioner, do not provide bifurcation of the R&M costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of R&M costs in terms of Distribution and Supply functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of R&M for the FY 2023-24 pertaining to the Distribution Function works out as Rs.932 million.
- 15.6. The assessed Repair and Maintenance cost for the FY 2023-24 i.e. Rs.932 million, shall be considered, as reference cost for working out future repair and maintenance expenses, during the remaining tariff control period, as per the adjustment mechanism prescribed in the instant determination, unless revised downward, in case actual figures of FY 2022-23 as per the Petitioner's audited accounts, remain lower than its provisionally provided figures.

16. Other O&M Expenses

- 16.1. Other O&M expenses includes Travelling costs, Transportation and Other Expenses. The Petitioner requested following amounts under these heads;

Description	2023-24	2024-25	2025-26	2026-27	2027-28
	Requested (Distribution +Supply) - Rs. Mln				
Traveling Expense	496	548	583	621	661
Transportation Expense	737	814	867	923	983
Telephone	54	60	64	68	72
Licensing Fee	162	179	191	203	217
Collection Charges	430	451	474	497	522
Stationery Expense	376	415	442	471	501
New Recruitment Expense	90	99	106	112	120
Miscellaneous	775	856	912	972	1035
Total	3,119	3,422	3,638	3,867	4,111



- 16.2. The Authority noted that as per the approved tariff methodology, all other operating expenses are part of O&M costs which are to be assessed through NCPI-X formulae for the whole tariff control period. Here it is pertinent to mention that the Petitioner itself has requested that all other expenses are increased by NCPI-X during the entire tariff control period including Repair & Maintenance. Accordingly, for assessment of Other O&M cost for pertaining to the FY 2023-24 (reference cost), the Authority, keeping in view the cost as per the provisional accounts of the Petitioner for the FY 2022-23, has decided to allow an amount of Rs.3,027 million for the FY 2023-24, after incorporating the inflationary impact on Other O&M cost for the FY 2022-23. The said amount of Rs.3,027 million is being allowed for both the Distribution and Supply of Power function for the FY 2023-24.
- 16.3. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Other O&M costs in terms of Distribution and Supply of Power Functions, therefore, for the purpose of allocation of total cost of Other O&M costs in terms of Distribution and Supply Functions,

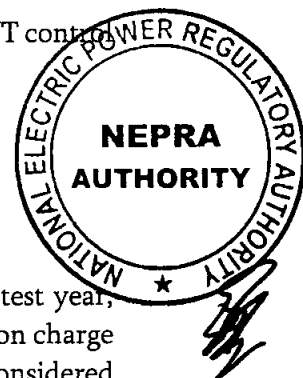
the criteria as adopted by the Petitioner has been used. Accordingly, the cost of Other O&M costs for the FY 2023-24 pertaining to the Distribution function works out as Rs.1,844 million.

- 16.4. By allowing the costs as mentioned above, the Authority has incorporated the costs including bill collection, building rent, NEPRA fee, insurance cost, transportation, rent, rates & taxes, and travelling etc. However, Management Fees of PEPCO, has not been considered as each DISCO is an independent entity having its own board of Directors, thus, allowing any cost on the pretext of PEPCO Management fee is not logical. Further, the Ministry of Energy (MoE), itself in the Peshawar High Court submitted that PEPCO shall be dissolved after June 2011. Accordingly, the cost of PEPCO fee, if any, has not been allowed to the Petitioner.
- 16.5. The assessed amount of Other O&M expenses for the FY 2023-24 i.e. Rs.1,844 million, shall be considered as the reference cost for future adjustment/ indexation during the remaining tariff control period as per the mechanism given in the instant determination.

17. Depreciation

- 17.1. Regarding Depreciation, the Petitioner has requested following amounts for its MYT control period;

DESCRIPTION	FY 24	FY 25	FY 26	FY 27	FY 28
Requested (Distribution +Supply) - Rs. Mln					
Assets at Start of the Year	129,474	151,406	175,185	198,854	223,139
Net Addition in Assets	21,932	23,779	23,669	24,285	23,379
Assets at the End of the Year	151,406	175,185	198,854	223,139	246,518
Depreciation for the year	4,838	5,599	6,357	7,135	7,881



- 17.2. The Authority noted that as per the Methodology, depreciation expense for the test year, which in the instant case is FY 2023-24, will be determined by applying depreciation charge on the Gross Fixed Assets in Operation, including new investment and will be considered reference for the tariff control period.
- 17.3. In order to make fair assessment of the depreciation expense, the Authority has accounted for the investments approved for the FY 2023-24. Accordingly, after taking into account the new investments for the FY 2023-24, the Gross Fixed Assets in Operation for the FY 2023-24 have been worked out as Rs.143,316 million. In view thereof, the depreciation charge for the FY 2023-24 has been assessed as Rs.5,459 million, calculated on actual depreciation rates for each category of Assets as per the company policy, which will be considered as reference cost for working out future depreciation expenses for the remaining tariff control period, to be adjusted as per the mechanism provided in the instant determination.
- 17.4. After carefully examining the relevant details and information pertaining to the deferred credit and amortization as per the provisional accounts for the FY 2022-23, the Authority has projected amortization of deferred credit to the tune of Rs.2,437 million for the FY 2023-24. Accordingly, the consumers would bear net depreciation of Rs.3,021 million.
- 17.5. The actual depreciation reflected in the provisional accounts of the Petitioner for the FY 2022-23, do not provide bifurcation of depreciation cost in terms of Distribution and Supply functions, therefore, for the purpose of allocation of depreciation cost in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the depreciation cost for the FY 2023-24 pertaining to the Distribution function works out as Rs.5,459 million. The same would be adjusted during the MYT control

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period as per the mechanism provided in the instant determination, keeping in view the investment allowed for the year.

18. Whether the requested RORB along-with determinant factors and annual adjustment mechanism as requested by the Petitioner is justified?

18.1. The petitioner submitted following regarding RORB;

- ✓ The Petitioner submitted that; According to Para 16(2) of the NEPRA Guidelines for determination of consumer end tariff (Methodology and process) issued vide SRO # 34 (1)/2015, dated 16th January, 2015, tariff should allow the licensee, a rate of return, which promotes continued reasonable investment in equipment and facilities for improved and efficient service.
- ✓ It is important that returns provided to the Company commensurate with the risks associated with the sector. The rate of return should provide for a return which is proportionate with the prevailing cost of funds being incurred by the Company and with the risk involved in delivering the utility services.
- ✓ The Return on Rate Base (RORB) is based on a Weighted Average Cost of Capital (WACC) to its Regulatory Asset Base (RAB). The WACC in turn is based on Return on Equity (RoE) and Cost of Debt weighted proportionately according to the Debt and Equity on the DISCO's balance sheet or the ceiling of 70:30 fixed by NEPRA. For the purpose of this tariff petition the bench mark of 70:30 has been used.

$$\text{RORB} = \text{Rate Base} \times \text{WACC}$$

Where,

Rate base = Average (net fixed assets + Closing work-in-progress - Deferred credit)

The WACC is calculated as per the following formula:

$$\text{WACC} = K_e \times \left(\frac{E}{E + D} \right) + K_d \times \left(\frac{D}{E + D} \right)$$

Where,

K_e = Return on equity

K_d = Cost of debt

E = Total equity

D = Interest-bearing debt

- ✓ As per NEPRA guidelines, the proportion of equity is capped at 30% and in cases where equity exceeds this threshold the remainder is considered as debt for the purposes of WACC computations. The Return on Equity (RoE) is calculated with the use of the following CAPM formula:

$$K_e = R_f + (\text{Beta} \times \text{Risk Premium})$$

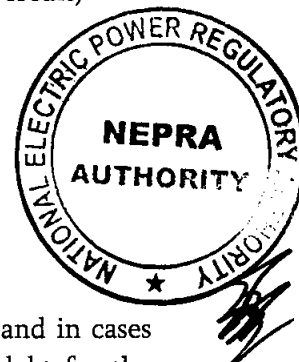
Where,

K_e is Return on equity

R_f is Risk free rate

Beta is correlation to the market return

- ✓ Risk premium is return expected on equity investments over and above the Risk Free Rate (RFR):
- ✓ Risk free rate is the rate of return that the investors expect to earn on investments that have virtually no risk of default. Risk is viewed in terms of the variance in actual



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returns around the expected return. For an investment to be risk free in this environment, then, the actual returns should always be equal to the expected return.

- ✓ In view of the five year control period, it is proposed that weighted average yield on 05 year Pakistan Investment Bond (PIB) be considered as the risk free rate. In this tariff petition the weighted average yield of March 16, 2023 (the last available) has been assumed. Any other weighted average yield can be used which is more close to FY 2023-24.
- ✓ Currently, NEPRA uses a standard beta 1.10 for calculating the return on equity for all DISCOs. The same beta has been used for computing return on equity in all previous determinations.

$$\begin{aligned} \text{Cost of Equity (Ke)} &= \text{RF} + (\text{RM} - \text{RF}) * \beta \\ \text{Where} \\ \text{Risk Free Rate (WA Yield on 05 Years PIB)} &13.46\% \\ \text{Market Premium} &14.55\% \\ \text{Equity Beta (Source: NEPRA)} &1.10 \\ &= 13.46\% + (1.09\% * 1.10) \\ &= 13.46\% + 1.20\% \\ &= 14.66\% \end{aligned}$$

Cost of Debt

- 18.2. Cost of debt is taken as 3 Months KIBOR+ 2.75% of 15th May, 2023. However, any taxes paid by the company will be passed on directly to the end-consumers.

$$\text{Cost of Debt} = 03 \text{ Month KIBOR} + \text{Spread} = 21.97\% + 2.75\% = 24.72\%$$

WACC

- 18.3. Based on the above input parameters, the Company's weighted average cost of capital is calculated as under;

$$\begin{aligned} \text{WACC} &= [\text{Ke} * (\text{E/V})] + [\text{Kd} * (\text{D/V})] \\ &= (30\% * 14.66\%) + (70 * 24.72\%) = 21.70\% \end{aligned}$$

Regulatory Asset Base (RAB)

- 18.4. RAB is the gross fixed asset that is used in the distribution activities of the Company. Regulatory Asset Base (RAB) for 2023-24 to 2027-28 is shown below;

	Rs. Mln				
Description	FY 24	FY 25	FY 26	FY 27	FY 28
Gross Fixed Assets in Operation - Opening Bal	129,474	151,406	175,185	198,854	223,139
Addition/Transfer/deletion in Fixed Assets (Net)	21,932	23,779	23,669	24,285	23,379
Fixed Assets in Operation - Closing Balance	151,406	175,185	198,854	223,139	246,518
Less: Accumulated Depreciation	-45,580	-50,803	-56,764	-63,511	-71,017
Net Fixed Assets in Operation	105,826	124,382	142,090	159,628	175,501
Add: Capital Work In Progress - Closing Bal	29,801	29,874	30,369	31,297	30,776
Total Fixed Assets	135,627	154,256	172,459	190,925	206,278
Less: Deferred Credits	47,386	54,125	60,722	67,358	74,117
Regulatory Assets Base (RAB)	88,241	100,131	111,737	123,567	132,161
Average Regulatory Assets Base	80,571	94,186	105,935	117,653	127,864
Rate of Return (WACC)	21.70%				
Return on Rate Base (RORB)	17,484	20,438	22,988	25,531	27,747
Rs./kWh	0.99	1.1	1.17	1.23	1.28



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Future RORB Assessment

- 18.5. As per MYT guidelines the RORB assessment will be made in accordance with the following formula/mechanism:

$$\text{RORB(Rev)} = \text{RORB(Ref)} \times \text{RAB(Rev)} / \text{RAB(Ref)}$$

Where:

RORB(Rev) = Revised Return on Rate Base for the Current Year

RORB(Ref) = Reference Return on Rate Base for the Reference Year

RAB(Rev) = Revised Rate Base for the Current Year

RAB(Ref) = Reference Rate Base for the Reference Year.

- 18.6. The Authority observed that as per Section 31(3) of the amended NEPRA Act, the following general guidelines shall be applicable to the Authority in the determination, modification or revision of rates, charges and terms and conditions for provision of electric power services;

(b) tariffs should generally be calculated by including a depreciation charge and a rate of return on the capital investment of each licensee commensurate to that earned by other investments of comparable risk;

(c) tariffs should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service;

- 18.7. In line with the aforementioned guidelines, the Authority allows DISCOs Weighted Average Cost of Capital (WACC) to account for the return on equity and cost of debt. Similarly, for recovery of principal portion of debt the Authority includes a depreciation charge in the revenue requirement of DISCOs.

- 18.8. Consequent to the aforementioned discussion, the WACC works out as per formula given below;

Cost of Equity;

$$K_e = R_f + (R_m - R_f) \times \beta$$

Where

R_f is Risk Free rate

R_m is Market Return

β is Beta

The cost of debt is;

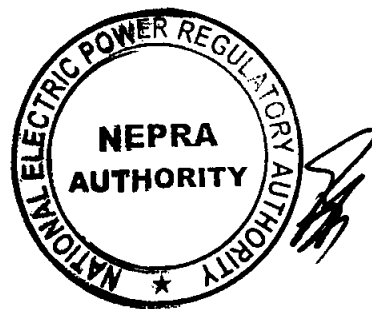
$$K_d = \text{KIBOR} + \text{Spread}$$

- 18.9. Accordingly, the WACC has been worked out as per formula given below;

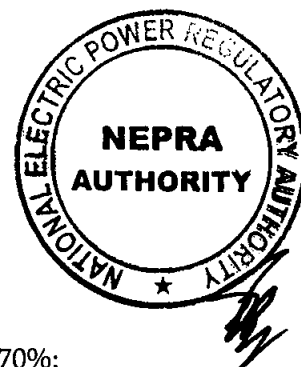
$$\text{WACC} = ((K_e \times (E / V)) + (K_d \times (D / V)))$$

Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;

- 18.10. The Authority uses the Capital Asset Pricing Model (CAPM) for calculation of Return of Equity (RoE) component of the WACC, being the most widely accepted model, which is applied by regulatory agencies all over the world to estimate the cost of capital for regulated



- utilities. Further, as per the tariff methodology, in case of negative equity the Authority would consider a minimum of 20% equity and any equity in excess of 30% would be considered as debt.
- 18.11. The expected return on any investment is the sum of the risk-free rate and an extra return to compensate for the risk. This extra return or 'risk premium' is the difference between market rate of return and risk free rate. Generally, the return on stock market index is taken as a measure of market rate of return.
- 18.12. To have an appropriate measure of the market rate of return, analyzed KSE-100 Index return, over a period of 13 years i.e. FY 2010 to FY 2022. Further, return of different neighboring markets and other international markets were also analyzed. Regarding assessment of beta, the Authority has considered the earlier studies in the matter, range of betas used by international Regulators, and accordingly decided to use the beta of 1.10, while assessing the RoE component.
- 18.13. Keeping in view the above, and the Authority's earlier decisions in the matter of other XWDISCOs, the Authority has decided to allow RoE component of 14.47% for FY 2023-24.
- 18.14. As regard the cost of debt, it is the interest rate on which a company would get borrowing from the debt market / commercial banks i.e. a rate at which banks lend to their customers. In order to have a fair evaluation of the cost of debt, we have taken cost of debt as 3 month's KIBOR + 2.00% spread, as allowed to other XWDISCOs. Consequently, the cost of debt has been worked out as 24.9% i.e. 3 Months KIBOR of 22.90% as of 4th July 2023 plus a spread of 2.00% (200 basis points).
- 18.15. In view thereof, the WACC for the FY 2023-24 has been worked out as under;
- Cost of Equity;
 $K_e = 14.47\%$
The cost of debt is;
 $K_d = 24.90\%$
 $WACC = ((K_e \times (E / V) + (K_d \times (D / V)))$
Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;
 $WACC = ((14.47\% \times 30\%) + (24.9\% \times 70\%)) = 21.18\%$
- 18.16. The Authority during the earlier tariff determination of DISCOs, noted that the DISCOs have insufficient cash balances against their pending liability of receipt against deposit works and consumer security deposits, which indicated that the amount received against the aforementioned heads has been utilized somewhere else, for which DISCOs failed to provide details in this regard. The Authority was of the view that the amount collected as security deposit cannot be utilized for any other reason and any profit earned thereon has to be distributed to the consumers. Also, the amount collected under the head of receipt against deposit works has to be spent for the purpose for which it has been collected. The utilization of the money collected against deposit works and security deposits other than the works for which it has been received is illegal and unlawful. In view thereof, DISCOs in their previous tariff determinations was directed to provide rational / justification for improper utilization of the money because the consumers have to suffer unnecessary delay on this account. Similarly for the FY 2022-23, it has again been observed that the Petitioner has insufficient cash balance as on 30th June 2023, based on the provisional data as provided



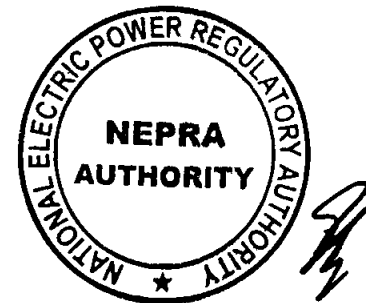


by the Petitioner, against its pending liability of receipt against deposit works and consumer security deposits, thus, indicating that the amount received against the aforementioned heads has been utilized somewhere else for which no details have been provided. Thus, it would be unfair and unjust with the consumers to suffer due to the unlawful act of the Petitioner.

18.17. Accordingly, receipts against deposit works and security deposits has been considered as a part of Deferred Credits for the assessment of RAB for FY 2023-24, after excluding therefrom the cash/ bank balances and the amount of stores & Spares available with the Petitioner.

18.18. Based on above and using WACC of 21.18% on RAB, by including allowed investment for the FY 2023-24, the RoRB of the Petitioner for FY 2023-24 has been worked out as under;

Description	Rs. Mln	
	FY 2022-23	FY 2023-24
Fixed Assets O/B	112,237	128,487
Addition	16,250	18,330
Fixed Assets C/B	128,487	146,817
Depreciation	41,159	46,618
Net Fixed Assets	87,328	100,199
Capital WIP C/B	25,822	31,329
Fixed Assets Inc. WIP	113,150	131,528
Less: Deferred Credits	52,441	60,862
Total	60,709	70,666
RAB	53,287	65,687
WACC		21.18%
RORB		13,910



18.19. The total amount of RoRB as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, the complete RORB for the FY 2023-24 allocated to the Distribution Function works out as Rs.13,910 million as per the criteria adopted by the Petitioner.

18.20. The reference RoRB would be adjusted every Year based on the amount of RAB worked out for the respective year after taking into account the amount of investment allowed for that year as per the mechanism given in the instant determination.

18.21. In addition the allowed RAB for previous year will be trued up downward only, keeping in view the amount of investment allowed for the respective year. In case, the Petitioner ends up making higher investments than the allowed, the same would be the Petitioner's own commercial decision and would not be considered while truing up the RAB, unless due to any regulatory decisions/interventions/approved plans for which the Petitioner obtains prior approval of the Authority. In such case the Authority may also revise the efficiency targets in terms of T&D losses etc.

18.22. The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover

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the risk of floating KIBOR. Accordingly, fluctuation in the reference KIBOR would be adjusted biannually. In addition, the Authority has also decided to allow sharing of benefit by introducing a claw back mechanism for any savings resulting from cheaper financing by the Petitioner to the extent of 2.00% spread. If the Petitioner manages to negotiate a loan below 2.00% spread, the savings would be shared equally between the consumers and the Petitioner through PYA mechanism annually. In case of more than one loan, the saving with respect to the spread would be worked out by a weighted average cost of debt. The sharing would be only to the extent of savings only i.e. if the spread is greater than 2.00%, the additional cost would be borne by the Petitioner.

19. Other Income

19.1. Regarding Other Income, the Petitioner has submitted that Other Income includes mark-up on bank deposits, amortization of deferred credit and income from other sources. As there is no clear trend found during the past, hence, other income have been assessed on the basis of last five year moving average except for the amortization of deferred credit which has been calculated @ 3.5% on the accumulated balance of contributions against connection installed / deposit works i.e. consumer financed assets. The Late Payment Surcharge has been excluded from the total Other Income as per decision of NEPRA in the Tariff determination of FY 2014-15 till 2022-23. The detail of requested other income is as under;

Description	FY 24	FY 25	FY 26	FY 27	FY 28
Profit on the Bank Deposit	2,236	2,375	2,254	2,330	2,237
Meter/ Service Rent	53	54	54	54	54
Reconnection Fee	25	26	27	26	25
Gain on installation of new connections	654	587	590	577	604
Repair, testing and inspection fee	44	47	43	45	45
Recovery of late delivery charges	167	131	145	148	141
Service fee on collection of Electricity Duty and PTV License fee	116	120	115	117	117
Quarter rent FESCO colonies	7	7	7	7	7
Non-utility operations	88	93	85	89	89
Excess deposit work receipt written back	43	50	53	49	51
Total	3,432	3,489	3,373	3,440	3,370
Amortization of deferred credits	2,522	2,858	3,200	3,557	3,931
Total Other Income	5,954	6,347	6,573	6,997	7,301



19.2. Since the other income would be trued up every year as per the mechanism provided in the instant determination, therefore, for the FY 2023-24, the Authority has decided to consider the amount of Rs.3,718 million, including the amount of amortization of deferred credit but exclusive of the amount of late payment charges. In view thereof, the Authority has assessed Rs.3,718 million as Other Income for the both Distribution and supply functions for the FY 2023-24, which does not include late payment charge but includes amortization of deferred credit.

19.3. The Authority in consistency with its earlier decision, on the issue, has not included the amount of LPS while assessing the other income for the FY 2023-24. Here it is pertinent to mention that the LPS recovered from the consumers on utility bills shall be offset against the late payment invoices raised by CPPA (G) against respective XWDISCO only, and in the event of non-submission of evidence of payment to CPPA (G), the entire amount of Late Payment charge recovered from consumers shall be made part of other income and deducted from revenue requirement in the subsequent year.

19.4. The total amount of Other Income as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, Other Income for the FY 2023-24 pertaining to the Distribution Function



works out as Rs.3,718 million, which is hereby allowed. The same would be adjusted as per the adjustment/ indexation mechanism given in the instant determination.

20. What should be the adjustment mechanisms during the MYT? Whether there should any efficiency factor (X Factor)?

20.1. Regarding adjustment mechanism of different components, the Petitioner submitted as under;

✓ Other Operating Expenses: All other expenses are increased by CPI-X during the entire tariff control period including Repair & Maintenance.

✓ The formula for determination of O&M Cost is given hereunder;

$$O\&M_t = [R\&M \text{ \& Other O\&M cost} \times \{1 + (CPI - X)\}] + \text{Pay \& Allowance} \\ + \text{Retirement benefit}$$

Where,

CPI = Consumer Price Index

X = Efficiency factor

✓ The O&M Cost has been bifurcated into salaries, wages & post- retirement benefit and other O&M Cost. Pay & Allowances and Post-Retirement benefits treated as directly passed through as per government increases, whereas, Repair & Maintenance & other O&M cost to be indexed with CPI

✓ Mechanism for RORB adjustment:

$$RORB(Rev) = RORB(Ref) * RAB(Rev) / RAB(Ref)$$

Where:

RORB(Rev) = Revised Return on Rate Base for the Current Year

RORB(Ref) = Reference Return on Rate Base for the Reference Year

RAB(Rev) = Revised Rate Base for the Current Year

RAB(Ref) = Reference Rate Base for the Reference Year.

✓ Mechanism for Depreciation

$$DEP(Rev) = DEP(Ref) * GFAIO(Rev) / GFAIO(Ref)$$

Where:

DEP(Rev) = Revised Depreciation Expense for the Current Year

DEP(Ref) = Reference Depreciation Expense for the Reference Year

GFAIO(Rev) = Revised Gross Fixed Assets in Operation for the Current Year

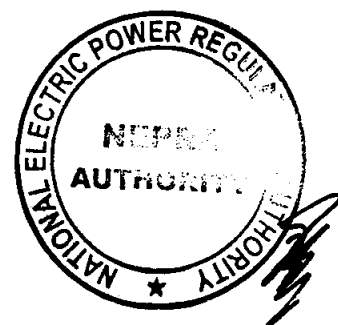
GFAIO(Ref) = Reference Gross Fixed Assets in Operation for the Reference Year

✓ Mechanism for Other Income

$$OI(Rev) = OI(1) + \{OI(1) - OI(0)\}$$

Where;

OI(Rev) = Revised Other Income for the Current Year



note: 2

OI(1) = Actual Other Income as per latest Financial Statements.

OI(0) = Actual/Assessed Other Income used in the previous year.

20.2. **Indexation Mechanism:**

20.3. The allowed/ assessed components of Revenue Requirement for the FY 2023-24 shall be adjusted/ indexed during the MYT control period, as per the following mechanism;

20.4. The Petitioner has submitted that O&M component of the Distribution Margin shall be indexed with NCPI, however, efficiency factor "X" has been proposed as zero '0' for the Tariff Control Period.

20.5. The Authority, while assessing the O&M costs of the Petitioner i.e. rent, rates & taxes, collection expenses, repair & maintenance, travelling, transportation, management fee, and Audit Charges etc., has incorporated these costs in the reference cost, keeping in view the provisional accounts of the Petitioner for the FY 2022-23 and the amount requested by the Petitioner, to be adjusted in the remaining MYT control period as per the adjustment mechanism mentioned below. The risk / benefits of any future cost fluctuations thereof lies with the Petitioner along with an opportunity for optimizing overall costs under these head. The treatment is in line with the very spirit of multi- year tariff regime and in accordance with Authority's approved tariff methodology.

20.6. Regarding adjustment of O&M costs with the efficiency factor X, the Authority noted that the Petitioner although has proposed to index its O&M costs with NCPI minus X, however, at the same time it has been requested to keep the X-factor as zero. The Authority in line with its earlier decisions in the matter of MYTs, has decided to keep the efficiency factor "X", as 30% of increase in NCPI for the relevant year of the MYT control period. The Authority has further decided to implement the efficiency factor from the 3rd year of the control period, in order to provide the Petitioner with an opportunity to improve its operational performance, before sharing such gains with the consumers.

20.7. The O&M part of Distribution Margin shall be indexed with NCPI subject to adjustment for efficiency gains (X factor). Accordingly, the O&M will be indexed every year according to the following formula:

20.8. Regarding O&M costs, the reference costs would be adjusted every Year with CPI-X factor. However, the X factor would be applicable from the 3rd year of the MYT control period. The Adjustment mechanism would be as under;

$$O \& M (Rev) = O \& M (Ref) \times [1 + (\Delta NCPI - X)]$$

Where

O & M (Rev) = Revised O&M Expense for the Current Year

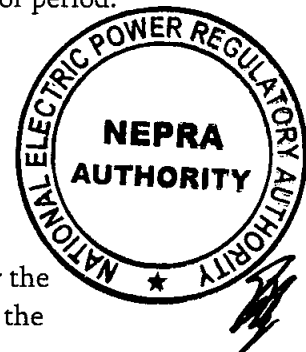
O & M (Ref) = Reference O&M Expense for the Reference Year

Δ NCPI = Change in NCPI published by Pakistan Bureau of Statistics for the month of December for the respective year. Reference NCPI for the purpose of future adjustment/ indexation shall be 29.47%.

X = Efficiency factor i.e. 30% of NCPI relevant for indexation purpose

21. **Salaries & Wages and Post-retirement Benefits:**

21.1. Considering the fact that employees of XWDISCOs are hired on Government pay scales, and any salary increase announced by the Federal Government in the Federal Budget is



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applicable on the employees of the Petitioner, therefore, being un-controllable cost, the Salaries & Wages and benefits, would be actualized, based on the audited accounts of the Petitioner for the relevant year for its existing employees. The impact of any such adjustment would allowed as part of PYA in the next indexation/ adjustment request or tariff determination as the case may be.

- 21.2. Considering the fact that the Petitioner is obligated to pay to its pensioners, the pension increases announced by the Federal Government, therefore, being an un-controllable cost, the Post-retirement Benefits would be actualized based on the audited accounts of the Petitioner for the relevant year. The impact of any such adjustment would allowed as part of PYA in the next indexation/ adjustment request or tariff determination as the case may be. It would be mandatory for the Petitioner to deposit the whole amount of allowed Post retirement benefits into the separate Fund and route all its pension payments through the Fund. If the Petitioner fails to transfer the whole amount of postretirement benefits into the Fund, the same shall be adjusted/deducted in the subsequent tariff determination and from thereon, only actual amounts paid and amount transferred into the fund would be allowed.

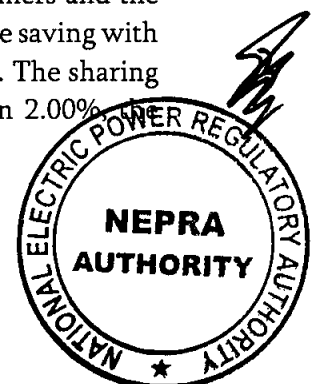
22. RORB

- 22.1. The reference RoRB would be adjusted every Year based on the amount of RAB worked out for the respective year after taking into account the amount of investment allowed for that year as per the following mechanism;

Adjustment Mechanism - RoRB	
RORB(Rev)	=RORB(Ref) x RAB(Rev) / RAB(Ref)
FY 2023-24, proposed RORB may be considered as reference cost for future adjustment. In addition the allowed RORB for previous year will be trued up based on a actual investment (maximum cap to the extent of allowed investment)carried out during that year. Further KIBOR fluctuation on bi-annual basis also subjec to adjustment.	

- 22.2. In addition the allowed RAB for previous year will be trued up downward only, keeping in view the amount of investment allowed for the respective year. In case, the Petitioner ends up making higher investments than the allowed, the same would be the Petitioner's own commercial decision and would not be considered while truing up the RAB, unless due to any regulatory decisions/interventions/approved plans for which the Petitioner obtains prior approval of the Authority. In such case the Authority may also revise the efficiency targets in terms of T&D losses etc.
- 22.3. The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover the risk of floating KIBOR. Accordingly, fluctuation in the reference KIBOR would be adjusted biannually. In addition, the Authority has also decided to allow sharing of benefit by introducing a claw back mechanism for any savings resulting from cheaper financing by the Petitioner to the extent of 2.00% spread. If the Petitioner manages to negotiate a loan below 2.00% spread, the savings would be shared equally between the consumers and the Petitioner through PYA mechanism annually. In case of more than one loan, the saving with respect to the spread would be worked out by a weighted average cost of debt. The sharing would be only to the extent of savings only i.e. if the spread is greater than 2.00% additional cost would be borne by the Petitioner.

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23. Depreciation Expenses

23.1. The reference Depreciation charges would be adjusted every Year as per the following formula;

Adjustment Mechanism - DEPRECIATION (DEP)	
DEPRECIATION (Rev)	=DEP(Ref) x GFAIO(Rev) / GFAIO(Ref)
FY 2023-24, proposed Depreciation may be considered as reference cost for future adjustment. In addition the allowed Depreciation for previous year will be trued up based on actual investment (maximum cap to the extent of allowed investment) carried out during that year	

Where: DEP (Rev) = Revised Depreciation Expense for the Current Year

DEP (Ref) = Reference Depreciation Expense for the Reference Year

GFAIO (Rev) = Revised Gross Fixed Assets in Operation for the Current Year

GFAIO (Ref) = Reference Gross Fixed Assets in Operation for the Reference Year

23.2. In addition the allowed Depreciation for previous year will be trued up downward only, keeping in view the amount of investment allowed for the respective year. In case, the Petitioner ends up making higher investments than the allowed, the same would be the Petitioner's own commercial decision and would not be considered while truing up the depreciation expenses, unless due to any regulatory decisions/interventions/approved plans for which the Petitioner obtains prior approval of the Authority.

24. Other Income

24.1. Other Income shall be adjusted annually as per the following mechanism during the MYT control period to calculate future Other Income.

Adjustment Mechanism - Other Income (OI)	
OI(Rev)	=OI(Allowed Previous year) + [OI(allowed for previous year) - OI(Actual previous year)]
FY 2023-24, proposed Other income may be considered as reference cost for future adjustment. In addition the allowed Other Income for previous year will be trued up based on actual Other Income during that year	

25. Whether the requested Prior Years Adjustment is justified?

25.1. The petitioner has requested Rs.24.9 billion under the head of PYA as detailed below;

SR. No	Description	PKR Mln
1	Less Allowed provision of Post-retirement Benefits FY 2021-22 charged to P&L	432
2	Under Recovery of Distribution Margin for FY 2021-22	1,817
3	Impact of Excess Depreciation for FY 2021-22	-892
4	Impact of Excess Other Income for FY 2020-21	1,861
5	Impact of Excess Other Income for FY 2021-22	-1,479
6	Supplier License Fee for FY 2021-22	33
7	Supplier License Fee for FY 2022-23	45
8	Un-favorable Consumer Mix Variance for FY 2020-21	1,381
9	Un-favorable Consumer Mix Variance for FY 2021-22	5,872
10	Minimum Tax paid for FY 2021-22	2,400
11	Supplemental charges From FY 2011 to 2014	6,186
12	Mark up on Syndicated Loan	165
13	Supplemental Charges from FY 2019 to 2022 over and above the LPS collected from the consumers.	7,076
14	Actual /Estimated payment to GENCO Pensioners from 10/2021 to 12/2022	86
	TOTAL	24,983



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25.2. The Petitioner provided the following justification for different costs requested under the head of PYA;

- ✓ Regarding less allowed provision for post-retirement benefits of FY 2021-22 charged to P&L, the Petitioner has provided following details and requested to allow the same as PYA.

Description	PKR. Million
Actuarial Valuation Report	10,085
Allowed	9,653
(Excess)/Less	432

- ✓ Under/(Over) recovery of distribution Margin for FY 2021-22 the Petitioner has provided following details and requested to allow the same as PYA.

(PKR. Million)												
Description	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Units Purchased (Ref)	1,942	1,961	1,787	1,359	908	937	970	924	1,181	1,385	1,736	1,933
Units Sold (Ref)	1,770	1,788	1,629	1,239	828	854	884	842	1,077	1,263	1,583	1,762
Actual Units Purchased	1,890	1,995	1,729	1,421	999	1,009	978	934	1,341	1,640	1,860	1,715
Incremental Units Sold	108	136	120	153	143	80	82	72	95	73	67	101
Incremental Units Purchased	119	149	132	169	157	89	91	79	104	80	74	111
Net Units Purchased (W/O Incremental)	1,770	1,846	1,597	1,252	842	920	887	855	1,237	1,560	1,786	1,604
Standard Net Units Sold (W/O Incremental)	1,605	1,673	1,448	1,135	763	834	804	775	1,122	1,414	1,619	1,454
Distribution Margin Allowed	3,691	3,727	3,396	2,583	1,726	1,781	1,844	1,756	2,245	2,632	3,299	3,674
Distribution Margin (Recovered)	3,346	3,488	3,018	2,366	1,591	1,740	1,677	1,615	2,338	2,949	3,376	3,031
Under/(over) Recovery	345	239	378	217	135	41	167	141	-94	-316	-77	643

- ✓ True up of depreciation expenses for FY 2021-22, the Petitioner has provided following details and requested to allow the same as PYA.

Description	PKR. Million
Depreciation Allowed	4,520
Depreciation Actual	3,628
(Excess)/Less Allowed	-892

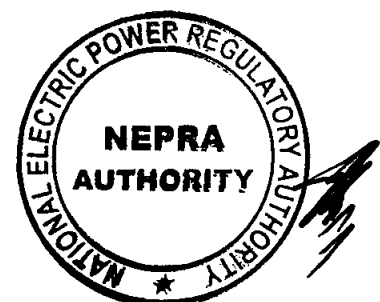
- ✓ True up of Other Income for FY 2020-21 & FY 2021-22, the Petitioner has provided following details and requested to allow the same as PYA.

Description	FY 2020-21	FY 2021-22
Other Income without LPS (Allowed)	6,739	4,215
Other Income without LPS (Actual)	4,878	5,694
(Excess)/Less Allowed	1,861	-1,479

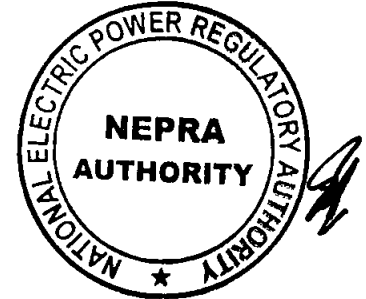
- ✓ Regarding supplemental charges & Mark-up on syndicated loan for FY 2021-22, the Petitioner has provided following details and requested to allow the same as PYA.

Month	PKR. Million
Mar-22	73
Jun-22	92
Total	165

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Month	Debit Memo No.	PKR. Million
Jul-21	LPS/Jul-21/FESCO	287
Aug-21	LPS/Aug-21/FESCO	284
Sep-21	LPS/Sep-21/FESCO	808
Oct-21	LPS/Oct-21/FESCO	842
Nov-21	LPS/Nov-21/FESCO	792
Dec-21	LPS/Dec-21/FESCO	425
Jan-22	LPS/Jan-21/FESCO	144
Feb-22	LPS/Feb-21/FESCO	84
Mar-22	LPS/Mar-21/FESCO	507
Apr-22	LPS/April-21/FESCO	252
May-22	LPS/May-21/FESCO	254
Jun-22	LPS/June-21/FESCO	467
	Total	5,146
	LPS Collected during FY 2021-22	2,620
	Sppl. Charges (billed by CPPA-G) in excess of LPS	2,527



- ✓ Regarding supplier license fee the Petitioner has provided following details:

Description	2021-22	2022-23	Total
Supplier License Fee	33	45	78

- ✓ Regarding turn over Tax for FY 2021-22 the Petitioner has requested following amounts as PYA.

CPR No.	Date	PKR .Million
IT2021092901011687664	29/09/2021	700
IT2021122701011474045	27/12/2021	500
IT2022032901011556582	29/03/2022	450
IT2022062201011459416	22/06/2022	750
Total		2,400

- ✓ Sales Mix variance for FY 2020-21 & FY 2021-22, the Petitioner in its PYA has requested positive sales mix variance amount of Rs.1,381 million & Rs.5,872 million as sales mix variance for FY 2020-21 and FY 2021-22, respectively.

FY 2020-21					FY 2021-22				
Category	Actual Units Sold	Revenue As per Actual Mix	Revenue As per NEPRA Mix	Sale Mix	Category	Actual Units Sold	Revenue As per Actual Mix	Revenue As per NEPRA Mix	Sale Mix
1	2	3	4	5=(4-3)	1	2	3	4	5=(4-3)
Residential	7,061	100,690	95,802	-4,888	Residential	7,391	120,115	121,020	906
Commercial	770	12,016	10,713	-1,304	Commercial	848	14,144	14,155	11
Industrial	4,937	55,447	61,337	5,890	Industrial	5,822	70,652	76,887	6,235
Bulk Supply	238	3,307	4,456	1,148	Bulk Supply	214	3,509	4,649	1,141
Agricultural	1,268	17,245	16,008	-1,237	Agricultural	1,367	21,131	19,278	-1,853
Public Lighting	13	182	172	-10	Public Lighting	18	276	182	-94
Residential Colonies	5	70	75	6	Residential Colonies	5	78	91	13
General Services	209	2,983	4,758	1,775	General Services	255	3,398	2,911	-486
Total	14,501	191,940	193,320	1,381	Total	15,919	233,302	239,174	5,872

- ✓ FESCO in its PYA has requested positive supplemental charges of Rs. 6.1 billion. The requested amount being not in line with Authority decision be not considered.
- ✓ Regarding GENCO Pensioner the Petitioner in its PYA has requested positive amount of Rs.86 million on account of GENCO pensioners. The Authority allowed impact of GENCO



pensioner to other XWDISCOs in decision dated 14.07.2023. In view thereof, the Authority may consider to allow requested amount of GENCO pensioner Rs. 86 million to FESCO as part of PYA.

S. No	GENCOs	Period	PKR Million
1	GENCO-I	10/2021 to 12/2022	3.82
2	GENCO-II	10/2021 to 12/2022	19.943
3	GENCO-III	10/2021 to 12/2022	60.142
4	GENCO-IV	10/2021 to 12/2022	2.375
5	Total Actual Payment		86

25.3. The Prior Year Adjustment includes the impact of variation in the following, based on the Authority's allowed benchmarks of T&D losses and recoveries;

- ✓ Difference between the actual PPP billed and the amount recovered by the DISCO.
- ✓ Difference between the assessed DM and the amount actually recovered.
- ✓ Difference between previously assessed PYA and the amount actually recovered.
- ✓ Difference between actual other income and the amount allowed
- ✓ Variation due to Sales Mix.

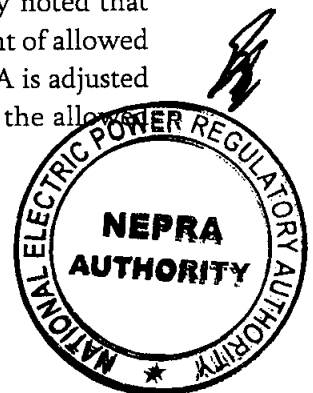
25.4. It is important to highlight that variation between the PPP billed to DISCOs by CPPA-G and the amount recovered by the DISCOs, based on the Authority's allowed benchmarks of T&D losses and recoveries, are being accounted for separately through Quarterly/Bi-Annual Adjustment mechanism, therefore, in the instant PYA, impact of any over/ under recovery of the allowed quarterly adjustments has been accounted for.

25.5. Regarding minimum tax/ turnover tax, the Authority has decided to provisionally allow actual tax payments as claimed in the petition, net off of the amount of Refund outstanding from FBR, if any and the amount already allowed by the Authority. Accordingly, an amount of Rs.2,400 million is hereby allowed to the Petitioner on account of minimum tax/ turnover tax. The amount being allowed on provisional basis, is subject to adjustment in subsequent tariff adjustment/indexation, once the audited accounts of the Petitioner till FY 2022-23 are provided.

25.6. Regarding under / over recovery of the quarterly adjustments, it is pertinent to mention that Quarterly adjustments are allowed to XWDISCOs based on projected sales for the period in which recovery is allowed. Therefore, any under/over recovery based on actual sales for the period (based on Authority's allowed benchmarks of T&D losses) viz a viz projected sales on which recovery was assumed, is trued up and any such under/Over recovery is made part of PYA. Accordingly, the under / over recovery against the allowed quarterly adjustments for the period FY 2019-20, FY 2020-21 & FY 2021-22 (upto 3rd qtr) has been worked out as negative amount of Rs.2,675 million, after incorporating therein the impact of sales to Life line consumers. The same is hereby included as part of PYA.

25.7. Regarding under/ over recovery of allowed distribution margin, the Authority noted that XWDISCOs tariff are revenue cap tariff, and any under/over recovery on account of allowed Distribution Margin is adjusted as part of PYA. Accordingly, the Petitioner PYA is adjusted by positive amount of Rs.1,817 million on account of under/ over recovery of the allowed DM for the period FY 2021-22.

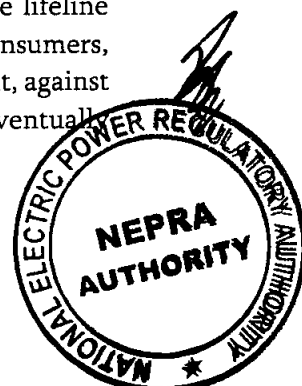
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- 25.8. The Authority noted that the Petitioner while working out PYA regarding under/ over recovery of the allowed DM, has also included cost on account of actualization of Salaries & Wages and O&M costs. The Authority noted that no such provision is available in the Multi Year Tariff determination of the Petitioner regarding actualization of Salaries & Wages and O&M costs. In view thereof, the claimed adjustment for Pay & Allowance & O&M are not justified, hence declined.
- 25.9. Regarding supplemental charges, the Authority has not allowed Supplemental charges separately rather XWDISCOs are allowed to retain the amount of late Payment charges to off-set the impact of supplemental charges billed by CPPA-G. Here it is pertinent to mention that while accounting for LPS against Supplemental Charges, the Authority individually accounts for the amount of LPS against each DISCO's supplemental charges as per the decision of the Authority for the respective year. In view thereof, the request of the Petitioner is not acceded to.
- 25.10. On the issue of GENCO Pensioners' the Authority has decided to allow the impact of GENCO pensioner of Rs. 86 million to FESCO as part of PYA. Regarding NTDC pensioner the Authority in the matter of other XWDISCOs has decided as under;
- "Regarding NTDC Pensioners, the Petitioner is directed to submit a separate case before the Authority detailing all the facts and reasons along-with financial impact of NTDC Pensioners, as the Authority vide letter dated 17.11.2022, directed all DISCOs and WAPDA to ensure payments to the GENCO pensioners provisionally, in light of the ECC decision dated 23.09.2021."*
- 25.11. In light of above decision of the Authority, the Petitioner is also directed to submit a separate case before the Authority detailing all the facts and reasons along-with financial impact of NTDC Pensioners.
- 25.12. The Authority in line with its earlier decision in the matter of negative FCA, has calculated the impact of net negative FCA pertaining to the period from July 2020 to December 2022 in the matter of lifeline consumers, domestic consumers (consuming up-to 300 units) and Agriculture Consumers which has been retained by the Petitioner. The Authority also considered the relevant clauses of the S.R.O. 189 (1)/2015 dated March 05, 2015 issued by GoP and the amount of subsidy claims filed by the Petitioner for the period.
- 25.13. After considering all the aforementioned factors, the Authority observed that the Petitioner has retained a net amount of Rs.1,523 million on account of negative FCA for the period from July 2020 to December 2022, pertaining to the lifeline consumers, domestic consumers (consuming up to 300 units) and Agriculture Consumers, which is still lying with the Petitioner. The Authority further observed that as per the information for Tariff Differential Subsidy claims provided by Petitioner, it has net subsidy during the period from July 2020 to December 2022.
- 25.14. Consequently, the net amount of Rs.1,523 million retained by FESCO on account of ,negative FCA for the period from July 2020 to December 2022, pertaining to the lifeline consumers, domestic consumers (consuming up-to 300 Units) and Agriculture Consumers, which is still lying with the Petitioner, must be adjusted by the Federal Government, against the overall Tariff Differential Subsidy claim in the matter of the Petitioner eventually reducing GOP's overall Tariff Differential Subsidy burden.

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25.15. Based on the discussion made in the preceding paras, the PYA of the Petitioner has been worked out as under;

Description	FESCO
July 2020 to December 2022	
Impact of Negative FCA- retained	- 1,592
Impact of Positive FCA- Lifeline	69
Net	- 1,523
July 2020 to December 2022	
Tariff Diff. Subsidy	111,761
Surcharge	- 52,568
Net - Jul.20 to Mar. 23	59,193
Excess Negative FCA -Adjusted as subsidy	- 1,523
Excess Negative FCA -Adjusted as PYA	-
2nd & 3rd Qtr. FY 2019-20 (Oct.20 to Sep.21)	
Allowed Amount	23,226
Qtr. Rs./kWh	1.6612
Recovered	23,468
Under/(Over) Recovery	- 242
4th Qtr. FY 2019-20	
Allowed Amount	10,878
Qtr. Rs./kWh	0.7780
Recovered	12,102
Under/(Over) Recovery	- 1,224
1st & 2nd Qtr. FY 2020-21 (Oct. 21-Sept.22)	
Allowed Amount	8,385
Qtr. Rs./kWh	0.61
Recovered	9,503
Under/(Over) Recovery	- 1,118
3rd Qtr. FY 2020-21 (Oct.21-Sept.22)	
Allowed Amount	- 2,734
Qtr. Rs./kWh	- 0.1992
Recovered	- 3,099
Under/(Over) Recovery	364
4th Qtr. FY 2020-21 (Feb. Apr. 22)	
Allowed Amount	- 3,352
Qtr. Rs./kWh	- 1.1094
Recovered	- 3,647
Under/(Over) Recovery	295
1st Qtr. FY 2021-22 (Jun. Aug. 22)	
Allowed Amount	1,834
Qtr. Rs./kWh	0.5345
Recovered	2,481
Under/(Over) Recovery	- 647
2nd Qtr. FY 2021-22 (Jul. Sep. 22)	
Allowed Amount	5,080
Qtr. Rs./kWh	1.4809
Recovered	6,786
Under/(Over) Recovery	- 1,705



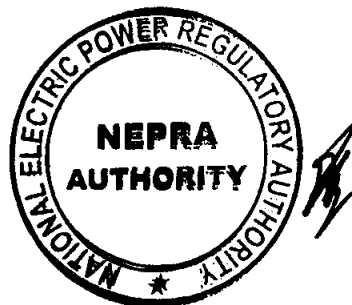
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Determination of the Authority in the matter of MYT Petition
of FESCO for Distribution Tariff under the MYT Regime

Description	FESCO
3rd Qtr. FY 2021-22 (Sep. Nov. 22)	
Allowed Amount	199
Qtr. Rs./kWh	0.0579
Recovered	197
Under/(Over) Recovery	2
4th Qtr. FY 2021-22 (Oct. 22 Jan. 23)	
Allowed Amount	11,226
Qtr. Rs./kWh	2,9531
Recovered	10,619
Under/(Over) Recovery	607
1st Qtr. FY 2022-23 (Feb. Mar. 23)	
Allowed Amount	6,245
Qtr. Rs./kWh	3,2586
Recovered	5,251
Under/(Over) Recovery	994
2nd Qtr. FY 2022-23 (Apr. Jun. 23)	
Allowed Amount	4,574
Qtr. Rs./kWh	0.99
Under/(Over) Recovery	
D.M FY 2021-22	
Allowed Amount	32,353
Rate. Rs./kWh	2.00
Recovered	30,536
Under/(Over) Recovery	1,817
PYA 2019-20	
Allowed Amount	3,889
Rate. Rs./kWh	0.28
Sales till Feb.11 2022	14,237
Recovered	4,031
Under/(Over) Recovery	142
MLR Allowed Cost	
LPS	1,676
Sales Mix Var.	
FY 2019-20	
FY 2020-21	1,381
FY 2021-22	5,872
	7,253
Excess LPS to be adjusted - FY 2020-21	
LPS Recovered from Consumers	2,065
Supplemental charges billed by CPPA	4,547
Net	2,482
Excess LPS to be adjusted - FY 2021-22	
LPS Recovered from Consumers	2,359
Supplemental charges billed by CPPA	5,146
Net	2,788
Adjustment in PYA	
	-
Other Costs - FY 2020-21 to FY 2022-23	
Pay & Allowance FY 2023 Adjustment	
Turn over/Min. Tax	2,400
Supplier NEPRA Fee- FY 2021-22	33
Supplier NEPRA Fee- FY 2022-23	45
Genco Pensioners FY 2022 & FY 2023	86
NTMK Pensioners	-
Total	2,564
Total	10,778
MYT True Ups	FESCO
Depreciation	
Allowed	4,204
Actual	3,111
Under/(Over) Recovery	1,093
RoRB (Investment + KIBOR)	
Allowed	6,254
Actual	4,569
Under/(Over) Recovery	1,685
Other Income	
Allowed	6,739
Actual	4,878
Under/(Over) Recovery	1,861
FY 2021-22	
Depreciation	
Allowed	4,520
Actual	2,726
Under/(Over) Recovery	1,794
RoRB (Investment + KIBOR)	
Allowed	5,559
Actual	5,605
Under/(Over) Recovery	46
Other Income	
Allowed	4,215
Actual	5,694
Under/(Over) Recovery	1,479
Post Retirement Benefit - FY 2015-16 to FY 2022-23	
Allowed	58,545
Amount paid to pensioner	40,344
Amount transferred to fund	17,679
Amount already adjusted	522
Net Adjustment	-
Net Adjustment	-
Total MYT True Ups	4,144
G. Total PYA FY 2021-22 & FY 2022-23	6,634

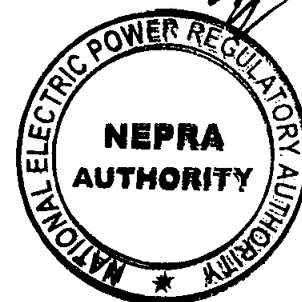


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- 25.16. The total amount of PYA as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, PYA for the FY 2023-24 pertaining to the Distribution Function works out as Rs.485 million, which is hereby allowed.
26. Whether the existing fixed charges applicable to different consumer categories needs to be revised and requires any changes in mechanism for charging of such charges based on Actual MDI or Sanctioned Load or otherwise? Whether there should any Fixed Charges on consumer's categories who are currently not paying any fixed charges?
- 26.1. Regarding revision in applicable fixed charges on different consumer categories and change in mechanism of application of fixed charges based on actual MDI or sanctioned load or otherwise, the Authority noted that large number of stakeholders raised their concerns in the matter. The Authority considering such large representations of the stakeholders decided to initiate separate proceedings in this regard. Accordingly, a separate hearing in the matter was held on 06.06.2023. Therefore, any amendments/modification in the terms & conditions for application of fixed charges would be made based on the final outcome of the separate proceedings being carried out by the Authority.
27. Whether the existing Tariff Terms and Conditions needs to be modified (including the request of Cold Storage to charge "B Industrial Supply" Category tariff instead of "A-2 Commercial" category tariff), and keeping in view the amendments in Consumer Service Manual or otherwise?
- 27.1. The Authority has made the following changes in the Consumer Service Manual, which have already been intimated to all DISCOs vide letter dated December 14, 2022;
- For Industries
- The consumers may be allowed extension of load above 5MW to 7.5 MW from the DISCO's owned grid station subject to availability of load in the grid and capacity in the 11kV existing dedicated feeder. In such a case the consumer will bear 100% grid sharing charges including transmission line charges and 100% cost of land proportionate to load above 5MW to 7.5 MW.*
- 27.2. The above changes are required to be reflected in the Tariff terms & conditions, in the instant tariff Decisions/determinations of DISCOs.
28. Regarding request of Cold Storages to charge "B Industrial Supply" Category tariff instead of "A-2 Commercial" tariff, the Authority, considering large representations of the stakeholders decided to initiate separate proceedings in this regard. Accordingly, a separate hearing in the matter was held on 06.06.2023. Therefore, any amendments/modification in the terms & conditions for application of fixed charges would be made based on the final outcome of the separate proceedings being carried out by the Authority.
29. Order
- 29.1. In view of the discussion made in preceding paragraphs and accounting for the adjustments discussed above, the allowed revenue requirement of the Petitioner, for the FY 2023-24, to the extent of its distribution function is summarized as under;

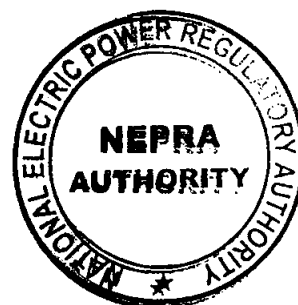
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Description	Unit	DoP
Units Received	[MkWh]	16,965
Units Sold	[MkWh]	15,482
Units Lost	[MkWh]	1,483
Units Lost	[%]	8.74%
Pay & Allowances		12,705
Post Retirement Benefits		13,325
Repair & Maintainance		932
Traveling allowance		
Vehicle maintenance		1,844
Other expenses		
O&M Cost		28,805
Depriciation		5,459
RORB		13,910
O.Income		(3,718)
Margin	[Mln. Rs.]	44,456
Prior Year Adjustment		485
Revenue Requirement	[Mln. Rs.]	44,940

- 29.2. Here it is pertinent to mention that the Authority allowed Interim Tariff to FESCO vide decision dated 14.07.2023, whereby FESCO was allowed a revenue requirement of Rs.33,040 million for its Distribution Function for the FY 2023-24, subject to adjustment/ refund based on the final outcome of the MYT determination. The said interim tariff has since been notified by the GoP vide SRO dated 26.07.2023, to be effective from 01.07.2023.
- 29.3. As now, the Authority has determined the MYT of FESCO for the control period from FY 2023-24 to FY 2027-28, whereby a revenue requirement of Rs.44,490 million has been assessed for the Distribution Function of the Petitioner for the FY 2023-24. Accordingly, the differential amount of Rs.11,900 million, shall be allowed as part of PYA in the subsequent adjustment / indexation determination of the Petitioner for the FY 2024-25.
- 29.4. The Petitioner is directed to follow the following time lines for submission of its future indexation/adjustment during the MYT control period;

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Description	ADJUSTMENTS/ INDEXATION	TIME LINES
Margin		
Salaries, Wages & Benefits	Annually as per the mechanism given in the decision	Request to be submitted by Petitioner in February of every year, so that adjustment / indexation for the next year is determined in timely manner.
Post-retirement Benefit		
Other operating expenses		
Depreciation		
Return on Regulatory Asset Base	Annually as per the mechanism given in the decision	
Other Income		
Prior Year Adjustment	Bi-Annually, as per the decision	
KIBOR	No adjustment allowed over Reference ROE	
Return on Equity (ROE)	As per the mechanism in the decision	
Spread		

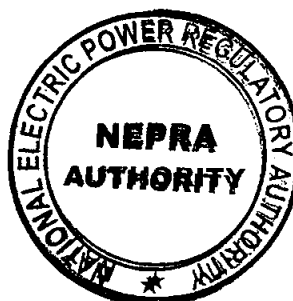
Ref. NCPI-General of December 2022 i.e. 29.47%

Ref. NCPI-General of December 2022 i.e. 29.47%

- 29.5. Faisalabad Electric Supply Company Limited (FESCO), being a distribution licensee, is allowed to charge its consumers, the following "Use of system charge" (UOSC) for the FY 2023-24, or as amended by the Authority from time to time;

Description	For 132 kV only	For 11 kV only	For both 132kV & 11 kV
Asset Allocation	29.95%	43.01%	72.96%
Level of Losses	1.57%	5.77%	7.25%
UoSC Rs./kWh	1.01	1.68	2.76

- 29.6. Responsible to provide distribution/supply service within its service territory on a non-discriminatory basis to all the consumers who meet the eligibility criteria laid down by the Authority.
- 29.7. To make its system available for operation by any other licensee, consistent with applicable instructions established by the system operator.
- 29.8. To follow the performance standards laid down by the Authority for distribution and transmission of electric power, including safety, health and environmental protection instructions issued by the Authority or any Governmental agency [or Provincial Government];
- 29.9. To develop, maintain and publicly make available, with the prior approval of the Authority, an investment program for satisfying its service obligations and acquiring and selling its assets
- 29.10. To disconnect the provision of electric power to a consumer for default in payment of power charges or to a consumer who is involved in theft of electric power on the request of Licensee.
- 29.11. The Petitioner shall comply with, all the existing or future applicable Rules, Regulations, orders of the Authority and other applicable documents as issued from time to time.





30. Summary of Direction

30.1. A summary of all directions passed in this determination by the Authority are reproduced hereunder. The Authority hereby directs the Petitioner to;

- i. To complete tagging of its assets.
- ii. To capitalize the cost of meters instead of expensing out.
- iii. To restrain from unlawful utilization of receipts against deposit works & security deposits, and to give clear disclosures in its Financial Statements with respect to the consumer financed spares and stores, work in progress and cash & bank balance.
- iv. To provide its working regarding under/(over) recovery of quarterly adjustments along-with break-up of units sold for each category, for each quarter, for consideration of the Authority.
- v. To submit the details of remedial measures taken by FESCO for the achievement of performance standards as laid down in NEPRA Performance Standards.
- vi. To clear all pending connections to its eligible consumers as specified in the Consumer Eligibility Criteria and Performance Standard Distribution Rules, 2005 and submit a detailed compliance report to NEPRA on a monthly basis.
- vii. DISCOs shall ensure Open Access to all the relevant entities/licensees without discrimination and shall objectively evaluate and make available on the website of DISCO the network available capacity, current allocation of the capacity and the future investment required to be made part of distribution system planning.
- viii. To take all possible measures to facilitate consumers in terms of complaint handling, connection provision as per CSM and establish one window solutions.
- ix. To submit its annual adjustment / indexation requests by February every year, so that adjustment / indexation for the next year is determined in timely manner

30.2. The Authority, keeping in view the amended NEPRA Act, 2018, whereby sale of electric power has been removed from the scope of distribution licenses and transferred to supply licensee, directed the Petitioner in its earlier tariff determinations to make organizational restructuring in terms of segregation of responsibilities of the Distribution and Sale functions, in order to ensure independent and transparent working of both these functions.

30.3. Since all the distribution companies are 100% owned by the GoP, therefore, DISCOs in consultation with GoP should develop a centralized restructuring plan and submit the same to NEPRA for consideration and necessary vetting for its compliance with NEPRA applicable documents.

30.4. The Authority observed that the Petitioner although in instant Petition has bifurcated its costs into Distribution and Supply of Power Functions, however, the petition was submitted with common accounts and both functions combined. No progress has been shared by the Petitioner in terms of its organizational restructuring. The Authority understands that a proper organization restructuring, is essential to improve the performance of the Petitioner and to ensure transparency for both functions. Therefore, the Petitioner is again directed that a restructuring plan in consultation with the Federal Government may be prepared, within the stipulated time.

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- 30.5. The Petitioner is directed to ensure compliance of the Authority's direction during the FY 2024-25 and submit its progress report along-with its annual adjustment/ indexation request for the FY 2025-26. In case of non-compliance by the Petitioner, the Authority shall start legal proceedings against the Petitioner under relevant rules and regulations, which may not be limited to imposing of fines but also initiate process for adjustment in the revenue requirement of the Petitioner.
31. It is pertinent to mention that as per the Authority's Determination dated July 14, 2023, the interim tariff allowed to the petitioner was subject to adjustment/ refund based on the final outcome of the MYT determination. However, it is crucial to note that the Uniform Tariff has been notified by the Federal Government taking into account the interim tariff (which is in effect and implemented) and any adjustment at this stage may result in process of redetermination of uniform tariff for FY 2023-24. This will lead to practical difficulties, considering that only a few months are left in FY 2023-24.
32. In view thereof, while being mindful of the interest of the consumers and companies providing electric power services in accordance with principles of transparency and impartiality as enshrined in section 7 (6) of the NEPRA Act, the differential amount of Rs.11,900 million for distribution function, shall be allowed as part of PYA in the subsequent adjustment/indexation determination of the Petitioner for the FY 2024-25 and for the FY 2023-24, the interim tariff notified by the GOP vide SRO dated 26.07.2023, will remain effective.
33. The determination of the Authority, is hereby intimated to the Federal Government in terms of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act.

AUTHORITY

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Member

Rafique Ahmed Shaikh
Member

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Member

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