National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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Registrar

No. NEPRA/ADG(Tariff)/TRF-604/ 2436-40 March 14, 2024

Subject: **Determination of the Authority in the matter of Petition filed by Lahore Electric Supply Company Limited (LESCO) for Determination of Distribution Tariff Under MYT Regime for the FY 2023-24 to FY 2027-28 [Case # NEPRA/TRF-604]**

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (total 42 pages).

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, Lahore Electric Supply Company Limited (LESCO) 22-A Queens Road, Lahore

National Electric Power Regulatory Authority

(NEPRA)

PETITION NO: NEPRA/TRF-604/LESCO-2023

DETERMINATION OF DISTRIBUTION TARIFF PETITION

FOR

LAHORE ELECTRIC SUPPLY COMPANY LIMITED (LESCO)

FOR THE FY 2023-24 – FY 2027-28

UNDER

NEPRA TARIFF (STANDARDS AND PROCEDURE) RULES - 1998

Islamabad

, 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

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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

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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

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

CASE NO. NEPRA/TRF-604/LESCO-2023

PETITIONER

Lahore Electric Supply Company Limited (LESCO), 22-A Queens Road, Lahore.

INTERVENER

NIL

COMMENTATOR

NIL

REPRESENTATION

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

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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 LESCO 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, Lahore Electric Supply Company Limited (LESCO), 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 for a 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	31,546	32,515	33,774	35,014	36,517
Units Lost	GWh	3,153	3,077	2,966	2,862	2,740
% of T&D Losses	%	10.0%	9.46%	8.78%	8.17%	7.50%
Units Delivered	GWh	28,393	29,438	30,808	32,152	33,777
O&M	Mln Rs.	54,946	66,077	77,498	89,987	105,417
Depreciation	Mln Rs.	6,048	6,647	7,297	7,944	8,567
Return on Regulatory Asset Base (RoRB)	Mln Rs.	11,870	13,413	14,912	16,562	18,312
Distribution Margin	Mln Rs.	72,864	86,137	99,707	114,493	132,296
PYA	Mln Rs.	3,288				
Revenue Requirement	Mln Rs.	76,152	86,137	99,707	114,493	132,296
Net Average Sale Rate	Rs./kWh	2.68	2.93	3.24	3.56	3.92

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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 08, 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 LESCO 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 and Depreciation expenses are 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 Z Factor for extra ordinary events is justified?

ix. Whether the request of the Petitioner for replacement hiring, Additional hiring and creation of divisions/sub-division is justified?

x. Whether the requested PYA, is justified?

xi. 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?

xii. 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?

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xiii. Whether the concerns raised by the intervener/ commentator if any are justified?

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

4. <u>Filing Of Objections/ Comments</u>

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. <u>Whether the request of Petitioner to allow MYT for a period of five years is justified?</u>

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 LESCO 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 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 LESCO 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 year 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. <u>Whether the Petitioner has properly utilized the allowed investment and achieved consequent prospective benefits or otherwise?</u>

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

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Budget Head			
	Investment Allowed	Actual Investment	%
DOP	24,842	27,990	113%
ELR	4,056	8,551	211%
STG	27,499	20,364	74%
Others	7,435	3,568	48%
TOTAL	**63,832**	**60,473**	95%
AMI (un-availed)	30,000	-	
TOTAL (with AMI)	**93,832**	**60,473**	64%

Description	FY 2017-18	FY 2022-23	(+/-)	(+/-)	% (+/-)
LESCO Owned Grid Stations (No.)	108	121	13	▲	12.00%
Grid Stations Feedinfd individual Consumers (No.)	42	61	19	▲	45.20%
Peak Demand (MW)	4,980	6,099	1,119	▲	22.50%
11 kV Feeders (No.)	1,741	2,154	413	▲	23.70%
Length of Transmission Line (km)	2,864	3,198	334	▲	11.70%
Length of HT Line (km)	28,775	32,148	3,373	▲	11.70%
Length of LT Line (km)	14,952	15,591	639	▲	4.30%
Total Installed Transformers (No.)	105,185	133,019	27,834	▲	26.50%
SAIFI	33	31	2	▼	-5.70%
SAIDI	4,338	3,674	664	▼	-15.30%
Number of Consumers	4,598,784	6,172,615	1,573,831	▲	34.22%

6.2. 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 26.04.2023. 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 and Depreciation expenses are justified?

8. Whether the salaries, allowance and post-retirement benefits shall linked with GoP increase or otherwise?

9. Whether LESCO 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 and depreciation charges in its tariff petition;

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Operating and Maintenance Cost Breakup (Rs. in Millions)					
	FY24	**FY25**	**FY26**	**FY27**	**FY28**
Salaries, Wages and other Benefits	30,765	37,825	43,771	49,083	55,215
Post-Retirement Benefits	20,428	22,473	24,723	27,198	29,921
Repair & Maintenance	3,520	4,801	6,550	8,935	12,190
Others	5,511	7,410	9,999	13,531	18,353
Total Projected Annual Cost	**60,224**	**72,509**	**85,042**	**98,747**	**115,678**
Proj.Cost-Wire Business	54,882	66,077	77,498	89,987	105,417
Proj.Cost-Supply Business	5,342	6,432	7,544	8,760	10,262

Depreciation Expenses (PKR in Million)					
	FY 24	**FY 25**	**FY 26**	**FY 27**	**FY 28**
Depreciation Expense	6,048	6,647	7,297	7,944	8,567

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

9.2.1. Basic pay, Allowances and Employee benefits: The pay & allowances for FY 2023-24 have been estimated to be Rs. 30,765 Million, out of which Rs. 28,036 Million & Rs. 2,729 million have been projected for Wire Business & Power Supply Business respectively. Pay & allowances and employee benefits including retirement benefits constitute a major portion of the Company's O&M expenses.

Basic Pay, Allowance & Employee Benefits (Rs. In Millions)					
	FY24	FY25	FY26	FY27	FY28
Basic Pay & Adhoc Relief	11,446	12,970	14,579	16,278	18,072
Employee Benefits	14,464	16,064	17,200	18,438	20,599
New Hiring Cost	4,855	8,791	11,992	14,367	16,543
Total Salaries & Wages	30,765	37,825	43,771	49,083	55,215
Proj.Cost-Wire Business (Mil. Rs.)	28,036	34,470	39,888	44,729	50,317
Proj.Cost-Supply Business (Mil. Rs.)	2,729	3,355	3,883	4,354	4,898

9.2.2. <u>Plan for Replacement Hiring</u>: LESCO has planned for induction of the following number of employees during tariff control period against existing yard stick.

New induction against existing Yardstick. (Rs. In Million)					
	FY24	FY25	FY26	FY27	FY28
No. of Employees	3,829	2,644	1,621	567	421
Projected Annual Cost (Mil. Rs.)	2,727	4,576	5,717	6,112	6,404
Proj.Cost-Wire Business (Mil. Rs.)	2,485	4,171	5,210	5,570	5,836
Proj.Cost-Supply Business (Mil. Rs.)	242	406	507	542	568

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9.2.3. The Company is a staff deficient by 35.46% and at present working at working strength of 20,253 Nos. of employees against the sanctioned strength of 32,560 Nos. in different cadres. Therefore, the company has planned for induction of above stated number of employees during the tariff control period.

9.2.4. The following manpower statistics highlights the shortage of staff in the company:

Man power statistics									
S. No	**Description**	**Sanctd.**	**Actual Working Strength**				**Deficiency**	**%age**
			Reg.	**Cont.**	**Daily wages**	**Total**		
Officers (BPS-17 and above)								
a.	Technical	577	431	1	0	432	145	25.13%
b.	Non-Technical	134	76	8	0	84	50	37.31%
Sub-Total		**711**	**507**	**9**	**0**	**516**	**195**	27.43%
Officials (BPS-01 to 16)								
a.	Technical	19,048	13,167	369	172	13,708	5,340	28.03%
b.	Non-Technical	8,650	4327	110	7	4,444	4,206	48.62%
c.	Clerical	4,151	2252	93	0	2,345	1,806	43.51%
Sub-Total		**31,849**	**19,746**	**572**	**179**	**20,497**	**11,352**	**31,849**
Total Manpower		**32,560**	**20,253**	**581**	**179**	**21,013**	**11,547**	**35.46%**

9.2.5. As evident from the tables above, the Company has been requesting NEPRA for allowing cost of hiring staff at positions where it is under-staffed. The deficiency in staff is clearly great importance at the officer level as per approved yardstick which stands at 35.46%. The deficiency and the associated financial impact have successively increased 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 5.01% or 0.344 million consumers per year.

9.2.6. In order to meet the technical and operational targets, it is proposed that 3,829 vacancies are to be filled by the Company during FY2023-24. This recruitment will increase the base year O&M by Rs.2,727 million. The projected cost of Rs.2,539 million & Rs.188 million assigned to the Wire Business & Power Supply Business respectively. In the same manner Rs.1,850 million, 1,139 million, and 683 Million have been projected for recruitment against vacant posts under existing yardstick of LESCO during FY 2024-25, 2025-26, and 2026-27 respectively.

9.2.7. LESCO's Plan for creation of new offices along with additional hiring for newly created offices: LESCO has planned for induction of the following number of employees during tariff control period against human resource requirement of newly created offices.

New induction against creation of new offices					
	FY24	FY25	FY26	FY27	FY28
No. of Employees	2,504	2,468	2,438	2,336	2,235
Projected Annual Cost (Mil. Rs.)	2,128	4,214	6,275	8,255	10,139
Proj.Cost-Wire Business (Mil. Rs.)	1,939	3,840	5,719	7,523	9,240
Proj.Cost-Supply Business (Mil. Rs.)	189	374	557	732	899

9.2.8. Post-Retirement Benefits: Then are post-retirement benefits including expenses related to pension, medical, free supply, and gratuity/ leave encashment. The Company fully understands its legal obligation to record and pay these liabilities. Since the unbundling of WAPDA, the Company has been making timely payments to all its retired employees. Keeping in view the above, the gross Post Retirement Benefits have been projected for 2022-23 on the basis of last actuarial Valuation Report and other available information with estimated average 10% increase for FY 2023-24 till FY 2027-28 as under:

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Post-Retirement Benefits Break-up (PKR Millions)						
	FY23	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**
Pension	11,205	1,852	2,037	2,241	2,465	2,712
Medical	2,112	3,924	4,316	4,748	5,223	5,745
Utility Expense	3,567	2,323	2,556	2,811	3,092	3,402
Leave Encashment	1,684	12,328	13,563	14,922	16,418	18,063
Total Post-Retirement Benefits	**18,568**	**20,428**	**22,473**	**24,723**	**27,198**	**29,921**
% Change		10.00%	10.00%	10.00%	10.00%	10.00%
Proj.Cost-Wire Business	16,921	18,615	20,479	22,530	24,785	27,267
Proj.Cost-Supply Business	1,647	1,812	1,994	2,193	2,413	2,654

9.2.9.NEPRA is requested to allow the above gross amount of retirement benefits in tariff for the tariff control period subject to adjustment on the basis of actual contribution in the fund.

9.2.10. Other Operating Expenses: All other expenses are increased by CPI-X during the entire tariff control period including Repair & Maintenance. The amount of settlement guarantee fund and security covers as per Market Commercial Code required is also part of other operating expenses.

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

9.2.12. The adherence to service standards and improvement of customer services is only possible through continuous repair and maintenance of distribution network etc. Timely repair and maintenance are vital to continuous and reliable supply of electricity. Delays in scheduled repairs ultimately result in system breakdowns which in turn not only has an impact on the end-consumer, including adversely affecting industrial and agricultural production, but also damages the distribution network which then requires further investments. Furthermore, non-undertaking of routine repairs results in accumulation of faults with the utility which requires significant investments, a few years down the line against an issue that could have been dealt earlier at a significantly lower cost. Repairs are thus an important aspect in controlling the increase in end-user tariff and necessary, if distribution loss targets are to be achieved.

9.2.13. Segregation between "Controllable" and "Uncontrollable" cost: The segregation is proposed between controllable and un-controllable costs. The employee related costs (Salaries & Wages and Retirement Costs) are treated as uncontrollable to be passed through on actual basis in the Tariff. All other Costs are considered to be controllable and subject to adjustment with CPI only including Repair & Maintenance. The segregation of controllable and uncontrollable factors and their treatment in MYT is of vital importance. Non-segregation of these costs may force the Company to absorb some "uncontrollable costs" beyond its control, which are not fully recovered from

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its tariff resulting in financial losses to the Company. In light of the above, it is submitted that any increase in uncontrollable costs be adjusted on an annual basis in the MYT tariff.

9.2.14. With a view to allow the Company greater autonomy over its operations relating to network management, repair & maintenance cost has been assumed to be increased on the basis of CPI increase which is consistent with the actual requirements due to vast & old distribution system. However, the company is also planning to maintain Fixed Assets Register by way of Fixed Assets tagging and after completion of fixed assets tagging the maintenance cost should be linked with gross fixed assets.

9.2.15. Adjustment Mechanism for O&M Costs: The efficiency factor "X" is being proposed as zero '0' for the Tariff Control Period on the premise that the implementation of CTBCM will further affect the cost effectiveness of the Company when most of the industrial and bulk power consumers will be leaving LESCO and the Company will only be serving the low category domestic consumers, Further all the efficiencies and associated benefits, will be achieved through the implementation of Distribution integrated investment plan (DIIP) are inherently reflected through reduction of T&D losses and which ultimately reduce the average sale rate for end consumer.

9.3. The Authority observed that the Petitioner revised its requested amounts under different heads in its presentation during the hearing by stating that the numbers have been revised based on NEPRA Interim tariff determination decision dated 14.07.2023.

9.4. 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.

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

Description	FY 2023-24 (Rs. Mln)
O&M Cost	62,651
Depreciation Expenses	6,048

9.6. The Petitioner provided the following break-up of its O&M costs for the FY 2023-24;

Mln. Rs.

Description	2022-23		2023-24 (Projected)		
	Determined	Prov. Exp.	DOP	SOP	Total
Salaries, Wages & other Benefits	19,274	22,495	30,457	2,965	33,421
Post Retirement Benefits	15,678	18,568	18,615	1,812	20,428
Repair & Maintenance	2,705	2,580	3,207	312	3,520
Travelling Expenses	362	522	713	69	783
Others	2,132	3,323	4,100	399	4,499
Total O&M Cost	**40,151**	**47,488**	**57,092**	**5,557**	**62,651**

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10. Depreciation

10.1. On the issue of depreciation, the Petitioner submitted that 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%, 33% on IT equipment's, 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.

Depreciation Expenses (PKR in Million)

	FY 24	FY 25	FY 26	FY 27	FY 28
Depreciation Expense	6,048	6,647	7,297	7,944	8,567

10.2. The revenue requirement of XWDISCOs, generally include the following;

i. Power Purchase Price (PPP)

ii. Distribution/Supply Function Costs

iii. 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 PPP 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
  - Other Miscellaneous Expenses
- Depreciation
- Return on Rate Base (RORB) (RAB*WACC)
- Other Income *(deducted from the Revenue Requirement)*

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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;"

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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. 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. <u>Pay & Allowances;</u>

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 86% 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.20,343 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.22,820 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.20,796 million.

12.6. The assessed Salaries & Wages costs for the FY 2023-24 i.e. Rs.20,796 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. <u>Additional Recruitment</u>

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. <u>Post-Retirement Benefit</u>

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 XWDSICSOs 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;

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Post-Retirement Benefits Break-up (PKR Millions)						
	FY23	FY24	FY25	FY26	FY27	FY28
Pension	11,205	1,852	2,037	2,241	2,465	2,712
Medical	2,112	3,924	4,316	4,748	5,223	5,745
Utility Expense	3,567	2,323	2,556	2,811	3,092	3,402
Leave Encashment	1,684	12,328	13,563	14,922	16,418	18,063
Total Post-Retirement Benefits	**18,568**	**20,428**	**22,473**	**24,723**	**27,198**	**29,921**
% Change		10.00%	10.00%	10.00%	10.00%	10.00%
Proj.Cost-Wire Business	16,921	18,615	20,479	22,530	24,785	27,267
Proj.Cost-Supply Business	1,647	1,812	1,994	2,193	2,413	2,654

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
LESCO	2015-16	9,002	2,983	6,019
	2016-17	9,002	3,742	5,260
	2017-18	9,002	4,530	4,472
	2018-19	9,002	6,913	2,089
	2019-20	17,419	8,597	8,822
	2020-21	17,420	8,778	8,642
	2021-22	15,678	9,402	6,276
	2022-23	15,678	10,126	5,551
		102,203	55,072	47,131
	Fund Balance- Rs. Mln			50,306

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 over & above its actual payments. 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.20,427 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.

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.18,615 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. <u>Repair & Maintenance Costs</u>

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

Mln. Rs.

Description	2022-23		2023-24 (Projected)		
	Determined	Prov. Exp.	DOP	SOP	Total
Repair & Maintenance	2,705	2,580	3,207	312	3,520

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.107 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.2,270 million under R&M head, for the FY 2023-24, after incorporating the inflationary impact on the R&M cost, as per the provisional 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,

NATIONAL POWER REGULATORY AUTHORITY NEPRA AUTHORITY 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.2,068 million.

15.6. The assessed repair and maintenance cost for the FY 2023-24 i.e. Rs.2,068 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.

15.7. While going through the information of provisional amount of Repair & Maintenance expenses submitted by LESCO, it is noted that significant amount under head of Repair of Meter has been included in R&M cost. The Authority in the matter of other DISCOs also observed such significant amount under this head, which was excluded from the expenses and DISCO were directed to capitalize the said cost instead of expensing out. Based on the same analogy, the Authority has decided to exclude cost of meters, while working out R&M expenses of the Petitioner for the FY 2023-24. The Petitioner is directed to capitalize all such costs, as part of their fixed assets, instead of expensing out the same.

16. <u>Other O&M Expenses</u>

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

Mln. Rs.

Description	2022-23		2023-24 (Projected)		
	Determined	Prov. Exp.	DOP	SOP	Total
Travelling Expenses	362	522	713	69	783
Others	2,132	3,323	4,100	399	4,499
Total O&M Cost	**2,494**	**3,845**	**4,813**	**468**	**5,282**

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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.4,825 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.4,825 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.4,398 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.4,398 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 submitted that 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%, 33% on IT equipment's, other plant/equipment and vehicles @ 10%. The depreciation for the FY 2023-24 to FY 2027-28 has been estimated on the original cost of the assets.

Depreciation Expenses (PKR in Million)

	FY 24	FY 25	FY 26	FY 27	FY 28
Depreciation Expense	6,048	6,647	7,297	7,944	8,567

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.174,123 million. In view thereof, the depreciation charge for the FY 2023-24 has been assessed as Rs.6,426 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.

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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.2,429 million for the FY 2023-24. Accordingly, the consumers would bear net depreciation of Rs.3,998 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 complete amount of depreciation cost for the FY 2023-24 allocated to the Distribution function of Rs.6,426 million as per the criteria adopted by the Petitioner. The same would be adjusted during the MYT control period as per the mechanism provided in the instant determination, keeping in view the investment allowed for the year.

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

18.1. The petitioner submitted that Return on equity is calculated using CAPM model and requires the estimation of following components:

- Risk free rate (Rf)
- Beta (β)
- Market premium (P)

18.2. It further stated that 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 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 business horizon of an electricity distribution business, the Company's contractual obligations and operational risks which extend beyond a single year, it is proposed that the risk free rate should be considered on the basis of last determinations. This rate would be adjusted on an annual basis as per State Bank of Pakistan publications.

18.3. The Petitioner further mentioned that NEPRA has allowed Return on Equity (Market Risk Premium & Risk Free Rate) as 16.67% in previous Tariff Determination; therefore, the same has been used for calculating RORB. Currently, NEPRA uses a standard beta for calculating the return on equity for all DISCOs, the same beta has been used for computing return on equity in all previous three determinations.

18.4. The Petitioner also submitted that cost of debt is taken as 3 Months KIBOR+3% spread of 3rd Jan. 2023. However, any taxes paid by the company will be passed on directly to the end-consumers. Based on the above input parameters, the Company's weighted average cost of capital computes to 19.04%. The Regulatory Asset Base (RAB) is the gross fixed asset that is used in the distribution activities of the Company. The return on rate base is calculated by applying the WACC on the RAB.

18.5. It was further stated that as per MYT guidelines the RORB assessment will be made in accordance with the following formula/mechanism:

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

Where:

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

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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 Petitioner requested the following RORB for the MYT control period;

Descriptions	2023-24	2024-25	2025-26	2026-27	2027-28
	Projected				
Return on Rate Base (Rs. Mln.)	11,870	13,413	14,912	16,562	18,312
Rate Rs./kWh	0.42	0.46	0.48	0.52	0.54

18.7. LESCO further provided the following details during the hearing:

Descriptions	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
	Prov.	Projected	Projected	Projected	Projected	Projected
Gross Fixed Assets in Operation - Opening Bal	140,700	155,612	170,916	187,170	204,841	222,415
Addition in Fixed Assets	**14,912**	**15,304**	**16,254**	**17,671**	**17,574**	**16,933**
Gross Fixed Assets in Operation - Closing Bal	155,612	170,916	187,170	204,841	222,415	239,348
Less: Accumulated Depreciation	54,070	60,118	66,765	74,062	82,006	90,574
Net Fixed Assets in Operation	101,542	110,798	120,405	130,779	140,409	148,774
Add: Capital Work In Progress - Closing Bal	14,161	15,998	16,329	16,419	17,998	20,800
Investment in Fixed Assets	**115,703**	**126,796**	**136,734**	**147,198**	**158,407**	**169,574**
Less: Deferred Credits	57,691	60,147	62,513	64,801	66,860	68,798
Regulatory Assets Base	**58,012**	**66,649**	**74,221**	**82,397**	**91,546**	**100,776**
Average Regulatory Assets Base	55,139	62,330	70,435	78,309	86,972	96,161
Rate of Return	17.42%	19.04%	19.04%	19.04%	19.04%	19.04%
Return on Rate Base	**9,607**	**11,870**	**13,413**	**14,912**	**16,562**	**18,312**

18.8. 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;

18.9. 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.

18.10. 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

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R_M is Market Return

β is Beta

The cost of debt is;

Kd = KIBOR + Spread

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

WACC= ((Ke x (E / V) + (Kd x (D / V))

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

18.12. 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.

18.13. 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 the FY 2023-24.

18.14. 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.

18.15. 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.

18.16. 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).*

18.17. In view thereof, the WACC for the FY 2023-24 has been worked out as under;

Cost of Equity;

Ke = 14.47%

The cost of debt is;

Kd = 24.90%

WACC= ((Ke x (E / V) + (Kd x (D / V))

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

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WACC = ((14.47% x 30%) + (24.9% x 70%)) = 21.18%

18.18. 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.

18.19. 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.

18.20. 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 the FY 2023-24 has been worked out as under;

Rs. Mln

Description	FY 2022-23	FY 2023-24
Fixed Assets O/B	133,319	150,422
Addition	17,103	17,718
Fixed Assets C/B	150,422	168,140
Depreciation	53,520	59,946
Net Fixed Assets	96,902	108,194
Capital WIP C/B	18,558	20,763
Fixed Assets Inc. WIP	115,460	128,957
Less: Deferred Credits	37,398	43,861
Total RAB	78,061	85,096
Average RAB		**81,579**
WACC - %		21.18%
RORB		**17,275**

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18.21. 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 of Rs.17,275 million for the FY 2023-24 allocated to the Distribution Function.

18.22. 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.

18.23. 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.

18.24. 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%, the additional cost would be borne by the Petitioner.

19. <u>Other Income</u>

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 has 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 Petitioner further mentioned that the Late Payment Surcharge has been excluded from the total Other Income as per decision of NEPRA, which will be adjusted against surcharge. The other income will relate to supply business only. The Petitioner submitted the following on account of other income;

Mln. Rs.

	FY24	FY25	FY26	FY27	FY28
Amortization of Deferred Credits	2,452	2,603	2,757	2,908	3,060
Profit on bank deposit	4,481	4,571	4,662	4,756	4,851
Service fee for collection of TV Fee	49	51	52	53	54
Meter & Service Rent	444	448	453	457	462
Miscellaneous	2,368	2,439	2,513	2,588	2,666
Total Other income (Excl. LPS)	9,795	10,112	10,436	10,762	11,092

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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 as requested by the Petitioner, 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.9,795 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.9,119 million, which is hereby allowed. The same would be adjusted as per the adjustment/ indexation mechanism given in the instant determination.

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

21. <u>Whether the request of the Petitioner for Z Factor for extra ordinary events is justified?</u>

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

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

21.1.2. <u>Segregation between "Controllable" and "Uncontrollable" cost:</u> The segregation is proposed between controllable and un-controllable costs. The employee related costs (Salaries & Wages and Retirement Costs) are treated as uncontrollable to be passed through on actual basis in the Tariff. All other Costs are considered to be controllable and subject to adjustment with CPI only including Repair & Maintenance.

21.1.3. The segregation of controllable and uncontrollable factors and their treatment in MYT is of vital importance. Non-segregation of these costs may force the Company to absorb some "uncontrollable costs" beyond its control, which are not fully recovered from its tariff resulting in financial losses to the Company. In light of the above, it is submitted that any increase in uncontrollable costs be adjusted on an annual basis in the MYT tariff.

21.1.4. <u>Repair & Maintenance:</u> With a view to allow the Company greater autonomy over its operations relating to network management, repair & maintenance cost has been assumed to be increased on the basis of CPI increase which is consistent with the actual requirements due to vast & old distribution system. However, the company is also planning to maintain Fixed Assets Register by way of Fixed Assets tagging and after completion of fixed assets tagging the maintenance cost should be linked with gross fixed assets.

21.1.5. <u>Adjustment Mechanism for O&M Costs:</u> The efficiency factor "X" is being proposed as zero '0' for the Tariff Control Period on the premise that the implementation of CTBCM will further affect the cost effectiveness of the

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Company when most of the industrial and bulk power consumers will be leaving LESCO and the Company will only be serving the low category domestic consumers. Further all the efficiencies and associated benefits, will be achieved through the implementation of Distribution integrated investment plan (DIIP) are inherently reflected through reduction of T&D losses and which ultimately reduce the average sale rate for end consumer.

21.1.6. On the issue of Z-Factor, the petitioner submitted that there shall be a provision for costs incurred as a result of force majeure events such as earthquakes, flooding, wind storms, thunder storms, acts of terrorism, etc. In the absence of a provision for such events and adjustments restricted strictly to the CPI-X factor, the Company will be unable to recoup the costs required to undertake the necessary repairs.

21.1.7. It is proposed that an additional Z factor should be included in the MYT to cover costs for such events. These costs shall be computed after the occurrence of such an event at which point the Company shall estimate the financial impact of such an event and request NEPRA's approval for inclusion in the prior year Adjustment in subsequent year. As replacement of any equipment as result of such damage shall be covered through proposed investments to be approved by NEPRA, it is anticipated that major costs falling under Z factor will comprise repair & maintenance and incidental costs. In the event that insurance coverage is available at a reasonable cost, recoveries made under such an arrangement will not be incorporated in the tariff for the subsequent period.

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22. Indexation Mechanism:

22.1. **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;**

22.2. 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.

22.3. 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 sprit of multi- year tariff regime and in accordance with Authority's approved tariff methodology.

22.4. On the issue of Z-Factor, the Authority noted that the Petitioner has been allowed Insurance cost as part of its O&M charges. The insurance coverage is supposed to cover any damages/ loss to assets of the Petitioner, due to earthquakes, flooding, wind storms, thunder storms, acts of terrorism, etc. If the Petitioner still wants any further coverage, it may opt for further insurance to mitigate its commercial risk through its profits.

22.5. 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.

22.6. The reference O&M costs, would be adjusted every Year with NCPI-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) **X** [1 + (ΔNCPI-X)]

Where

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

23. Salaries & Wages and Post-retirement Benefits:

23.1. 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 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.

23.2. 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.

24. RORB

24.1. 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;

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

24.2. 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.

24.3. 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%, the additional cost would be borne by the Petitioner.

25. Depreciation Expenses

25.1. 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 refernce cost for future adjustment. In addition the allowed Depreciation for previous year will be trued up based ona actual investment (maximum cap to the extent of allowed investment) carried out during that year	

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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

25.2. 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.

26. Other Income

26.1. 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 refernce 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	

27. Whether the requested Prior Years Adjustment is justified?

27.1. The Petitioner submitted that Rule 53 of NEPRA Tariff Guidelines provides that under-recovery or over-recovery of the cost-of-service incurred during the previous year shall be accounted for going forward during the current year under the head of prior period adjustment. The Petitioner accordingly requested a PYA of Rs.37,071 million as detailed below, presented during hearing of its instant MYT Petition;

Description	Mln. Rs.
Minimum Tax payments	18,640
Sales Mix Variance (FY 2021, FY 2022)	5,605
FPA (Nov-2019 to Jun-2020)	4,053
Quarterly Tariff adjustment Under/ Over Recovery (FY 2019-20, FY 2020-21 & FY 2021-22)	(512)
Distribution Margin	9,285
Total	37,071

27.2. Regarding claim of distribution margin of Rs.9,285 million, the Petitioner submitted the following break-up;

No.	5- PYA - Distribution Margin	Rs.
1	PM Assistance Package	842
2	FY 2021-22 (Extra recovered)	-683
3	True up under MYT Regime:	
i.	Pay & Allowances (FY 2022-23)	769
ii.	Depreciation	2,442
iii.	Other Income	5,916
	Total	9,285

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

27.3.1. Minimum Tax Payments:

- ✓ DISCO's were not required to pay Advance Tax u/s 147 of the Income Tax Ordinance till TY 2016 as the provisions of section 113 (Minimum Tax on Turnover) of ITO 2001 were not applicable due to presence of Gross Loss proviso which were omitted by Finance Act 2016.
- ✓ The amounts were paid including the WHT taxes deducted at source adjustable against the tax liability calculated as Minimum Tax u/s 113 during the FY-2020, FY-2021 & FY-2022 respectively which is tax liability of LESCO as per prevailing FBR statue. The

Authority is requested to allow Rs. 18,640 million as prior year adjustment being the actual amount paid as minimum tax payments.

27.3.2. Prime Minister Assistance Package

- ✓ The Establishment Division's office memorandum No. 8/ 10 / 2013-E-(PT) dated 03.08.2016 regarding Assistance Package for Families of Employees who Die in Service, was adopted by PEPCO Board of Directors. The BoD, LESCO adopted the same memorandum dated 03.08.2016 regarding Assistance Package for Families of Employees Who Die in Service.
- ✓ In this regard, LESCO has made payments in previous period (FY 2016-17 to FY 2021-22) of Rs.842 Million. The Authority has already principally agreed that actual payments welfare assistance package would be allowed. Therefore, it requested to allow the actual amount against prior year adjustment.

27.3.3. Applicable Quarterly Tariff Adjustments - under/over recovery:

- ✓ The net under / over recovery against the quarterly adjustment for FY 2019-20, 2020-21 & 2021-22 (up-to 3rd quarter) has been calculated after incorporating the financial impact on sales to Life line consumers which is amounting to Rs.(512) million:

27.3.4. Distribution Margin:

- ✓ As the Financial year of FY 2021-22 lapsed, the DM adjustment on allowed losses for FY 2021-22 is also required to be adjusted. The DM adjustment for FY 2021-22 is amounting to Rs. 683 million over recovered.

27.3.5. True Up Under MYT Regime:

- ✓ Pay & Allowances: As per MYT -Redetermination the Authority has decided to allow LESCO GoP increase in pay & allowances till the LESCO remains under the status of public utility. In this regard it is submitted that GOP enhance rent ceiling /house acquisition @ 44% w.e.f. 01-07-2021 vide office memorandum No. F4(8)/92-policy dated 28-09-2021 which was also adopted by LESCO accordingly. The financial impact has been not incorporated by Authority while determination of pay & allowances for FY 2021-22. Therefore, it is requested to allow Rs. 769 million as the financial impact of enhancement of house acquisition under the head of pay & allowances for FY 2021-22 to onward.
- ✓ Depreciation: As per MYT-redetermination the depreciation expenses may be adjusted based on actual results. The Authority is requested to allow Rs 2,442 million against depreciation expenses as prior year adjustment.
- ✓ Other Income: As per MYT redetermination the other income will be adjusted based on actual results. The Authority is requested to allow Rs. 5,916 million as prior year adjustment being the over determined value for FY 2019-20 to FY 2021-22.
- ✓ Sales Mix Variance: The sales mix variance amounting to Rs. 2740 million for FY 2020-21 & Rs. 2,865 million for FY 2021-22 has been calculated keeping in view the ISP-incremental sales.

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27.4. Other Issues

27.4.1. Supplementary Charges than Late Payment Surcharge

Mati

- ✓ The Authority during the DM indexation for FY 2020-21 & FY 2021-22 adjusted the value of Rs.9,427 million (excess LPS than Supplementary Charges) which pertains to FY 2014-15 to FY 2017-18. However, the adjustment of excess supplementary charges than LPS up-to FY 2021-22 did not consider by the Authority, where amount charged by CPPAG is in excess as compared to LPS. Therefore, it is requested before Authority to reconsider LESCO's request and to allow Rs.19,273 million as tabulated hereunder;

Supplementary Charges & Late Payment Surcharge

Rs. Mln.

Year	S. Charges Invoice	Late Payment Surcharge	Difference
Prior from 2014-15	11,438	-	11,438
FY 2014-15	1,156	2,956	-1,800
FY 2015-16	311	2,760	-2,449
FY 2016-17	177	3,022	-2,845
FY 2017-18	1,204	3,537	-2,333
FY 2018-19	4,013	3,649	364
FY 2019-20	6,478	3,692	2,786
FY 2020-21	8,783	4,765	4,019
FY 2021-22	12,929	2,837	10,092
Total	46,490	27,217	19,273

27.4.2. Financial Implication of GENCO / NTDC Pensioners

- ✓ It is requested that Economic Co-Ordination Committee in case No. ECC-347/32/2021 dated 23.03.2021, has approved adjustment of Pensioners of GENCOs w.r.t. Power Plants Under closure. As per para no.06 of the decision "Pensions of these employees will be paid by the relevant DISCOs on their retirement according to the rules of DISCOs. In turn the relevant DISCOs and WAPDA would claim adjustment of the same from NEPRA in their Tariff". The Details are as follows:

Sr. No	Transfer from	No of Pensioners	Monthly Pension	Annual
1	GENCO I	4	0.4	21.53
2	GENCO II	43	1.97	33.96
3	GENCO III	83	3.05	154.56
4	GENCO IV	4	0.05	1.09
	Total:	134	5.48	211.15

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- ✓ Further NTDC has forwarded 136 Nos. PPO files pertaining to Ex-GSC retired employees of the formations transferred to LESCO on the grounds that the assets and liabilities of PD (GSC) LESCO (132 KV Grid System Construction) have been transferred to LESCO and that the said employees have served in the formation which is currently part of LESCO. The impact of these pensioners is tabulated bellow:

Sr.No	Transfer From	No of Pensioners	Monthly Pension	Annual
1	NTDC Pensioners	136	6.4	76.31

- ✓ The petitioner has requested the Authority to allow the payment of the pensioners and incorporate the impact in the decision.

27.5. 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.

27.6. 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.

27.7. 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.18,640 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.

27.8. On the issue of P.M assistance Package, the Authority observed that the Petitioner in line with earlier decisions of the Authority has provided the details regarding actual payments on account of P.M assistant package along-with detail of employees name, designation, date of death, along with the financial impact. The Authority has therefore decided to allow the actual amount paid by the Petitioner i.e. Rs.841.5 million, based on the information provided by the Petitioner. Accordingly, the amount of Rs.841.5 million has been included as part of PYA.

27.9. 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.5,824 million, after incorporating therein the impact of sales to Life line consumers. The same is hereby included as part of PYA.

27.10. 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 negative Rs.683 million on account of under/ over recovery of the allowed DM for the period FY 2021-22.

27.11. 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.

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27.12. 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.

27.13. On the issue of GENCO Pensioners' the Authority has decided to allow the impact of GENCO pensioner of Rs. 211.15 million to LESCO 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."*

27.14. 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.

27.15. 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.

27.16. After considering all the aforementioned factors, the Authority observed that the Petitioner has retained a net amount of Rs.1,099 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 recovered net surcharges during the period from July 2020 to December 2022.

27.17. Consequently, the net amount of Rs.1,099 million retained by LESCO 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 LESCO has been adjusted in the PYA. The above working has been carried out based on the data/ information provided by the Petitioner.

27.18. Based on the discussion made in the preceding paras, the PYA of the Petitioner has been worked out as under and allowed as part of supply of power function of the petitioner;

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Description	LESCO
July 2020 to December 2022	
Impact of Negative FCA- retained	- 1,280
Impact of Positive FCA- Lifeline	181
Net	- 1,099
July 2020 to December 2022	
Tariff Diff. Subsidy	103,358
Surcharge	- 114,569
Net - Jul.20 to Mar. 23	- 11,210
Excess Negative FCA -Adjusted as subsidy	-
Excess Negative FCA -Adjusted as PYA	- 1,099
2nd & 3rd Qtr. FY 2019-20 (Oct.20 to Sep.21)	
Allowed Amount	27,952
Qtr. Rs./kWh	1.1825
Recovered	26,911
Under/(Over) Recovery	1,041
4th Qtr. FY 2019-20	
Allowed Amount	19,092
Qtr. Rs./kWh	0.8080
Recovered	20,748
Under/(Over) Recovery	- 1,656
1st & 2nd Qtr. FY 2020-21 (Oct. 21-Sept.22)	
Allowed Amount	20,847
Qtr. Rs./kWh	0.94
Recovered	24,202
Under/(Over) Recovery	- 3,355
3rd Qtr. FY 2020-21 (Oct.21-Sept.22)	
Allowed Amount	- 1,610
Qtr. Rs./kWh	- 0.0728
Recovered	- 1,869
Under/(Over) Recovery	260
4th Qtr. FY 2020-21 (Feb. Apr. 22)	
Allowed Amount	- 2,746
Qtr. Rs./kWh	- 0.5299
Recovered	- 2,715
Under/(Over) Recovery	- 32
1st Qtr. FY 2021-22 (Jun. Aug. 22)	
Allowed Amount	1,429
Qtr. Rs./kWh	0.2588
Recovered	1,971
Under/(Over) Recovery	- 542
2nd Qtr. FY 2021-22 (Jul. Sep. 22)	
Allowed Amount	11,159
Qtr. Rs./kWh	2.0204
Recovered	15,110
Under/(Over) Recovery	- 3,951

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Description	LESCO
4th Qtr. FY 2021-22 (Oct. 22 Jan. 23)	
Allowed Amount	17,150
Qtr. Rs./kWh	2.6820
Recovered	15,954
Under/(Over) Recovery	1,196
1st Qtr. FY 2022-23 (Feb. Mar. 23)	
Allowed Amount	8,476
Qtr. Rs./kWh	2.7646
Recovered	7,260
Under/(Over) Recovery	1,216
D.M FY 2021-22	
Allowed Amount	42,656
Rate. Rs./kWh	1.68
Recovered	39,014
Under/(Over) Recovery	- 683
PYA 2019-20	
Allowed Amount	- 2,142
Rate. Rs./kWh	- 0.10
Sales till Feb.11 2022	22,389
Recovered	- 2,165
Under/(Over) Recovery	23
Sales Mix Var.	
FY 2019-20	
FY 2020-21	- 261
FY 2021-22	2,644
	2,384
Excess LPS to be adjusted - FY 2020-21	
LPS Recovered from Consumers	4,765
Supplemental charges billed by CPPA	8,783
Net	4,019
Excess LPS to be adjusted - FY 2021-22	
LPS Recovered from Consumers	2,837
Supplemental charges billed by CPPA	12,929
Net	10,092
Adjustment in PYA	-
Other Costs - FY 2020-21 to FY 2022-23	
Pay & Allowance FY 2023 Adjustment	
Turn over/Min. Tax	18,640
P.M Assistance Package	842
Supplier NEPRA Fee- FY 2021-22	48
Supplier NEPRA Fee- FY 2022-23	72
Genco Pensioners FY 2022 & FY 2023	211
Total	19,813
Total	14,613

MYT True Ups	LESCO
FY 2020-21	
Depreciation	
Allowed	3,672
Actual	4,239
Under/(Over) Recovery	567
RoRB (Investment + KIBOR)	
Allowed	7,622
Actual	6,154
Under/(Over) Recovery	- 1,468
Other Income	
Allowed	- 10,572
Actual	- 7,451
Under/(Over) Recovery	3,121
FY 2021-22	
Depreciation	
Allowed	4,177
Actual	5,190
Under/(Over) Recovery	1,013
RoRB (Investment + KIBOR)	
Allowed	10,886
Actual	8,390
Under/(Over) Recovery	- 2,496
Other Income	
Allowed	- 10,572
Actual	- 8,564
Under/(Over) Recovery	2,008
Post Retirement Benefit - FY 2015-16 to FY 2022-23	
Allowed	102,203
Amount paid to pensioner	55,072
Amount transferred to fund	50,306
amount already adjusted	- 101
Net Adjustment	3,074
Net Adjustment	-
Total MYT Rue Ups	2,746
G. Total PYA FY 2021-22 & FY 2022-23	17,359

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28. <u>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?</u>

28.1. 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.

29. <u>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?</u>

29.1. 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;

<u>For Industries</u>

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.

29.2. The above changes are required to be reflected in the Tariff terms & conditions, in the instant tariff Decisions/determinations of DISCOs.

29.3. 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.

30. <u>Order</u>

30.1. 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]	25,518
Units Sold	[MkWh]	22,966
Units Lost	[MkWh]	2,552
Units Lost	[%]	10.00%
Energy Charge		
Capacity Charge		
Transmission Charge & Market Operation Fee		
Wire Business UoSC		
Power Purchase Price	[Mln. Rs.]	-
Pay & Allowances		20,796
Post Retirement Benefits		18,615
Repair & Maintainance		2,068
Traveling allowance		
Vehicle maintenance		4,398
Other expenses		
O&M Cost	[Mln. Rs.]	45,877
Depriciation		6,426
RORB		17,275
O.Income		(9,119)
Margin	[Mln. Rs.]	60,459

30.2. Here it is pertinent to mention that the Authority allowed Interim Tariff to LESCO vide decision dated 14.07.2023, whereby LESCO was allowed a revenue requirement of Rs.52,724 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.

30.3. As now, the Authority has determined the MYT of LESCO for the control period from FY 2023-24 to FY 2027-28, whereby a revenue requirement of Rs.60,459 million has been assessed for the Distribution Function of the Petitioner for the FY 2023-24. Accordingly, the differential amount of Rs.7,735 million, shall be allowed as part of PYA in the subsequent adjustment / indexation determination of the Petitioner for the FY 2024-25.

30.4. The Petitioner is directed to follow the following time lines for submission of its future indexation/adjustment during the MYT control period;

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		
Other Income		
Prior Year Adjustment	Annually as per the mechanism given in the decision	
KIBOR	Bi-Annually, as per the decision	
Return on Equity (ROE)	No adjustment allowed over Reference ROE	
Spread	As per the mechanism in the decision	

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

30.5. Lahore Electric Supply Company Limited (LESCO), 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	39.92%	31.90%	71.82%
Level of Losses	1.75%	6.10%	7.74%
UoSC Rs./kWh	1.18	1.10	2.37

30.6. 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.

30.7. To make its system available for operation by any other licensee, consistent with applicable instructions established by the system operator.

30.8. 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;

30.9. 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

30.10. 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.

30.11. 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.

31. <u>Summary of Direction</u>

31.1. 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 LESCO 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

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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

31.2. 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.

31.3. 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.

31.4. 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.

31.5. 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.

32. 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.

33. 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.7,735 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.

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34. 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

Mathar Niaz Rana (nsc)
Member

Rafique Ahmed Shaikh
Member

Engr. Maqsood Anwar Khan
Member

Amina Ahmed
Member

Waseem Mukhtar
Chairman

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14/03/24