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National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-559/MEPCO-2021/455-457
January 12, 2023

Subject: **Decision of the Authority in the matter of Motion for Leave for Review filed by Multan Electric Power Company Ltd. (MEPCO) against Determination of the Authority for its Distribution of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25** [CASE # NEPRA/TRF-559/MEPCO-2021]

Dear Sir,

Please find enclosed herewith subject Decision of the Authority (11 Pages) in the matter of Motion for Leave for Review filed by Multan Electric Power Company Ltd. (MEPCO) against Determination of the Authority for its Distribution of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 in Case No. NEPRA/TRF-559/MEPCO-2021.

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

Enclosure: As above

12/1/23

(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.

DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE FOR REVIEW FILED BY MULTAN ELECTRIC POWER COMPANY (MEPCO) AGAINST DETERMINATION OF THE AUTHORITY FOR ITS DISTRIBUTION OF POWER TARIFF UNDER MYT REGIME FOR THE FY 2020-21 TO FY 2024-25

1. Multan Electric Power Company Limited (MEPCO), hereinafter called "the Petitioner" being a distribution licensee of NEPRA filed Motion for Leave for Review, against determination of the Authority dated June 02, 2022 for its Distribution of Power Tariff under the Multi Year Tariff Regime for the FY 2020-21 to FY 2024-25.

2. The Petitioner has raised the following points in its review motion;
   i. T&D Losses
   ii. O&M Cost
   iii. Post Retirement Provision directly charged as "Other Comprehensive Income".
   iv. Return on CWIP and calculation of RAB

3. **Proceedings**

3.1. The Motion for Leave for Review was admitted by the Authority on July 14, 2022. In order to provide a fair opportunity to the Petitioner to present its case, the Authority decided to conduct a hearing in the matter which was scheduled on August 30, 2022 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner.

3.2. The hearing was held on August 30, 2022, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

4. **Transmission and Distribution Losses (T&D Losses)**

4.1. The Authority vide its determination dated 2-6-2022 has allowed following level of T&D Losses to MEPCO against requested T&D losses for MYT control period of five (05) years.

Description	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Requested	15.00 %	14.75 %	14.60 %	14.50 %	14.40 %
Allowed	13.12 %	12.79 %	12.34 %	11.83 %	11.34 %

4.2. The Petitioner in its Motion for Leave for Review has requested the Authority to revise the T&D losses targets as the allowed losses seems unjustified for MEPCO. The petitioner submitted that the population in MEPCO is quite scattered and mostly compromise of rural areas. Therefore, a huge number of villages are electrified in MEPCO jurisdiction every year. The newly electrified villages are normally remote from the existing Transmission & distribution system and comprise very small number of consumers mostly 50 to 100 consumers. It is obvious that these village electrifications cause increase in length of feeders and line losses as well. The petitioner also provided the following brief statistics of its transmission and distribution networks:

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Period	HT Lines (KM)	LT Lines (KM)	Transformers (Nos.)
Ending 06/2011	66,234.18	44,591.30	126,738
Ending 06/2020	78,308.62	50,110.12	179,577
%Age Inc/ Dec	18.23	12.38	41.69

4.3. The Petitioner has further stated that despite strenuous efforts of management the energy supplied to the consumers is not fully accounted. The component of energy that is not taken into account due to poor law & order situation:

i. Theft of energy due to direct hooking during night hours in far flung / inaccessible rural areas of D.G. Khan and RY.Khan on account of poor law & order situation and some urban congested areas having narrow streets.

ii. Political reasons and less efficient legal, judicial system & non-cooperation by local police in eradication of theft.

4.4. The petitioner also submitted that it is unable meet T&D losses targets due to worst Law & order situation, majority of feeders are feeding to rural areas, poor socio economic conditions of the people, non-cooperation of law enforcement agencies, massive theft & non-payment culture, resistance by defaulters in case of disconnection of supply, etc. Further, it has stated that it is trying its best to curtail T&D losses by increasing its surveillance through Stern disciplinary action initiated against Officers & Officials on account of non-achievement of Line Losses target, Replacement of LT Bare conductor with Aerial Bundle Cable, Constitution of Vigilance Committees comprising Manager (S&I), (M&T) and special Task Force to detect pilferage, Installation of Smart Energy Meters / AMR by giving priority to Govt. Connections, Services of Pakistan Rangers.

4.5. In addition to above, MEPCO has contested Para 70.2 of MEPCO MYT determination dated 2-6-2022 which states that the distribution loss study is pending. MEPCO has claimed that In compliance of the directions of NEPRA and for the benefit of the Company itself, MEPCO got conducted studies from well-known experts in the field i.e. MIS Power Planner International (PPI) keeping the base year FY 2017-18. The results of the "studies" conducted deliver a fair picture of state of affairs for MEPCO. According to the findings of studies, the losses are determined as below:

- Energy Lose in 11 KV Feeders = 6.67 %
- Energy Loss in distribution Transformers = 2.77 %
- Energy Loss in LT network = 3.13 %
- Energy Loss in service Cable = 0.13 %
- **Total Distribution Loss = 12.7 %**

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4.6. Based on aforementioned submission the Petitioner has requested to revise T&D losses targets as follows:

Description	%Age Loss FY 2020-21	%Age Loss FY 2021-22
Transmission Losses	1.57 %	1.50%
11 kV Losses	12.7%	12.7%
Energy Loss due to poor law & Order Situation	0.8%	0.8%
Total	**15.07 %**	**15.0%**

4.7. The Petitioner during the hearing in matter of MLR requested following T&D losses.

F. Year	2020-21	2021-22	2022-23	2023-24	2024-25
T&D Requested %	15.07	15.00	14.70	14.50	14.40

4.8. With regard to the MYT transmission loss targets, it is stated that the said claim is beyond the scope of instant review petition as MEPCO in its MYT petition requested following level of transmission losses which were allowed as well without any change by NEPRA:

Requested T&T Losses by MEPCO in its tariff petition (%)	1.37	1.40	1.34	1.30	1.30
Determined T&T Losses	1.37	1.40	1.34	1.30	1.30

4.9. Further, at this stage MEPCO cannot make any new claims as it is beyond the scope of review petition and MEPCO did not provide any rationale or any new evidence which entail revision in the transmission loss targets. Accordingly, the Authority has decided to maintains its earlier determined transmission losses and to not consider the MEPCOs request to revise transmission loss of 1.57% and 1.50% for FY 2020-21 and FY 2021-22 respectively.

4.10. As far as revision of 11 kV losses and below target is concerned, it is noted that the petitioner has submitted the distribution losses study conducted in FY 2017-18 by third party consultant i.e. M/s PPI and the updated study, which petitioner claimed in its DIIP which was to be completed in 2022 using synergee and GIS softwares, however, the same is still not submitted. The operative part of DIIP claiming the pending distribution loss study is reproduced below:

"The total T&D losses are provided at Annexure-2. However, the segregate of Technical and non-technical losses is not available. The evaluation of Transmission & Transformation (T&T) Losses by third party has been completed by M/s Power Planner International. The D loss study is in process with M/s Power Planner International and is in process and will be completed in 2022 using SynerGEE and GIS."

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4.11. Furthermore, it is also noted that MEPCO submitted the same basis and grounds for revision in its distribution losses (11 kV and below) which have already been considered by the Authority at the time of MYT determination in the matter of MEPCO dated: 02.06.2022. Therefore, the Authority decided not to revise the distribution loss targets (11 kV and below losses) and accordingly maintains earlier determined losses.

Description	FY 21	FY 22	FY 23	FY 24	FY 25
Distribution Losses as requested in Tariff Petition	13.63	13.35	13.25	13.20	13.10
Third Party Study of Distribution System FY 2017-18	12.7	12.7	12.7	12.7	12.7
Revised Losses claimed in MLR	12.7	12.7	12.7	12.7	12.7
T&D losses allowed in MYT determination	11.75	11.39	11.00	10.53	10.04

4.12. With regard to claim of MEPCO for allowing law and order margin of 0.8%, it is clarified that MEPCO in its MYT petition did not claim any law and order margin and through the instant MLR making fresh claims which is beyond the scope of the review petition. Therefore, the request of the Petitioner cannot be considered.

5. **Operation & Maintenance Expenses**

5.1. The Petitioner has submitted that the Authority in para 36.3 of MEPCO Distribution Business MYT determination dated 02.06.2022, provided that other expenses are part of O&M costs, which are to be assessed through CPI-X formulae for the Tariff Control Period and actual cost of FY 2019-20 is used as reference cost after incorporating inflationary increase of 9.49% over the same. The Authority allowed Rs. 3,932 (M) on account of other Expenses for FY 2020-21 which is Rs. 225 (M) less than the Authority's own criteria. The Petitioner in this regard submitted the following calculation;

AS PER MEPCO Rs. In Million

Description	2019-20
Travelling and conveyance	952
Electricity bills collection charges	453
Transportation	399
Advertising and publicity	24
Office supplies and other expenses	250

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Legal and professional	39
Auditors' remuneration	3
Power, light and water	112
Computer and outside services	608
Telephone and postage	55
Management fees (Excl. PEPCO Fee)	56
Rent, rates and taxes	25
Insurance	33
Other charges (Excl. Supplemental Charges))	132
Total	**3,142**
CPI-X @ 9.49%	298
Total After CPI	3,440
Less Allowed	**225**

5.2. In the light of above, the Petitioner requested to allow Rs. 225 million in "Other Expense" for the FY 2020-21.

5.3. The Authority observed that in the MYT determination of the Petitioner dated June 02, 2022, while assessing the O&M Expenses of the Petitioner, the matter was decided as under;

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 CPI-X formulae for the whole tariff control period. Accordingly, for the assessment pertaining to the FY 2020-21 (reference cost), the Authority has decided to accept the actual figures of the FY 2019-20 as such and allowed an inflationary increase of 9.49 % over the same and accordingly has assessed the other O&M expenses as Rs.3,215 million for both the distribution and Supply of Power Function.

.... 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."

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5.4. As mentioned above, the Authority while assessing the O&M expenses for the FY 2020-21, considered the actual expenses of the Petitioner for the FY 2019-20, after adjustment of PEPCO fee. As per the Audited account of the Petitioner for the FY 2019-20, an amount of Rs.210 million out of O&M expenses was capitalized, which was accordingly deducted while setting up the reference of the Petitioner for the FY 2020-21. The Petitioner, however, while claiming the difference of Rs.225 million in its MLR has ignored this fact. Thus, the claim of the Petitioner that less amount of O&M of Rs.225 million has been allowed is not justified.

5.5. Accordingly, the Authority has decided not to accept the request of the Petitioner to allow any revision in the already allowed amount of O&M expenses.

6. **Post-Retirement Benefits charged to other comprehensive income**

6.1 The Petitioner on the issue submitted that it provides Pension, Free Electricity and Free Medical Facility for all its employees. Further, the employees are also entitled for accumulated compensated absences which are en-cashed at the time of retirement up-to maximum limit of 365 days. The Company's obligations under these schemes are determined annually by a qualified actuary using projected unit Credit Actuarial Cost Method. Latest actuarial valuations have been carried on 30 June 2021. The Company's net obligation in respect of defined benefits plans is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Past service cost is recognized immediately in the statement of profit or loss.

6.2 The Petitioner further submitted that re-measurement of the net defined benefit liability (except for compensated absences), which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefits payments. Net interest expense and other expenses related to defined benefit plan is recognized in profit or loss. Re-measurement related to the compensated absences is recognized in the year of occurrence in the statement of profit or loss.

6.3 The Petitioner also submitted that in the light of Actuarial Valuation carried out on 30th June, 2021, it charged Rs. 5,363 (M) for the FY 2020-21 to Other Comprehensive Income. The same was audited by Auditors i.e. Riaz Ahmed & Company – Chartered Accountants. Therefore, the Petitioner has now requested to allow the mount of Rs.5,363 million, charged to the Other Comprehensive Income, for the FY 2020-21.

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6.4 The Authority observed that in the MYT determination of the Petitioner dated June 02, 2022, while assessing the Post-Retirement Benefit of the Petitioner, the matter was decided as under;

"…. the Authority has decided to allow provision for Post-retirement benefit for the first year of the MYT control period as per the amount requested by the Petitioner i.e. Rs.8,877 million for the FY 2020-21. However, 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

6.5 As mentioned above, the Authority has allowed the post-retirement benefits for the FY 2020-21, as per the request of the Petitioner, thus, the current request of the Petitioner to allow the additional amount of Rs.5,363 million does not come under purview of Review motion. The Authority also decided that going forward keeping in view the pension obligation of the Petitioner, amount deposited in the Fund and quantum of future tariff increases, it may allow some additional amounts in this regard for depositing in the fund, in order to protect the financial liabilities of the Pensioners. Accordingly, for the purpose of instant MLR the Authority has decided not to accept the request of the Petitioner to allow any additional amount under the head of Post-Retirement Benefits of the Petitioner for the FY 2020-21.

7. **Return on Capital work and calculation of RAB**

7.1 The Petitioner submitted that NEPRA allowed RORB of Rs.3,970 (M) for FY 2020-21 to MEPCO after adjusting Capital Work in Progress (CWIP) from RAB and allowing return on 30% of CWIP separately to arrive at Rs. 3,970 (M) as RORB. However, previously, the Authority has allowed RORB after including 100% CWIP in RAB. Consequently, the Authority has less allowed Rs. 141 (M) during FY 2020-21.

7.2 Further, the Petitioner submitted that the Authority while deducting Deferred Credit amount from the RAB, also deducted Receipts against Deposit works and Increase in Security Deposits which are not part of Deferred Credits. The adjustment limited to the extent of actual amount of Deferred Credits in Audited Accounts for the FY 2020-21, while calculating RORB has an impact of Rs.588 million.

7.3 The Petitioner also provided the following calculations as per its Audited Accounts for the FY 2020-21 are as under;

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Description	2019-20	2020-21		
	NEPRA Determined	NEPRA Determined	MEPCO Request	
			Incl. CWIP	WIP & Def. Credit Issue
Fixed Assets-Opening Balance	144,295	154,065	154,065	154,065
Addition in Assets	13,868	9,205	9,205	9,205
Fixed Assets-Closing Balance	158,163	163,270	163,270	163,270
Accumulated Depreciation	51,459	56,868	56,868	56,868
Net Fixed Assets	106,704	106,401	106,401	106,401
Capital WIP-Closing Balance	11,032	-	14,205	14,205
Fixed Assets Incl. WIP	117,736	106,401	120,606	120,606
Less Deferred Credits	69,990	73,658	73,658	62,620
Total	47,746	32,743	46,948	57,986
RAB	44,020	31,456	38,558	44,077
WACC %	15.02%	10.66%	10.66%	10.66%
RORB	6,610	3,354	4,111	4,699
Capital WIP-Closing Balance		14,205	-	-
Equity Portion of CWIP 30%		4,261	-	-
ROE on CWIP		617	-	-
TOTAL RORB	**6,610**	**3,970**	**4,111**	**4,699**

7.4 The Petitioner further submitted that in view of above calculations, it is requested to allow RORB of Rs.4,699 million, (Total increase Rs.729 (M) comprising Rs.121 (M) for inclusion of CWIP in RAB & Rs. 588 (M) on account of adjustment of Deferred Credits to the actual amount as provided in the MEPCO Audited Accounts for the FY 2020-21.

7.5 The Petitioner during the hearing provided following workings for consideration of the Authority;

Description	2019-20	2020-21 (Rs. In Million)		
	NEPRA Determined	NEPRA Determined	MEPCO Request	
			FY 2019-20	FY 2020-21
Fixed Assets-Opening Balance	144,295	154,065	144,295	154,065
Addition in Assets	13,868	9,205	9,770	9,087
Fixed Assets-Closing Balance	158,163	163,270	154,065	163,152
Accumulated Depreciation	51,459	56,868	51,433	56,899
Net Fixed Assets	106,704	106,401	102,632	106,253
Capital WIP-Cl. Bal. (Excl. CF)	11,032	-	8,279	9,091
Fixed Assets Incl. WIP	117,736	106,401	110,911	115,345
Less Deferred Credits	69,990	73,658	59,724	62,620
Total	47,746	32,743	51,187	52,725
RAB	44,020	31,456		51,956
WACC %	15.02%	10.66%		10,60%
RORB	6,610	3,354		5,539
Capital WIP-Closing Balance		14,205		
Equity Portion of CWIP 30%		4,261		
ROE on CWIP		617		
TOTAL RORB	6,610	3,970		5,539

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7.6 The Petitioner also submitted that assumption of insufficiency of cash against "Consumer Security Deposit" is not based on facts because MEPCO has sufficient cash against its Liability of "Consumer Security Deposits". Secondly, the Authority has not excluded CWIP (Consumer Finance) from "Receipt against Deposit Works" although this amount also relates to consumer receipts. It further stated that such deduction of "Consumer Security Deposits" and "Receipt against Deposit Works" is not covered in the light of Consumer End Tariff Methodology and Guidelines, 2015, which does not provide any such deduction for the assessment of RAB.

7.7 On the point of inclusion of deferred credit amounts while calculating RAB, the Authority in the MYT determination of MEPCO decided that;

"The Authority from the annual accounts of the Petitioner for the FY 2019-20, has again observed that the Petitioner as per its audited accounts has insufficient cash balance as on 30th June 2020, 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.

Accordingly, the Authority has decided, to include the amount of' receipts against deposit works as a part of Deferred Credits for the assessment of RAB for the FY 2020-21, after excluding therefrom the cash/bank balances and the amount of stores & Spares available with the Petitioner as on June 30, 2020".

7.8 Thus, rationale for inclusion of shortfall of security deposits and receipts against deposit works as part of deferred credit has already been deliberated and explained in detail in the determination, therefore, need not to be discussed again.

7.9 On the point of Petitioner that it has sufficient cash against its liability of "Consumer Security Deposits", the Authority has already provided mechanism for annual adjustment of RAB in the MYT determination as reproduced hereunder;

"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....

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".

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7.10 Thus, RAB of the Petitioner would be trued up as per the prescribed mechanism in the next adjustment/ indexation request of the Petitioner for the FY 2023-24 keeping in view the Audited account for the relevant years.

7.11 On the point of not allowing WACC on 100% balance of CWIP, the Authority has deliberated in detail the rationale / justification for allowing RoE up-to 30% of the CWIP balance in the Petitioner's decision dated 02.06.2022.

7.12 The main reason behind allowing RoE on 30% of CWIP balance was to avoid duplication of cost to the consumers. The Authority noted that CWIP includes Interest during Construction (IDC), which is capitalized and becomes part of total fixed assets at the time of transfer of CWIP to fixed assets. Therefore, WACC if allowed on 100% CWIP, would mean IDC, is being paid by the consumers and upon transfer of CWIP to fixed asset (including IDC), allowing Return and Depreciation on the total amount of fixed asset would mean duplication of cost.

7.13 DISCOs in their submissions and during the hearings have pleaded that amount of IDC is relatively very small as compared to what the Authority has assumed by deducting 70% amount of CWIP, as the actual gearing ratio of DISCOs is much different from the allowed capital structure. DISCOs also submitted that the amount of actual IDC would be disclosed separately in the financial statements either under the note to the fixed asset or as a separate item. Therefore, the Authority may deduct the amount of IDC from RAB, while allowing RoRB and depreciation on RAB.

7.14 As explained earlier, the main objective of allowing ROE on 30% of CWIP, was to avoid duplication of costs. Since DISCOs have submitted to separately disclose the amount of IDC in their accounts, therefore, the Authority, keeping in view the submissions of DISCOs, has decided to consider the request of the Petitioner to allow WACC on the total amount of CWIP, after excluding therefrom the amount of IDC, disclosed in the Financial Statements. Thus, would address the issue of duplication of cost. Here it must be noted that by deducting the amount of IDC, as disclosed in the financial statements, shall in no way be construed as acceptance of actual debt:equity structure of the Petitioner, instead of the one allowed by the Authority.

7.15 It is also important to highlight that allowing RoE on 30% amount of CWIP instead of its total amount, provides an inbuilt incentive to DISCOs to go for early/ timely completion of their assets. Therefore, decision of the Authority to allow WACC on total amount of CWIP shall not result in delay in transfer of CWIP to fixed assets. The DISCOs shall ensure for completion of assets in a timely manner.

7.16 The above decision of the Authority to allow WACC on 100% of CWIP would result in revision in the allowed RoRB of the Petitioner for the FY 2020-21. The same would now be used as reference for adjustment/ indexation of the RoRB component for the future years including FY 2021-22 and FY 2022-23, as per the indexation/ adjustment

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mechanism prescribed in the MYT determination. The year wise total impact of the revised RoRB is as under;

Rs. Mln

Description	FY-21	FY-22	FY-23	Total
Already Allowed RORB	3,970	4,542	5,198	13,709
Revised RORB -DOP	**4,868**	**5,658**	**6,466**	**16,992**

8. In view of the above discussion the Petitioner is hereby allowed above mentioned year wise revised amount of RORB, and the same would be made part of PYA in the petitioner's next indexation/ adjustment request for the FY 2023-24, to be filed in February 2023.

9. The decision of the Authority is intimated to the Federal Government for notification in the official gazette under Section 31(7) of the NEPRA Act.

AUTHORITY

Mathar Niaz Rana (nsc)
Member

Rafique Ahmed Shaikh
Member

Engr. Maqsood Anwar Khan
Member

Tauseef H. Farooqi
Chairman

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12/01/23