



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-564/PESCO-2021/1080-1082  
January 23, 2023

**Subject: Decision of the Authority in the matter of Motion for Leave for Review filed by Peshawar Electric Supply Company Ltd. (PESCO) 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-564/PESCO-2021]**

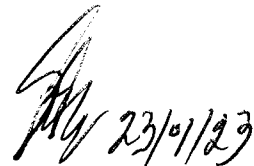
Dear Sir,

Please find enclosed herewith subject Decision of the Authority (33 Pages) in the matter of Motion for Leave for Review filed by Peshawar Electric Supply Company Ltd. (PESCO) 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-564/PESCO-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

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( 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 PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO) AGAINST DETERMINATION OF THE AUTHORITY FOR ITS DISTRIBUTION OF POWER TARIFF UNDER MYT REGIME FOR THE FY 2020-21 TO FY 2024-25**

1. Peshawar Electric Supply Company Limited (PESCO) hereinafter called "the Petitioner" being a distribution licensee of NEPRA filed Motion for Leave for Review vide letter dated June 13, 2022, against determination of the Authority dated June 02, 2022 for its Distribution of Power Tariff for the FY 2020-21 to FY 2024-25.
2. The Petitioner has raised the following points in its review motion;
  - i. Transmission and Distribution Losses for the control period.
  - ii. RORB & Calculation of Deferred Credits.
  - iii. Weighted Average Cost of Capital (WACC)
  - iv. Turnover Tax
  - v. Inadmissible Input tax
  - vi. Distribution Margin
  - vii. CPPA Overhead Charges
  - viii. Supplemental Charges.

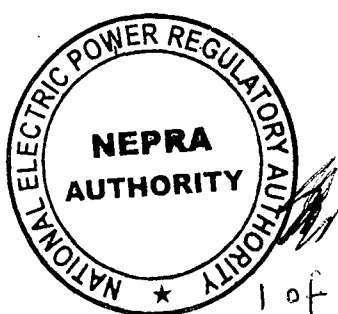
**Proceedings**

3. The Motion for Leave for Review was admitted by the Authority. 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 September 01, 2022 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner. However, upon request of the Petitioner, the hearing was reschedule for September 14, 2022.
4. The hearing was held on September 14, 2022, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team. Point wise discussion on the issues raised by the Petitioner is as under.

**TRANSMISSION AND DISTRIBUTION LOSSES:**

5. The Authority vide its determination dated 2-6-2022 has allowed following level of T&D Losses to PESCO 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	37.85 %	36.83 %	35.78 %	34.72 %	33.64 %
Allowed	21.33 %	20.73 %	20.16 %	19.71 %	19.26 %



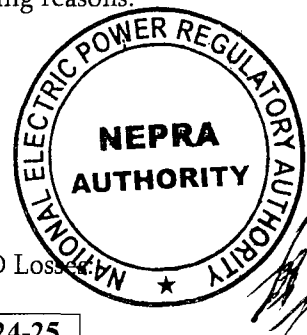
11/2/2022

6. PESCO in its instant review petition for tariff control period from FY 2020-21 to FY 2024-25 has requested to revise the starting point in respect of transmission losses, 11 kV losses and L.T losses by taking the stance that NEPRA has assumed PESCO's request against Transmission Losses and LT Losses as 3.00% and 4.00% respectively and on the basis of said assumption allowed the same level of losses as mentioned above to PESCO at the time of determination for FY 2018-19 and FY 2019-20. However, the fact remained that PESCO requested Transmission Losses of 3.49% and LT Losses of 4.39% in its Tariff Petition for FY 2018-19 & FY 2019-20 and accordingly the losses allowed were on lower side, which needs to be rectified / reconsidered.
7. In addition to above, petitioner has stated that the actual assessment of 11 kV losses are based on third party (PPI) result is 12.99% however NEPRA has assumed third party loss of 12.93%. PESCO provided the following details of mismatch between NEPRA assumptions and requested values of transmission losses, L.T losses and third-party assessment of 11 kV losses is summarized below:

Description	Third Party Study	Tariff Petition 2018-19 & FY 2019-20	NEPRA Assumed Figure of Tariff Petition / 3rd Party Study	NEPRA Determination
Transmission Losses (132 KV) (%)	3.64%	3.49%	3.00%	3.00%
11 KV Network Losses (%)	12.99%	13.61%	12.93%	12.93%
LT Line Losses (%)	4.31%	4.39%	4.00%	4.00%
Total Technical Loss (%)	20.95%	21.49%	19.93%	19.93%

8. Moreover, PESCO also requested to revise the law and order margin due to following reasons:

- Socio-Economic and culture issues
- Fata Boundaries
- Over all Law & Order Position.
- Consumer Mix



9. PESCO in its MLR and in the hearing of MLR requested following revision in T&D Losses

Description		2020-21	2021-22	2022-23	2023-24	2024-25
NEPRA Determined Losses	Total Determined	21.33%	20.73%	20.16%	19.71%	19.26%
	Technical Losses	19.93%	19.43%	18.96%	18.61%	18.26%
	Administrative Losses	1.40%	1.30%	1.20%	1.10%	1.00%
PROPOSED T&D Losses by PESCO in instant MLR	PESCO Requested	32.2%	31.2%	30.1%	29.1%	28.0%
	Technical Losses	22.2%	22.0%	21.8%	21.6%	21.4%
	Administrative Losses	10.0%	9.2%	8.3%	7.5%	6.6%
	OR					
	3 <sup>rd</sup> Party Study	31.0%	29.9%	28.9%	27.8%	26.7%
	Technical Losses	21.0%	20.8%	20.6%	20.4%	20.2%
	Administrative Losses	10.0%	9.2%	8.3%	7.5%	6.6%

10. With respect to plea of the PESCO, to revise the base line of Technical Losses, determined for the FY 2018-19 & FY 2019-20, the Authority noted that revision of technical losses for the said

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period is beyond the scope of instant MLR as the said period has already lapsed for which a separate tariff was determined, which was subsequently notified by the Federal Government. The same is not part of the instant MYT control period of PESCO, hence the request of the Petitioner is declined. Even otherwise, the claim of PESCO that NEPRA assumed 3% and 4% Transmission and L.T Losses instead of requested losses of 3.49% and 4.39% respectively for the FY 2018-19 is unfounded from the submitted tariff petition of PESCO for 2018-19 and 2019-20. It is further clarified that form 7 submitted by PESCO along with its tariff petition for 2018-19 is given below which clearly shows that the requested numbers of Transmission losses were 3% and L.T losses were 4%:

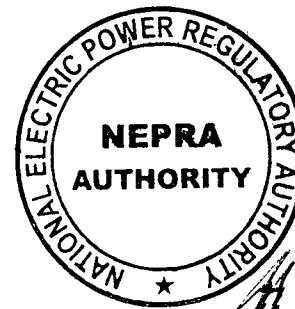
FORM - 7  
Distribution Company

Distribution Company  
Line Losses (Base Year) 2017-18

	Month 1 Actual	Month 2 Actual	Month 3 Actual	Month 4 Actual	Month 5 Actual	Month 6 Actual	Month 7 Actual	Month 8 Actual	Month 9 Actual	Month 10 Actual	Month 11 Actual	Month 12 Actual	Total Projected
<b>Power Statistics</b>													
Units Received	(MVA)	2362.2	2356.3	2321.8	2277.6	2336.5	2259.9	2241.0	2443.3	2472.2	2291.0	2496.5	14226.3
Units Sold	(MVA)	636.6	634.7	632.0	628.7	628.2	624.2	622.0	662.6	670.7	626.4	746.1	8786.4
Units Lost	(MVA)	1725.7	1721.6	1689.8	1648.9	1708.3	1635.7	1619.0	780.7	801.5	1664.6	1750.4	5439.9
Technical Losses	(MVA)	1894	1878	1843	1803	1850	1776	1760	322.7	316.4	488.2	577.1	660.4
Administrative Losses	(MVA)	244	254	246	245	258	159	159	385	386	176	454	444
Total Technical Losses	(MVA)	2138	2132	2089	2048	2108	1935	1919	708.4	702.8	664.8	1031.5	1104.8
<b>Technical Losses at Different Levels</b>													
Transmission Losses 132 kV	(MVA)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.4%	0.4%	0.3%	0.4%	0.3%
11 kV Losses	(MVA)	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
LT Losses	(MVA)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total Technical Losses	(MVA)	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.3%	2.3%	2.2%	2.3%	2.2%
<b>Line Losses (Base Year) 2018-19</b>													
	Month 1 Actual	Month 2 Actual	Month 3 Actual	Month 4 Actual	Month 5 Actual	Month 6 Actual	Month 7 Actual	Month 8 Actual	Month 9 Actual	Month 10 Actual	Month 11 Actual	Month 12 Actual	Total Projected
<b>Power Statistics</b>													
Units Received	(MVA)	1536.0	1563.7	1500.9	1500.4	1468.3	1578.7	1540.1	1571.3	1615.1	1578.3	1461.0	14427.3
Units Sold	(MVA)	450.4	451.3	450.4	450.4	449.1	457.1	449.3	450.3	453.8	446.0	421.5	4427.3
Units Lost	(MVA)	1085.6	1112.4	1050.5	1050.0	1019.2	1121.6	1090.8	1121.0	1161.3	1132.3	1039.5	10000.0
Technical Losses	(MVA)	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
Administrative Losses	(MVA)	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Total Technical Losses	(MVA)	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
<b>Technical Losses at Different Levels</b>													
Transmission Losses 132 kV	(MVA)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
11 kV Losses	(MVA)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
LT Losses	(MVA)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total Technical Losses	(MVA)	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%

FORM - 7 (A)  
Distribution Company  
Line Losses \* (Projected) 2019-20

	Month 1 Actual	Month 2 Actual	Month 3 Actual	Month 4 Actual	Month 5 Actual	Month 6 Actual	Month 7 Actual	Month 8 Actual	Month 9 Actual	Month 10 Actual	Month 11 Actual	Month 12 Actual	Total Projected
<b>Power Statistics</b>													
Units Received	(MVA)	1536.0	1563.7	1500.9	1500.4	1468.3	1578.7	1540.1	1571.3	1615.1	1578.3	1461.0	14427.3
Units Sold	(MVA)	450.4	451.3	450.4	450.4	449.1	457.1	449.3	450.3	453.8	446.0	421.5	4427.3
Units Lost	(MVA)	1085.6	1112.4	1050.5	1050.0	1019.2	1121.6	1090.8	1121.0	1161.3	1132.3	1039.5	10000.0
Technical Losses	(MVA)	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
Administrative Losses	(MVA)	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Total Technical Losses	(MVA)	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
<b>Technical Losses at Different Levels</b>													
Transmission Losses 132 kV	(MVA)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
11 kV Losses	(MVA)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
LT Losses	(MVA)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total Technical Losses	(MVA)	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%



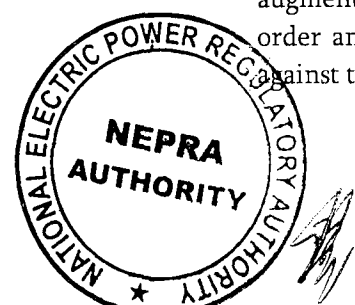
11. It is noted that most of the issues raised by PESCO vide its instant MLR to revise the Law & Order Margin are governance/administration related such as Kunda connections, damage of ABC cables by stealers for hook connection, non-cooperation of law enforcement agencies, massive theft & non-payment culture, resistance by defaulters in case of disconnection of supply and majority of feeders feeding to rural areas doesn't classify as Law & Order issues. Moreover, the Authority, while giving the Law & Order margin of 1.4% and gradually decreasing it to 0.1% each preceding year has already considered these factors and decided not to pass on the inefficiencies of PESCO to consumers.
12. It is also noted that PESCO has failed to provide any rationale or additional evidence along with its MLR and reiterated the same grounds which has already been considered by the Authority at the time of determination of PESCO's MYT for a control period of 5 years. Therefore, the Authority has decided to maintain its earlier determined target of T&D losses and not to consider the request of the Petitioner.

#### Calculation of RORB and Deferred Credits

13. The Petitioner has submitted that the Authority at para 46.12 of the MYT determination dated 02.06.2022 stated that PESCO Financial statement for the FY 2019-20 shows insufficient balances as on 30th June, 2020 against their 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.

14. In this context, it is once again apprised that PESCO has already provided the details during Review Motion of FY 2018-19 & FY 2019-20 and it was categorically mentioned that the apprehension of utilization of receipt against deposit work is not based on facts and needs to be reconsidered. The deduction of legitimate Revenue under the head of RORB, is unjustified and is not covered under any rules. Moreover, it is also a fact that the Cash Balance under Deposit head has no correlation with Revenue Requirement and the DM. Such decision based on the incorrect assumptions is creating financial hardships for PESCO, although the detail calculations along with documentary evidence was provided, however still PESCO submissions were ignored and has not been considered and the same para is again reproduced as was done in previous determinations rather than including the facts that have been provided along with documentary evidence.
15. It was categorically contested that the comparison of Receipt against Deposit works with only Cash Balance under deposit head is not correct, rather NEPRA should consider the balance under the head of Deposit Work in Progress, Bank Balance of Consumers Contribution as well as the stock in operation by considering the fact that the deposited amount is meant for execution of works and accordingly utilized for procurement of material and then converted into work in progress and then it is subsequently capitalized. It is the life cycle of the works that from cash (Receipt against Deposit Work) it is converted into Stock to WIP- Material to WIP-Labor to WIP-Overhead to Asset Head. The assumption used for calculation is incorrect, hence the argument in this regard needs to be reconsidered and PESCO should not be penalized.
16. Regarding, Security Deposit balance, it was explained that PESCO inherited the shortfall on its inception in 1998 from WAPDA together with the amount being recovered by FBR from this head from time to time. However, PESCO despite of its weak Financial Position is making all out efforts to recoup the shortfall gradually, which is now only Rs.308 million as on 31.05.2022, excluding the inherited shortfall from WAPDA in 1998 amounting Rs.354 million.
17. Moreover, as explained above, PESCO is utilizing the said Receipts against Deposit Works for the purpose for which these were received; however, there is a misconception that needs to be addressed by NEPRA instead of deducting the amount from RORB every year. PESCO has severe reservations on the treatment of Deferred Credit in RORB calculations. As explained, in previous year tariff petition i.e. of FY 2015-16, the shortfall under deposit head was only around Rs.900 Million (approx.) and that was because of the fact that FBR has recovered the amount from deposit heads from time to time, however in any case it has not affected the planned works and the material was made available as per requirement.
18. PESCO like all the DISCOs maintains inventory records as per Inventory Recording Procedure approved by the competent Authority and the records are maintained based on the single entry cards i.e. any inventory received by the store keeper is recorded irrespective of the source of financing. Since the works conducted under various scheme such as DOP, ELR, STG, augmentation etc. are carried out throughout the year. The stock is released against each work order and the Authority's apprehension that the funds have been utilized somewhere else is against the factual position and no clarification was sought from PESCO before incorporating the

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same in the PESCO Tariff Determination for FY 2018-19 & FY 2019-20 despite of the fact that the soft and hard copy of the audited accounts for FY 2018-19, FY 2019-20 and FY 2020-21 along with detailed Audited trial balance containing all the required figures was provided. Moreover, the head wise working was also shared regarding the Receipts against Deposit Works, bank balance, work in progress, stock account etc.

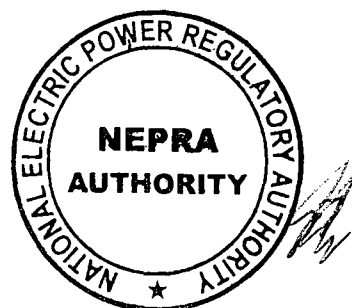
19. The Petitioner further stated that NEPRA has again deducted additional amount of Rs.6,368 million for FY 2020-21 from the asset base of PESCO without considering the available balances under the head of Deposit Work in Progress, Bank Balance and the stock in operation. Similarly, NEPRA has deducted additional amount of Rs.13,952 million for FY 2018-19 and Rs.12,838 million for the FY 2019-20 from the asset base of PESCO compared to the actual audited amount of Rs.324 million as calculated by PESCO. The said figure of Rs.324 million is calculated by PESCO for the sake of comparison only and it has no relation with the PESCO's stance that the said treatment is not legally acceptable and deduction of RORB that is legitimate revenue is not covered under the rules.

20. The detailed analysis is presented in the below table:

Deferred Credit								Rs. In Mln
Description	2015-16	2016-17	2017-18	FY 2015-18	2018-19	2019-20	FY 2018-20	FY 2020-21
Nepa	32,742	31,835	35,057		45,443	45,613		41,420
Actual Audited	21,567	26,190	29,868		31,491	32,775		35,052
<b>a. Difference Nepa</b>	<b>11,175</b>	<b>5,645</b>	<b>5,189</b>	<b>22,009</b>	<b>13,952</b>	<b>12,838</b>	<b>26,790</b>	<b>6,368</b>
<b>Pesco Working</b>								
Receipt against Deposit Work	11,175	12,854	13,766		13,456	17,341		22,440
Capital Contribution (awaiting connections)	510	175	480		728	786		700
<b>Sub-Total</b>	<b>11,684</b>	<b>13,028</b>	<b>14,246</b>		<b>14,183</b>	<b>18,128</b>		<b>23,140</b>
Deposit WIP	4,256	5,904	6,426		7,130	7,586		9,799
Stock Account	6,239	3,519	3,186		4,497	4,195		4,297
Bank Balance	287	2,747	3,647		2,233	6,347		9,044
<b>Sub-Total</b>	<b>10,782</b>	<b>12,169</b>	<b>13,260</b>		<b>13,860</b>	<b>18,128</b>		<b>23,140</b>
<b>b. Difference Pesco</b>	<b>902</b>	<b>859</b>	<b>986</b>	<b>2,748</b>	<b>324</b>	<b>-</b>	<b>324</b>	<b>-</b>

21. PESCO further stated that the above calculations show that the Authority used the amount of deferred credits Rs.41,420 million for FY 2020-21 while calculating the regulatory assets base of PESCO, whereas the actual amount of deferred credits that is required to be considered is Rs.35,052 million for the FY 2020-21. The financial impact of the excess deduction made by the Authority considering the WACC used in determination i.e.10.66% is Rs.679 million for the FY 2020-21 that should be allowed to PESCO.
22. The above said financial impact of the excess deduction is calculated on the basis of WACC as determined by NEPRA and is for the sake of comparison only and it has no relation with the PESCO's stance that the WACC should be determined on consistent assumptions and should consider the cost of Debt on the basis of available loans on PESCO's balance sheet. The detailed analysis is presented in the table below:

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### Financial Impact on RORB

Description	2015-16	2016-17	2017-18	FY 2015-18	2018-19	2019-20	FY 2018-20	2020-21
<b>Financial Impact of Deferred Credit deduction as per Nepra Calculations:</b>								
Cash Shortfall as per Nepra Calculations	11,175	5,645	5,189		13,952	12,838		6,368
WACC as per Nepra Determinations	11.83%	11.83%	11.83%		10.95%	15.02%		10.66%
Financial Impact of RORB deduction	1,322	668	614	2,604	1,528	1,928	3,456	679

### Financial Impact of Deferred Credit deduction as per Pesco Calculations:

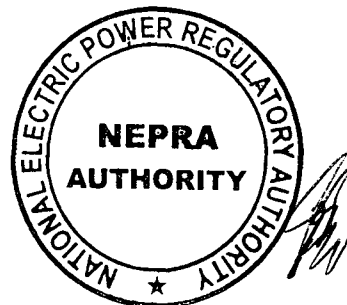
Cash Shortfall as per Pesco Calculations	902	858	986		324	0		-
Movement in Cash Shortfall	902	- 44	128		(663)	(323)		-
WACC as per Nepa Determinations	11.83%	11.83%	11.83%		10.95%	15.02%		10.66%
Financial Impact of RORB deduction (for calculation purpose only)	107	- 5	15	117	- 73	- 49	-	-

### Excess Deductions

Nepa - Financial Impact of RORB deduction	1,322	668	614	2,604	1,528	1,928	3,456	679
Pesco - Financial Impact of RORB deduction (for calculation purpose only)	107	- 5	15	117	- 73	- 49	-	-
Excess Deductions to be Allowed (RORB)	1,322	668	614	2,604	1,528	1,928	3,456	679

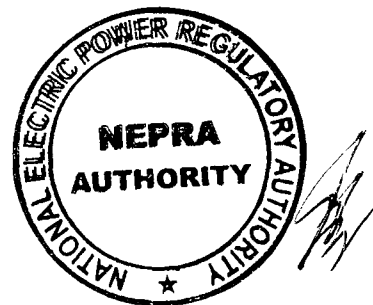
23. The above calculations show that the Authority has deducted the RORB amount of Rs.679 million for the FY 2020-21, whereas the actual amount to be deducted is Zero. The Authority is repeatedly including the cash shortfall of FY 2015-16 in all the subsequent years and similarly for next years and so on, which means that PESCO has been penalized for the same amount in every year from FY 2015-16 to FY 2020-21, which is unfair and unjustified. Instead of considering the movement in the said head, the Authority has repeatedly used the closing balances, which need to be reconsidered.
24. The Petitioner submitted that it is not utilizing the consumer receipts for any other purpose and the above table verifies the said fact. Further, since FY 2015-16, PESCO has managed to reduce the shortfall under Deposit head (whether inherited or recovered by FBR) to Zero, hence the deduction of RORB has no legal grounds and needs to be allowed to PESCO.
25. Moreover, considering the principle of deduction of PEPCO fee of previous years in the instant Tariff Determinations, PESCO hereby claims the excess deducted RORB of Rs.2,604, Rs.3,456 Million and Rs.679 million for the years 2015-18, 2018-20 and 2020-21 on the same principle and requests the Authority to allow the same to PESCO as the said deduction is unjustified.
26. Keeping in view the above facts, the Authority is requested to review the calculation of deferred credits and allow the deducted amount of RORB of Rs.679 million (total RORB; Rs.4,946 million) as part of Distribution Margin for FY 2020-21 and Rs.3,456 million for FY 2018-19 & FY 2019-20 and Rs.2,604 million for the previous year's 2015-18 may be allowed as Prior Year Adjustment.
27. The Petitioner also stated that revised calculation of RORB by considering the basis used during Tariff Determination of PESCO for the FY 2018-20 and considering 100% WIP as part of Asset Base is as under:

2- *Atali* *AK*



**RORB Calculation:**

Description		Review	Review	Review	Review
		2019-20	2020-21	2021-22	2022-23
<b>Gross Fixed Assets in Operation - Opening Bal</b>	[Min Rs]	83,299	87,395	94,444	107,642
Addition in Fixed Assets	[Min Rs]	4,096	7,049	8,233	10,986
<b>Gross Fixed Assets in Operation - Closing Bal</b>	[Min Rs]	<b>87,395</b>	<b>94,444</b>	<b>102,677</b>	<b>118,628</b>
Less : Accumulated Depreciation	[Min Rs]	32,191	35,431	38,974	42,872
<b>Net Fixed Assets in Operation</b>	[Min Rs]	<b>55,204</b>	<b>59,013</b>	<b>63,703</b>	<b>75,757</b>
Add : Capital Work In Progress - Closing Bal	[Min Rs]	19,756	26,649	34,882	45,868
Deposit WIP		(7,589)	(9,799)	(10,289)	(10,803)
<b>Investment in Fixed Assets</b>	[Min Rs]	<b>67,371</b>	<b>75,863</b>	<b>88,296</b>	<b>110,821</b>
Less : Deferred Credits	[Min Rs]	32,776	35,052	38,557	42,413
<b>Regulatory Assets Base</b>	[Min Rs]	<b>34,595</b>	<b>40,811</b>	<b>49,739</b>	<b>68,409</b>
<b>Average Regulatory Assets Base</b>	[Min Rs]	<b>37,605</b>	<b>37,703</b>	<b>45,275</b>	<b>59,074</b>
Rate of Return	[%age]	10.66%	10.66%	10.66%	10.66%
<b>Return on Rate Base</b>	[Min Rs]	<b>4,009</b>	<b>4,019</b>	<b>4,826</b>	<b>6,297</b>



28. In view thereof, the Petitioner requested the Authority to review the calculation of 30% Work in Progress used for inclusion in the Asset Base and accordingly revise the calculation as per above details.
29. The Authority in the determination of PESCO distribution & Supply of power tariff for the FY 2020-21 to FY 2024-25, and earlier determinations has comprehensively addressed the issues raised by the Petitioner. The Authority in the MYT determination of the Petitioner dated 02.06.2022 again discussed and decided this issue in detail as under;

*".....Similarly for the FY 2018-19, the Authority has again observed that the Petitioner had insufficient cash balance as on 30<sup>th</sup> June 2019, against its pending liability of receipt against deposit works and consumer security deposits .....*

*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 FY 2018-19 and FY 2019-20, after excluding therefrom the cash/ bank balances and the amount of stores & Spares available with the Petitioner as on June 30, 2019."*

*Now the Petitioner regarding insufficient cash balances against the receipt against deposit works security deposits has explained, that the Authority while working cash shortfall against the pending liabilities has not accounted for Short Term investment of Rs.2,521 million, which was made through security deposits receipt from the consumers for the FY 2018-19. The Petitioner also explained that while working out insufficient cash balance against the Petitioner's pending liability of receipt against deposit works and consumer security deposits Cash & Bank Balance only to the extent of deposit accounts has been accounted for, however the current account balance also includes Rs.205 million on account of Meter Security account and Rs.611 million on account of Capital Contribution. The Authority observed that while calculating RoRB, average RAB is considered i.e. RAB of the Year for which RORB is being determined plus RAB of the last year and dividing it by two. Therefore, for calculation of RoRB for the FY 2018-19, the RAB of FY 2017-18 has also been adjusted based on the submissions of the Petitioner. Similarly for the FY 2019-20, the amount on account of Meter Security account and Capital Contribution is Rs.2,969 million and Rs.2,554 million respectively has been considered.*

*2* *Mohd. A. WA*



*Keeping in view the explanation of the Petitioner and provision of Audited accounts for the FY 2019-20, the Authority has decided to include this amount as part of cash and bank balance of the Petitioner, while working out the cash balance against the Petitioner's pending liability of receipt against deposit works and consumer security deposits. By taking into account the above amounts, the revised RoRB of the Petitioner for the FY 2018-19 and FY 2019-20 works out as Rs.3,146 million and Rs.4,792 million respectively. Thus, a difference of Rs.256 million and Rs.400 million for the FY 2018-19 and FY 2019-20 respectively, for the RoRB is allowed to the Petitioner as part of PYA in the instant decision.*

*Here it is pertinent to mention that since the Petitioner has provided Audited accounts for the FY 2019-20, therefore, the actual RAB has been worked out while accounting for the above adjustments, wherein, depreciation for the FY 2019-20, as per the Audited accounts has also been considered. Consequently, the difference of depreciation allowed in the determination of FY 2019-20 vis a vis the amount as per the audited accounts has been adjusted in the instant decision, resulting in reduction by Rs.83 million in the revenue requirement of PESCO.*

30. On the point of the Petitioner that excess deduction of Rs.6,368 million has been made on account of deferred credit for FY 2020-21 from the asset base of PESCO, the Authority noted that this issue is being raised by the Petitioner again and again, despite the fact that the Authority in its decisions has clearly spelled out the rationale for calculation of RAB of the Petitioner. The Authority observed that while working out RAB, the amount of receipts against deposit works and Security deposit are netted off against the available balance of Cash/ Bank for the relevant heads, short term investments, if any, and Stores & Spares. The extra shortfall, if any, is deducted from the RAB, to ensure that the consumers are not burden with the unfair and unjust use of resources by the Petitioner. The working of amount of deferred credit of Rs.41.420 million used in calculation of RAB for the FY 2020-21, based on the Audited accounts of FY 2019-20 is as under;

Description	As per Determination	As per Audited Accounts
	FY 2020-21	FY 2020-21
Deferred Credit	33,950	35,052
Security Deposit	5,689	5,546
Receipt Against Deposit Work	16,452	22,440
<b>Total Consumer Contribution</b>	<b>56,092</b>	<b>63,039</b>
Bank Deposit	3,792	6,809
Capital Contribution	2,554	2,235
Meter Security	2,970	3,867
Store & Spares	5,355	4,894
<b>Total Funds Available</b>	<b>14,671</b>	<b>17,805</b>
<b>Net Amount</b>	<b>41,420</b>	<b>45,234</b>



31. Thus, the plea of the Petitioner that the Authority has worked out the balances of deferred credit without considering the available balances under the head of Bank Balance and the stock in operation is not factual. Similarly, on the point of Petitioner to consider the available balances under the head of Deposit Work in Progress, it is apprised that while working out RAB, total closing balance of CWIP is included as part of RAB (discussed separately in the ensuing paras), thus, addressing the concerns of the Petitioner.

*2- Mr. A. W.*

32. Here it is also pertinent to mention that the MYT determination of the Petitioner already provides mechanism for annual adjustment of RAB 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....*

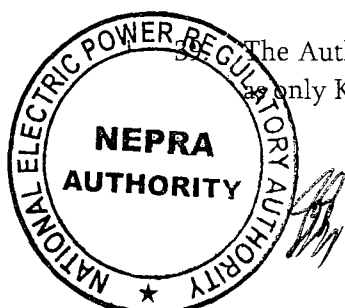
*In addition the allowed RAB for previous year will be trued up downward only, keeping in view the amount of investment allowed for the respective year. In case, the Petitioner ends up making higher investments than the allowed, the same would be the Petitioner's own commercial decision and would not 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."*

33. 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.
34. On the point of the Petitioner that it has inherited shortfall of Security Deposit balance on its inception in 1998 from WAPDA together with the amount being recovered by FBR from this head from time to time, the Authority considers the same as operational issue, which needs to be taken up by the Petitioner with FBR, for which the consumers may not be burdened.
35. In view of the above discussion, the Authority does see any reason to revise its earlier decision in the matter.

#### Weighted Average Cost of Capital (WACC)

36. The Petitioner stated that the Authority at para 15.57 of its determination dated 02.06.2022 has allowed 10.66% WACC for the FY 2020-21 to PESCO, which will not be sufficient to meet the revenue requirement of PESCO.
37. It also submitted that the Authority considers different assumptions for the calculation of WACC in every two to three years starting from the FY 2014-15 to FY 2020-21, instead of applying the assumptions consistently in view of Section 31(3)(c) of the Act, which requires that tariff should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service. Therefore, the Authority is requested to apply the assumption consistently for a reasonable period, maybe five years, instead of changing it continuously almost in every second determination.
38. The Petitioner further mentioned that for the assessment of ROE component, weighted average yield on 05 years Pakistan investment bond (PIB) as of July 22, 2020 as risk free rate is used, which is 8.2139% for FY 2020-21. Moreover, the rate of return on KSE-100 index over a period of 10 years was around 13.9%. The same translated in to risk premium of around 5.68% for FY 2020-21 and on the other hand, the risk premium used by different brokerage houses of the country ranges from 6% to 7%.

The Authority assumed market risk premium of 5.68% (very low), which may be reconsidered as only Karachi generates almost 60% of the business activity as compared to Peshawar which is



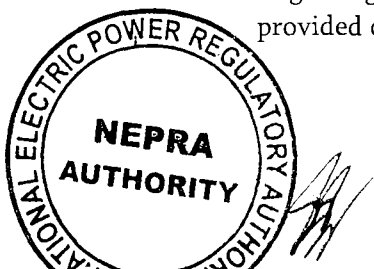
200% folds higher. These assumptions were considered without even considering the economic conditions of KPK and the effect of war on terror on the business environment in which PESCO is operating. Accordingly, the area of operation and the economic conditions of the area needs to be considered and necessary adjustments may be made to the risk premium because of the fact that the market in Khyber Pakhtunkhwa is riskier than that of other parts of the country and a margin of 2% to 3% may be added to the new base line. The linking of return with Transmission & Distribution losses margin allowed by Authority does not hold ground as the same has been substantially reduced by the Authority together with heavy deduction of the allowed provision for bad debts of FY 2015-16, accordingly the said argument of allowing a margin in T&D Losses is non-existent in current scenario. Moreover, the Power Purchase Price is a pass-through item and relates to the cost and has no co-relation with return which is for the equity holders.

40. Another assumption was made by Authority for measurement of Beta, in order to arrive at a suitable measure, Authority conducted an in-house analysis and arrived at appropriate measure of 1.10 and it is the same as was used during 2015-16, which means the economic conditions are stable even in the wake of pandemic COVID 19 and the current economic crisis, hence needs to be reconsidered.
41. Moreover, no such details about the basis of the analysis have been provided in the determination, hence it is very difficult for the petitioner to build its argument regarding the suitability of the calculations and apparently it is on a lower side and needs reconsideration.
42. Moreover, to ascertain the cost of debt Authority has decided to take cost of debt as 3 months KIBOR + 2.00% spread (200 basis points) as 9.03%. At para 15.2 of the Tariff Determination for FY 2014-15, the Authority decided that "as regard the cost of debt, the Authority has re-worked the cost of debt based on the weighted average cost of debt of loans appearing in the financial statements of the Petitioner". But, since FY 2015-16, the Authority used 3 months KIBOR + 2.75% spread, however, the Authority used 2.00% spread for FY 2018-19 & FY 2019-20 without any reason and all the above changes in policy has resulted in the reduction in return of PESCO. The Authority is requested to apply the assumptions consistently for a period of at least 5 years and firstly the cost of debt may be allowed on the basis of the outstanding loans of PESCO otherwise may allow a spread of 2.25% in view of Rule 4(7) of NEPRA (Benchmarks for Tariff Determination) Guidelines, 2018 and KIBOR may be considered for 1 Year in view of period of the determination of tariff on annual basis.
43. By considering the spread of 2.25%, the cost of Debt would be revised to 9.42% for FY 2020-21 i.e. 1 Year KIBOR of 7.17% plus 2.25% spread, instead of 9.03%.

$$WACC = [(8.21\% + 6.5\% \times 1.1) \times 30\%] + [9.42\% \times 70\%] = 11.20\%, \text{ OR}$$

$$WACC = [15.36\% \times 30\%] + [9.42\% \times 70\%] = 11.20\%$$

44. Based on the above assumptions, the Petitioner has requested the Authority is requested to allow WACC of 11.20% for FY 2020-21 based on the above adjustment in cost of debt. Moreover, in addition to above, the average risk premium of 6.5%, as used by different brokerage houses, may also be allowed and the calculation may be adjusted accordingly.
45. Regarding WACC, the Authority in the MYT determination of PESCO dated 02.06.2022, has provided complete rationale for the allowed WACC, as reproduced hereunder;



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*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;

*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.*

*Keeping in view the above, the Authority for the assessment of RoE component for the FY 2020-21, has considered weighted average yield on 05 Years Pakistan Investment Bond (PIB) as of July 22, 2020 as risk free rate, which is 8.2139%.*

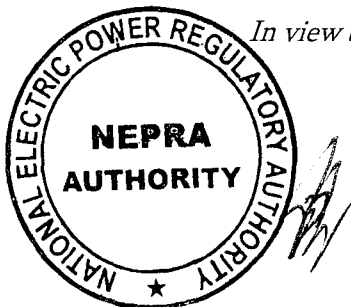
*The expected return on any investment is the sum of the risk-free rate and an extra return to compensate for the risk. This extra return or 'risk premium' is the difference between market rate of return and risk free rate. Generally, the return on stock market index is taken as a measure of market rate of return. To have an appropriate measure of the market rate of return, analyzed KSE-100 Index return, over a period of 10 years i.e. FY 2011 to FY 2020, which remained at around 13.9%. The Authority also analyzed returns offered by stock exchanges of the neighboring countries, and noted that return of KSE-100 index remained higher than those of neighboring countries.*

*Based on the above analysis, the Authority has considered the rate of return on KSE-100 index as expected market return in WACC formula for calculation of Return of equity. The rate of return on KSE-100 index of around 13.9%, translates into risk premium of around 5.68% (with risk free rate of 8.2139%, Weighted Average Yield of 5-Year PIB as of July 22, 2020). Therefore, keeping in view the aforementioned, Market Risk Premium of 5.68% is considered as reasonable for calculation of cost of equity component.*

*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.*

*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, the Authority has taken cost of debt as 3 month's KIBOR + 2.00% spread. Consequently, the cost of debt has been worked out as 9.03% i.e. 3 Months KIBOR of 7.03% as of 3<sup>rd</sup> July 2020 plus a spread of 2.00% (200 basis points).*

*In view thereof, the WACC for the FY 2020-21 has been worked out as under;*



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*Cost of Equity;*

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

$$= 8.2139\% + (13.9\% - 8.2139\% = 5.686\% \times 1.1) = 14.47\%$$

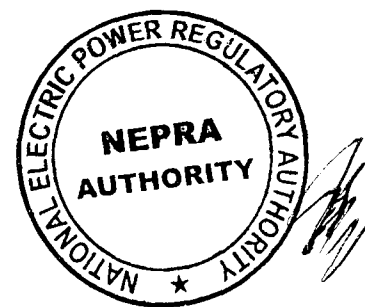
*The cost of debt is;*

$$K_d = 9.03\%$$

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

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

$$WACC = ((14.47\% \times 30\%) + (9.03\% \times 70\%)) = 10.66\%$$



46. The Authority observed that the Petitioner on one hand is emphasizing to consistently apply assumptions for the calculation of WACC, however, at the same time has questioned the beta of 1.1 being used by the Authority during last few years. Similarly, the Petitioner also states that economic conditions are not stable in the wake of pandemic COVID 19 and current economic crisis, hence needs to be reconsidered.
47. Regarding working of beta, the Authority in the earlier Tariff determination has discussed this issue in detail and provided complete rationale for calculation of beta. The Petitioner, however, has been raising similar concerns repeatedly without giving any new grounds and providing any counter working/calculations in the matter. Therefore, just saying that that beta is insufficient is not a ground to revise the beta.
48. On the point of different economic conditions of KPK and the effect of war on terror on the business environment in which PESCO is operating, the Authority already in the earlier tariff determination of the Petitioner has categorically addressed this issue as under;
- "On the point regarding assessment of risk premium and risk free rate, without considering the economic conditions of KPK and the effect of war on terror on the business environment in which PESCO operates, the Authority reiterates that the operational difficulties and inherent risk faced by the Petitioner due to law and order situation has already been accounted for in the shape of margin for law & order allowed in the T&D losses target. "*
49. The Authority had been allowing the Petitioner T&D losses of 31.95% consistently for three years i.e. FY 2016-15, FY 2016-17 and FY 2017-18, and 22.43% for the FY 2019-20. Similarly for the FY 2020-21, the Authority again allowed the Petitioner T&D losses of 21.33% including margin for Law & Order of 1.4%. On the other hand, the T&D losses allowed to IESCO for the FY 2020-21 is 8.50%. Thus, the Authority has already taken into account the ground realities of the Petitioner, whereby the risk of the Petitioner for any loss of revenue has been accounted for in the allowed T&D losses targets, which are highest among all DISCOs. More over the recovery of the Petitioner has improved from around 88% in FY 2015-16 to 102% in the FY 2020-21, meaning thereby that Law & Order situation has improved over the years.
50. On the point of 2.00% spread, it is apprised that majority of loans obtained by XWDISCOs are relent loans, therefore, keeping in view the NEPRA (Benchmarks for Tariff Determination),

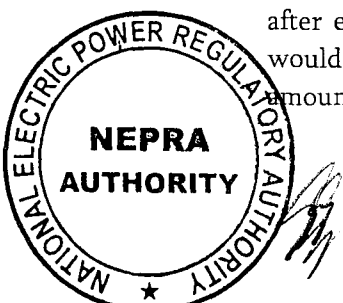
*2 WA note*

Guidelines, 2018, and the loans obtained by K-Electric, the Authority allowed a spread of 2.00%. Here it is pertinent to mention that the Guidelines mention that a spread not exceeding 2.25% over KIBOR is allowed for the Generation business. It is also important to understand that DISCOs till now are operating under a monopolistic environment and are the sole collecting agents for the energy supplied. Thus, having complete control on their cash flows, which may enable them to raise funds on lower spread as compared to Generation Companies. Accordingly, the Authority allowed a spread of 2.00% over KIBOR to DSICOs, while working out the WACC instead of 2.25%.

51. On the point of allowing one year KIBOR instead of 3 months, it is apprised that the Authority has to strike a balance between the interest of the consumers and the Petitioner. Generally the rate of one year KIBOR is higher than 3 months KIBOR, therefore, it is in the interest of the consumers to consider a 3 months KIBOR rate.
52. In view of the above discussion, and the fact that contentions of the Petitioner have already been considered and addressed, therefore, the Authority does see any reason to revise the allowed percentage of WACC.

Treatment of Capital Work in Progress (CWIP)

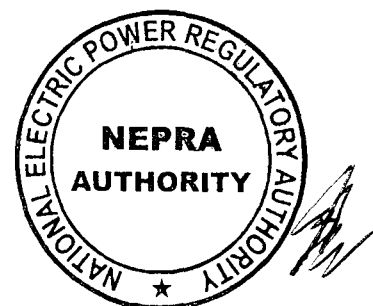
53. The Petitioner has not submitted any justification as rebuttal to the discussion or decision of the Authority for allowing Return on Equity only up-to 30% of the CWIP, rather has only submitted that this will reduce the Petitioner's RORB and is also not in line with Consumer End Tariff (Methodology & Process) Guidelines, 2015.
54. 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.
55. 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.
56. 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.
57. 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.

58. 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.
59. 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 mechanism prescribed in the MYT determination. The year wise total impact of the revised RoRB is as under;

Description	Rs. Mln			
	FY-21	FY-22	FY-23	Total
Already Allowed RORB	2,673	3,406	4,495	10,574
Revised RORB	4,220	5,622	7,514	17,356
<i>DOP</i>	3,376	4,497	6,011	13,885
<i>SOP</i>	844	1,124	1,503	3,471
Net Increase	1,547	2,216	3,019	6,782



60. The above amount would be allowed as part of PYA to the Petitioner in its next indexation/ adjustment request for the FY 2023-24, to be filed in February 2023.

#### Distribution Margin

61. Regarding Distribution margin, the Petitioner has raised following issues for consideration of the Authority.

#### Salaries, Wages & Other Benefits

62. The Petitioner stated that the Authority has determined Salaries & Wages to the tune of Rs.11,148 million for the FY 2020-21, which is 1.16% less than the previous determination of FY2019-20 i.e. Rs.11,279 million. It also submitted that the Authority has not considered the additional impact of Rs.2,252 million (approx.) of Disparity Reduction Allowance @ 25% announced by GoP in March-2021 & 15% in March-2022. In addition 5% impact on account of annual increment may also be allowed. Further, 10% Adhoc relief allowance was also granted by the GoP during FY2020-21 and 15% announced for the FY 2022-23. The Petitioner further stated that the Authority at Para-38.1 of its determination of distribution Tariff stated that the financial impact of any additional hiring during the mid-term review will be carried out after expiry of third year of MYT control period, whereby the petitioner would provide complete detailed justification of the recruitment made. It is emphasized that PESCO has already hired

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1,900 ALMs during FY 2021-22 on lump sum package of Rs.33,000 per month having annual financial impact of Rs. 752 million (approx.). Likewise, PESCO has already initiated the recruitment process for 5,206 Nos. critical positions on lump sum package with an estimated annual financial impact of Rs.1,812 million, the said recruitment process is expected to be finalized during the FY 2022-23.

63. The Petitioner accordingly requested to consider the same and allow the following amounts under Salaries & Wages;

Description	Rs. in Mln				
	2019-20 (Audited)	2019-20 (Determined)	2020-21 (Proposed)	2021-22 (Proposed)	2022-23 (Proposed)
Salaries, Wages & Other Benefits	10,223	11,279	12,407	14,492	16,282
% Increase (yoy)			10%	16.80%	12.35%

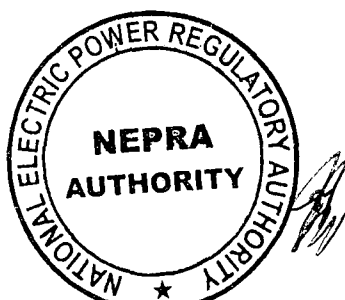
64. The Petitioner requested to allow the same, since all these expenses are legitimate and as per the increases allowed by the GoP. Deferment of the expenditure on account of new recruitment till the mid-term review will create hardship for the company considering its weak financial position, thus, increase of 10% for the FY 2020-21 may be allowed as cost of replacement hiring to cover the probable expense of new recruitment to that extent.

65. For assessment of Salaries, wages and other benefits, the Authority in the MYT decision of the Petitioner dated 02.06.2022, decided as under;

*"... The actual total cost reflected in the Audited accounts of the Petitioner for the FY 2019-20, under Salaries & Wages (excluding postretirement benefits, discussed separately) is Rs.10,223 million. Accordingly, the said amount has been considered as base cost and by applying thereon the increases as approved by the Federal Government on Salaries and Wages in the Federal Budget for the FY 2020-21, and the impact of inflation on certain heads, the cost of Salaries & Wages (excluding postretirement benefits, discussed separately), for both the Distribution and Supply Functions works out as Rs.11,148 million. The same is hereby allowed to the Petitioner for the FY 2020-21 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...."*

66. Thus, the request of the Petitioner to consider the additional impact on account of Disparity Reduction Allowance @ 25% from March-2021 & 15% from March-2022, as announced by the Government, the same has already been considered by the Authority, while assessing the Salaries & Wages of the Petitioner for the FY 2020-21 and FY 2021-22 and accordingly included such costs in the allowed amount of Salaries & Wages costs for the respective years.

67. Similarly, the impact of 5% on account of annual increment, 10% Adhoc relief allowance for the FY 2021-22 and 15% for the FY 2022-23 has also been included in the allowed amount of Salaries & Wages for the respective years. The detailed working in this regard were also explained to the representatives of the Petitioner. Thus, the request of the Petitioner to allow any additional impact on this account is not justified and hence declined.





68. On the point of the Petitioner to allow cost of already hired 1,900 ALMs during FY 2021-22, the Authority noted that as per the original tariff Petition, it was submitted by the Petitioner to tentatively hire around 818 Technical Staff as given hereunder;

23.5. The Petitioner also in its Petition provided the following details of proposed hiring during the MYT period;

Detail	2021-22	2021-22	2022-23	2023-24	2024-25
	Tentative	Tentative	Tentative	Tentative	Tentative
Number of Employees (A+B)	0	1840	473	279	129
A- Qualified Professionals	0	81	13	6	1
Engineers	0	43	12	6	1
Others	0	38	1	0	0
B- Staff	0	1759	460	273	128
Technical	0	818	224	119	34
Clerical	0	215	73	13	6
Non Technical	0	726	163	111	88

69. Now the Petitioner has submitted that it has already hired 1900 ALMs during the FY 2021-22 and has requested Rs.752 million in this regard, for which no justification/ rationale has been provided. Similarly, it has also submitted that process for recruitment of 5,206 no. critical positions on lump sum package has been initiated with an estimated annual financial impact of Rs.1,812 million, and the said recruitment process is expected to be finalized during the FY 2022-23. However, as per the above tentative recruitment plan provided by the Petitioner, it planned to hire around 2,721 employees including professionals during the entire MYT period till FY 2024-25.
70. The Authority noted that in the MYT decision of the Petitioner dated 02.06.2022, for the proposed recruitment to be carried out in FY 2020-21 and onward, the Authority decided to carry out a mid-term review in the matter, for which the Petitioner has been directed to provide complete detail/ justification of the recruitment made along-with benefits achieved, the actual cost incurred in this regard and substantiates the same with the quantified benefits accrued, as mentioned hereunder;

#### Additional Recruitment

*Regarding cost of new recruitment, the Authority observed that Salaries & Wages cost for the FY 2019-20, as per the Audited accounts of the Petitioner, have been considered as base cost, therefore, impact of any new recruitment already made till FY 2019-20 has been accounted for. For the proposed recruitment to be carried out in FY 2020-21 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. In view thereof, the Authority has decided to consider the financial impact of any additional hiring during the midterm review, which will be carried out after expiry of 3<sup>rd</sup> year of the MYT control period, whereby the Petitioner would provide complete detail/ justification of the recruitment made along-with benefits achieved....."*



71. Thus, the Authority has already clearly mentioned to consider the financial impact of any additional hiring during the midterm review, to be carried out after expiry of 3<sup>rd</sup> year of the MYT control period. The Authority, therefore, fails to understand the instant request of the Petitioner to again allow any such cost instantly, despite clear directions of the Authority to consider this cost during the mid-term review, once the Petitioner provides complete detail/ justification of the recruitment made along-with benefits achieved, the actual cost incurred in this regard and substantiates the same with the quantified benefits accrued. The request of the Petitioner to allow any cost on this account is thus not justified and hence declined.

#### Post-Retirement Benefits

72. The Petitioner has submitted that the Authority has determined and allowed Post Retirement benefits, on actual payments i.e. Cash basis, to the tune of Rs.5,560 million for FY 2020-21 compared to Rs.5,552 million as allowed for FY 2019-20, with a meagre increase of just 0.14% only, which is insufficient to cover the actual expenditure incurred by PESCO amounting to Rs.6,658 million. The Authority though acknowledged in the MYT Determination to allow the actual payments and indexation on the basis of the increases / in line with GOP pension increase, however, considering the amount determined for the FY 2020-21 with only 0.14% increase over the last year, it seems that neither the 10% increase in Pension as allowed by GoP for FY 2020-21, nor the impact of new retirees during FY2020-21 was considered in MYT determination thereby creating further Financial hardships for PESCO which is already facing huge cash shortfall due to unrealistic T&D Loss Target.
73. It further stated that during FY 2020-21, PESCO has paid Post Retirement benefits, in cash, amounting to Rs.6,658 million, and the Authority determined amount of Rs.5,560 million is insufficient and PESCO is facing cash shortfall of Rs.1,098 million, which will aggravate the already fragile financial position of the company. It further apprised that PESCO has installed a full fledge Pension Management System (PMS) and is being implemented throughout PESCO with a database of around 18,000 plus pensioners, accordingly, as per PMS data, an analysis, regarding the actual payments made, new pensioners added along with their commutation paid & the total monthly pension expenditure, is presented is as under:

Description	FY2019-20	FY2020-21	FY2021-22 (Provisional)
No. of Pensioners	13,335	14,184	14,715
Increase in No.		849	531
% Increase (yoy)		6%	4%
Monthly Pension (Rs. Mln)	4,859	5,764	7,130
Commutation (Rs. Mln)	693	894	859
Total Pension (Rs. Mln)	5,552	6,658	7,989
% Increase (yoy)		20%	20%



74. As evident from the above table, the Pension payments made by PESCO and the number of Pensioners has increased by 20% & 6% respectively during the FY2020-21 in comparison with FY2019-20, and a similar increase is also being witnessed during FY2021-22. In light of the position explained above, the Authority is requested to review its decision and allow actual cash payments of the Post-Retirement benefits as per below table:

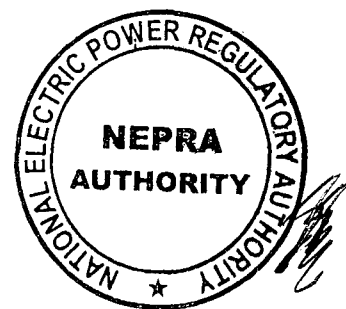
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Rs. in Mln				
Description	2019-20	2020-21	2021-22	2022-23
Post-Retirement Benefits	5,552	6,658	7,989	9,188
% Increase (yoy)		20%	20%	15%

75. However, during hearing of the MLR, the Petitioner requested the following amounts;

DESCRIPTION	FY	FY	FY	FY
	2019-20	2020-21	2021-22	2022-23
NEPRA Determined	5,429	5,561	6,117	6,642
Audited/ Provisional	5,552	6,658	7,802	-
Shortfall	123	1,097	1,685	-
Proposed	-	6,658	7,802	9,188

Description	FY 2019-20	FY 2020-21	FY 2021-22 (Provisional)
Nos. of Pensioners	13,335	14,184	15,234
Increase in Nos.		849	1,050
% Increase (yoy)		6%	7%
Total Pension (Mln Rs.)	5,552	6,658	7,802



76. The Petitioner further mentioned that Authority in its MYT Determination for FY2020-21 to FY2024-25 has disallowed provision for post-retirement benefits expenses and only allowed actual cash payment made to the pensioners during the said period. PESCO submitted that as per Authority directions, PESCO has created a separate Pension fund, hence provision should be allowed to PESCO to enable it to transfer the same to the fund account. The Petitioner accordingly requested the Authority to allow the annual provision for Post-retirement benefits for the FY 2020-21, FY 2021-22 & FY 2022-23 respectively as mentioned below;

Description	FY 2020-21	FY 2021-22	FY 2022-23
Post-Retirement	4,724	4,724	4,724

77. Regarding assessment of Post Retirement Benefit, the Authority in MYT decision of the Petitioner for the FY 2020-21 to FY 2024-25 has decided as under;

*"....In compliance with the Authority's direction, the Petitioner has created a separate Fund for its post-retirement benefits. Although, the Petitioner has created the Fund, however, the Authority is also cognizant of the operational performance of the Petitioner in terms of achieving the Regulatory Targets of T&D losses and Recoveries etc. The actual losses of the Petitioner for the FY 2019-20 remained at around 39% as compared to the allowed target of 21%. Similarly, the recovery ratio of the Petitioner during FY 2019-20 remained well below the allowed level of 100% recovery target.*

*The Authority keeping in view the operational performance of the Petitioner considers that at this point in time allowing provision for post-retirement benefits instead of actual payments made by the Petitioner, would not be in the interest of the consumers as any additional amount over & above the actual payments, would be eaten-up by the inefficiencies of the Petitioner.*

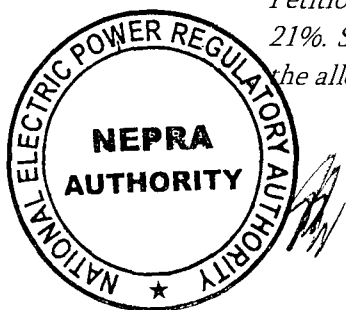
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*and the Petitioner would not be able to deposit the excess amount in the Fund. However, if the Petitioner still manages to deposit any additional amount in the Fund, the Authority may consider to allow the same as PYA in the subsequent adjustment request.*

*In view thereof, the Authority has decided to consider the amount of actual payments as per the Audited accounts of the Petitioner for the FY 2019-20 as base cost and by applying thereon the increases as approved by the Federal Government on Pension Benefits in the Federal Budget for the FY 2020-21, the cost of post-retirement benefits for the FY 2020-21 for both the Distribution and Supply Functions works out as Rs.5,560 million. The same is hereby allowed to the Petitioner for the FY 2020-21 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...."*

78. From the aforementioned decision it is clear that while assessing the pension expenses of the Petitioners for the FY 2020-21, the actual expenses of Postretirement benefit for the FY 2019-20 were used as basis and after incorporating therein the increases as announced by the GoP, for the respective years, the same was allowed to the Petitioner for the FY 2020-21 and for future years. However, the Authority has also considered the submissions of the Petitioner, in terms of increase in number of pensioners by 849 during the FY 2020-21, which has resulted in additional pension expenses of Rs.1,098 million, as compared to the amount allowed by the Authority. This cost has also been reflected in the Audited accounts of the Petitioners for the FY 2020-21.
79. In view of the above facts, the Authority has decided to revise the allowed cost of the Petitioner under the head of post-retirement benefits for the FY 2020-21, by including therein the cost of Rs.1,089 million, for the additional 849 pensioners. Accordingly, for the FY 2020-21, the revised cost of Rs.6,658 million has been allowed. The same would now become as reference cost for the FY 2020-21 and the cost for the FY 2021-22 and FY 2022-23 would be indexed based on the revised cost allowed for the FY 2020-21.
80. This would result in additional total cost of Rs.3,616 million i.e. Rs.1,098 million for the FY 2020-21, Rs.1,207 million for the FY 2021-22 and Rs.1,311 million for the FY 2021-22. The above amount would be allowed as part of PYA to the Petitioner in its next indexation/adjustment request for the FY 2023-24, to be filed in February 2023.
81. The Petitioner is directed to ensure deposit of any amount of post-retirement benefits in excess of actual payments made, in its Pension Fund during the tariff control period. In case the Petitioner fail to deposit the excess amount over and above actual payments the same would be adjusted back as part of PYA of the Petitioner.
82. On the point of the Petitioner to allow provision for post-retirement, the Authority has already considered this issue in the MYT determination of the Petitioner dated 02.06.2022 as under;

*....the Authority is also cognizant of the operational performance of the Petitioner in terms of achieving the Regulatory Targets of T&D losses and Recoveries etc. The actual losses of the Petitioner for the FY 2019-20 remained at around 39% as compared to the allowed target of 21%. Similarly, the recovery ratio of the Petitioner during FY 2019-20 remained well below the allowed level of 100% recovery target.*



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*The Authority keeping in view the operational performance of the Petitioner considers that at this point in time allowing provision for post-retirement benefits instead of actual payments made by the Petitioner, would not be in the interest of the consumers as any additional amount over & above the actual payments, would be eaten-up by the inefficiencies of the Petitioner and the Petitioner would not be able to deposit the excess amount in the Fund.*

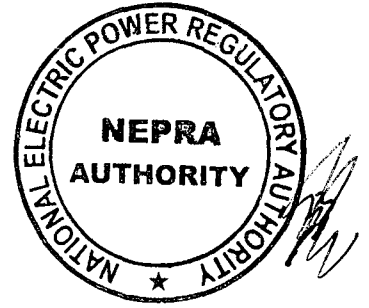
83. Since the Petitioner has not submitted any new justification in the matter nor has rebutted the Authority's concerns for disallowing provision for post-retirement benefits, therefore, the Authority has decided not to accept this request of the Petitioner.

**Financial Implication of GENCO /NTDC Pensioners**

84. The Petitioner during the hearing requested Rs.13.3 million as pension payment to GENCOs Employee. The Petitioner submitted that Economic Co-Ordination Committee in Case No. ECC-347/32/2021 dated 23.09.2021, has approved adjustment of Pensioners of GENCOs w.r.t Power Plants under closure. As per para no. 6 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*".

85. The Petitioner submitted following details in tis regard;

Sr. No	Transfer From	No Of Pensioners	Monthly	Annual
			(PKR)	(Rs. In Mln)
1	GENCO-I	10	199,681	2.396
2	GENCO-II	14	315,266	3.783
3	GENCO-III	14	403,222	4.839
4	GENCO-IV	11	192,148	2.306
5	Total	49	1,110,317	13.324



86. The Petitioner also submitted that NTDC has forwarded 56 Nos. PPO files pertaining to Ex-GSC retired employees of the formations transferred to PESCO on the grounds that the assets and liabilities of PD (GSC) Peshawar (132 KV Grid System Construction) have been transferred to PESCO and that the said employees have served in the formation which is currently part of PESCO. The Petitioner accordingly requested the following Financial Impact of NTDC Pensioners;

Sr. No	Transfer From	No Of Pensioners	Monthly	Annual
			(PKR)	(Rs. In Mln)
1	NTDC Pensioners	56	1,215,162	14.582

87. The Authority observed that this issue has also been raised by other DISCOs. The Authority held a discussion meeting in the matter and keeping in view the hardships being faced by the Pensioners, the Authority vide letter dated 17.11.2022, directed all DISCOs and WAPDA to ensure payments to these pensioners provisionally. The Authority also, to arrive at an informed decision in the matter, directed all DISCOs to submit this case along-with their next tariff petition, so that the Authority may decide to allow this cost or otherwise.

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88. In view thereof, the Petitioner is directed to bring the matter along-with its subsequent Tariff adjustment/indexation request for the FY 2023-24, as per directions of the Authority.

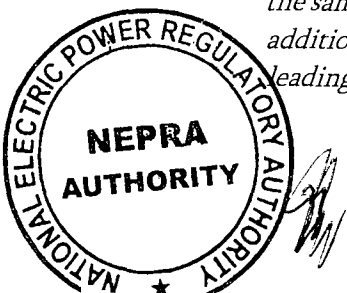
**Repair & Maintenance Expenses**

89. The Petitioner has submitted that as per its Audited account expenditure under the head of Repair & Maintenance expenditure for FY2020-21 stands at Rs.1,177 million, whereas the Authority has determined the said cost to the tune of Rs.863 million based on the historical trend for the last three years along-with inflationary impact of 9.5%, which is far below the actual expenditure incurred.
90. It also submitted that the audited Repair & Maintenance expenditure of PESCO for the FY2020-21 has increased by 49.36% in comparison to FY2019-20, and the main reason of the increase is the revision in the repair policy of PESCO as approved by the BoD whereby the earlier transformer repair policy was revised. As per the previous policy, the repair of transformer in areas where AT&C losses were above 50% was not carried out by PESCO, however, after the implementation of the new policy, irrespective of the AT&C loss, the repair cost of all transformers is being paid by PESCO from its own resources. Since, the change of said policy, which was fully implemented during FY2020-21, the Repair & Maintenance cost of PESCO has increased heavily and funds would be required to continue the said policy in the interest of the consumers. Accordingly, the base line expenditure of FY 2019-20 will not reflect the true picture and it will create a perpetual shortfall for PESCO and the consumers will suffer, the Authority is therefore requested to allow Rs.1,177 million actual expenditures for FY 2020-21 and on the basis of that the indexation for the remaining control period be allowed.
91. Likewise, the cost of material has also increased abnormally, the raw material (such as copper, iron, aluminum etc.) used in the production / repair of electrical equipment (Transformers, cables etc.) are mostly imported and due to the fluctuation in international prices as well as the rupee devaluation, the prices of raw material / electrical equipment have increased abnormally.
92. The Petitioner has accordingly requested to consider the changed ground realities, and allow an increase in the Repair & Maintenance expenses as per the below mentioned table for the period under consideration. The Petitioner has requested a total amount of Rs.1,177 million under the head of R&M for the FY 2020-21 as reference with 10% increase every year for future period.

Mln. Rs.				
Description	2019-20	2020-21	2021-22	2022-23
Repair & Maintenance Expense	795	1,177	1,295	1,424
% Increase (YoY)		48.05%	10%	10%

93. Regarding assessment of R&M cost, the Authority in MYT decision of the Petitioner for the FY 2020-21 to FY 2024-25 has decided as under;

*"...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 requested for huge CAPEX of Rs.76,746 million 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. Thus, the*



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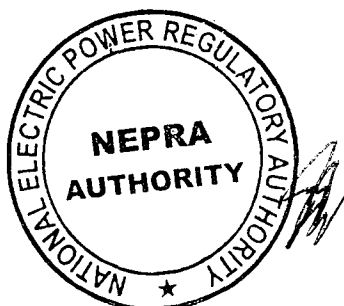
*Petitioner idea if adopted would result in undue benefit to the Petitioner in the long run. In addition to aforementioned discussion, the Petitioner's request of annual adjustment in this regard is against the very spirit of multiyear tariff regime. It has also been noted that the Petitioner has not been able to spend more than Rs.788 million under the R&M head during the last three years.*

*In view of the foregoing and keeping in view the current approved tariff methodology, the Authority has decided to allow an amount of Rs.863 million under R&M head, for the FY 2020-21, after incorporating the inflationary impact on the R&M cost as per the audited accounts of the Petitioner for the FY 2019-20 for both the Distribution and Supply Functions. The same is hereby allowed to the Petitioner for the FY 2020-21 for both its distribution and Supply Functions....."*

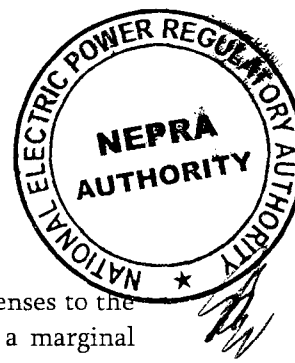
94. Thus, the Authority while allowing the Base tariff for Repair & Maintenance expenses made it assessment, keeping in view the actual expenditure incurred for the FY 2019-20, past trends of the Petitioner for such expenses and new investment allowed during the MYT. A trend of the Petitioner actual expenses under the R&M is as under;

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
R&M (Mln. Rs.)	736	646	729	788

95. In view thereof, the Petitioner was allowed an amount of Rs.863 million for its R&M expenses for the FY 2020-21, based on actual cost incurred in the FY 2019-20 and previous expenses trends under this head.
96. The Authority has also considered the submission of the Petitioner made in the MLR that after implementation of new policy, irrespective of the AT&C loss, repair cost of all transformers is being paid by PESCO from its own resources and with the change in policy, the Repair & Maintenance cost of PESCO has increased heavily in the FY 2020-21. The Authority in this regard considered the data published in the DISCOs performance statistics Report for the FY 2019-20 and FY 2020-21. As per the Report, the number of damaged transformers of PESCO have been reported as 5,305 in the FY 2019-20 and 5,356 in the FY 2020-21. Thus, there is no major change in the number of damaged transformers.
97. It has also been noted from the Audited accounts submitted by the Petitioner for the FY 2020-21, that a huge amount of around Rs.216 million has been spent on Meters under the head of R&M. The Petitioner is directed to ensure that in case of meter replacement, the cost is being capitalized instead of expensing out the same.
98. The Authority also considered the fact that the Petitioner has been allowed a huge CAPEX of over Rs.76.74 billion 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.
99. Thus, the Petitioner's request of allowing any increase in the head of R&M cost for the FY 2020-21 and for future periods is not justified and hence declined.



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### Vehicle Running Expenses

100. The Petitioner submitted that the Authority has determined Vehicle running expenses to the tune of Rs.183 million for FY2019-20 and Rs.185 million for FY2020-21, with a marginal increase of Just 1.09%. Similarly, the increase allowed by the Authority for FY2021-22 in comparison with FY2020-21 is 12.43% only, which is quite contrary to the actual market rates prevailing during the said period. Although, PESCO has managed to control the POL during FY 2020-21, however during FY 2021-22, there is an abnormal increase in prices, accordingly the Authority is requested to review its decision and allow the same by considering the market trend. An analysis of the increase in POL prices for the last three years is tabulated below;

Description	FY2019-20	FY2020-21	FY2021-22	Current Price as on June 10, 2022
Average Price of Petrol (Annual)	106.89	106.43	148.56	209.86
% Increase (yoy)		-0.43%	39.58%	
Average Price of Diesel (Annual)	117.50	108.98	144.43	204.15
% Increase (yoy)		-7.25%	32.53%	
Average POL Price (Petrol + Diesel)	112.20	107.70	146.49	207
% Increase (yoy)		-4.01%	36.05%	

101. The Petitioner stated that as evident from the above, average POL prices have increased by 36.05% in FY2021-22, whereas the Authority has allowed an increase of just 12.43%, which is very low. Moreover, it is pertinent to mention here that the POL prices are increasing at an alarming rate, the Authority is requested to allow an appropriate increase for the FY2021-22 and FY2022-23 by taking into consideration the actual market rates.
102. The Petitioner during the hearing of its MLR has requested the following costs;

DESCRIPTION	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
NEPRA (Mln Rs.)	183	185	208	226
<i>Increase (yoy)</i>		1.10%	12.40%	8.60%
Audited (Mln Rs.)	183	185	-	-
<i>Proposed Increase (yoy)</i>			24.0% *	24.00%
Proposed (Mln Rs.)	-	185	229	285
Variance (Mln Rs.)	-	-	21	59

103. It is important to highlight that the Authority while allowing the MYT tariff to the Petitioner, allowed the Vehicle expenses for the FY 2020-21 as Rs.185 million, based on the actual expenditure of the Petitioner for the FY 2019-20, which was Rs.169 million. The actual expenditure of the Petitioner for this head for the FY 2020-21 remained as Rs.183 million, thus, the assessment of the Authority is very much up-to the required level.
104. On the Petitioner submission that because of significant raise in POL prices, the transportation expenses be indexed at a rate higher than average CPI, the Authority noted that the allowed O&M expenses include number of different costs heads. All these cost heads do not directly correspond with changes in overall NCPI, as there are some heads like communication, bill

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collection charges, rents, rates & taxes etc., which do not increase with the same proportion of overall NCPI, however, at the same time there are certain heads, which increase at a rate higher than overall NCPI.

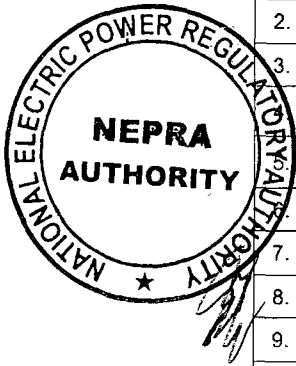
105. For ready reference the % change in of 21.32% in NCPI of June 2022 over June 2021 along-with % change in individual groups, comprising of the overall NCPI basket has been reproduced hereunder;

#### I. National Consumer Price Index (N-CPI)

The **National Consumer Price Index** for **June 2022** is **increased** by 6.34% over **May 2022** and increased by 21.32% over corresponding month of the last year i.e. **June 2021**.

**Table 1: Consumer Price Index (National) by Group of Commodities and Services (Base 2015-16)**

No	Group	Group Weight (%)	Indices			% Change June 2022 Over		Impact (In % points) June 2022 Over	
			June 22	May 22	June 21	May 22	June 21	May 22	June 21
	<b>General</b>	<b>100.00</b>	175.71	165.23	144.82	6.34	21.32	6.34	21.32
1.	Food & Non-alcoholic Bev.	34.58	187.67	177.90	149.04	5.49	25.92	2.05	9.23
	<i>Non-perishable Food Items</i>	29.60	189.48	179.59	152.29	5.51	24.43	1.77	7.60
	<i>Perishable Food Items</i>	4.99	176.90	167.84	129.75	5.40	36.34	0.27	1.62
2.	Alcoholic Bev. & Tobacco	1.02	170.27	159.13	144.79	7.00	17.60	0.07	0.18
3.	Clothing & Footwear	8.60	169.61	165.72	149.14	2.34	13.72	0.20	1.21
	Housing, Water, Electricity, Gas & Fuels	23.63	159.01	147.64	140.11	7.70	13.48	1.63	3.08
	Furnishing & Household Equipment Maintenance	4.10	168.60	163.87	141.97	2.89	18.76	0.12	0.75
	Health	2.79	171.32	169.25	153.93	1.23	11.30	0.04	0.34
7.	Transport	5.91	232.12	186.61	143.13	24.39	62.17	1.63	3.63
8.	Communication	2.21	110.78	110.52	108.65	0.24	1.96	0.00	0.03
9.	Recreation & Culture	1.59	145.62	141.10	127.35	3.20	14.35	0.04	0.20
10.	Education	3.79	158.67	158.28	144.95	0.25	9.46	0.01	0.36
11.	Restaurants & Hotels	6.92	174.69	165.12	143.36	5.79	21.85	0.40	1.50
12.	Miscellaneous	4.87	177.79	172.08	153.50	3.32	15.83	0.17	0.82



106. From the above table, it is clear that certain heads like electricity, communication, equipment maintenance etc., have not increased by the overall NCPI of 21.32%, instead have increased by 13.48%, 1.96% and 18.76% respectively.
107. In view thereof, the Authority decided to index the total allowed O&M cost with average CPI-X factor, instead of adjusting each individual head of O&M cost separately. Here it is also to be understood that spirit of MYT is to bring efficiency in the operations of the Petitioner, by bridging the gap between different cost heads through effective management of such costs. The Petitioner will now be ensuring reduction in O&M costs through more efficient and less costly operation & maintenance, as compared to increases allowed in the Tariff, the benefits of such improvement will be retained by the Petitioner, during the tariff control period.

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108. It is also a fact that similar adjustment mechanism is applicable for other entities in the Power sector under the Multi Year Tariffs i.e. Generation, Transmission, Distribution and Supply functions. Any change in the adjustment mechanism of the Petitioner, to account for its request would open Pandoras box, resulting in multiple openers in the MYT, which is neither desired nor a prudent utility practice.
109. In light of above discussion, the Authority has decided not to accept the request of the Petitioner to allow any increase/ modify the Adjustment mechanism for the allowed amount of Transportation expenses.

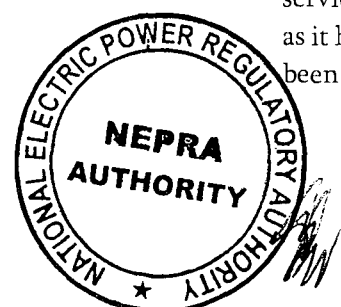
Other O&M Expenses

110. The Petitioner submitted that "Other O&M expenses" allowed by the Authority for the FY2019-20 & FY2020-21 are less than the actual audited expense incurred by PESCO, as detailed below:

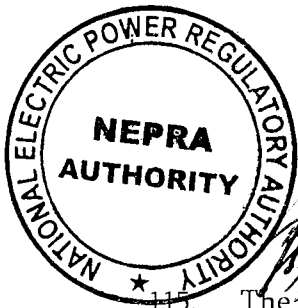
Description	2019-20	2019-20	2020-21	2020-21
	Determined	Audited	Determined	Audited
Other O&M Expenditure	876	891	810	1,248
Shortfall (Determined - Audited)	-15		-438	

111. The Petitioner stated that it is already facing financial hardship and the Authority has determined other expenses to the tune of Rs. 810 million for FY 2020-21, which are even less than the previous determined amount of Rs. 876 million for FY 2019-20, resultantly, PESCO's ability to provide uninterrupted services will be badly hampered.
112. It also submitted that "Other O&M expenses" include Rent, Rates & Taxes, Power, Light and Water, Communication, Bill Collection Charges, Office supplies (includes stationery for MIS for bill printing forms, cartridges etc.), Director Fees, Auditor Remuneration, Professional Fees, Outside Service Employed, Management Fees, NEPRA License Fees, Advertisement & Publicity, Subscriptions & Periodicals, Representation & Entertainment, Insurance (WAPDA Equipment Protection Scheme for Grid System only), Bank Charges, and other miscellaneous expense. The main reason for increase is due to the booking of the pending Rent Expense of Rs. 170 million and the Bill collection charges of Rs. 89 million. It further explained that during the FY2020-21, 23% increase has been recorded under the head Postage & Telephone, primarily due to increase in Tariff as well as ever-increasing requirement for communication services in wake of expansion in ERP system at Circle level, Customer Complaint Management System (CCMS), Integrated Billing Solution (IBS) and PITC services etc.
113. The Petitioner also mentioned that the Authority has deducted Rs.145 million under the head of "Management Fees and Other Charges" on account of PEPCO management fee for FY 2019-20, however the said amount includes payment of Rs.57 million to PITC for MIS related services. Accordingly, it is requested to reconsider the decision and allow the same to PESCO as it has already been incurred and the year-wise details of PEPCO management fee has already been shared with NEPRA.

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114. The Authority is requested to allow appropriate increase for the FY2020-21 & onwards as mentioned below by taking into consideration the position explained above;



Description	Rs. in Mln			
	2019-20	2020-21	2021-22	2022-23
Other O&M Expenditure	891	1,248	1,373	1,510
% Increase (YoY)		40%	10%	10%

115. The Petitioner also requested that instead of efficiency factor-X as 30% of increase in CPI for the relevant year, it may be considered on actual basis i.e. if the actual expenditure in any head is less than the indexed amount then the same will be adjusted back through adjustment factor and its benefit will be passed on to the consumers. The adjustment factor of 30% as determined by the Authority is not acceptable to PESCO as Authority is only allowing the indexation on the basis of NCPI, which is directly linked with the prices and considering the weak financial health of PESCO, the said adjustment of 30% is unbearable and PESCO cannot absorb such kind of reduction on the legitimate amount of indexation. However, PESCO will pass on the benefit, if any, on actual basis with the approval of the Authority. Similarly, the adjustment on account of other components as requested by PESCO in MYT petition may also be considered and allowed.
116. The Authority noted that the Petitioner was allowed an amount of Rs.811 million, under the head of Other O&M expenses (excluding management fees), for the FY 2020-21, based on its actual expenses for the FY 2019-20 i.e. Rs.740 million, excluding management fees.
117. As per submissions of the Petitioner in the MLR, the Petitioner itself has stated that main reason for increase is due to the booking of the pending Rent expense of Rs.170 million and the Bill collection charges of Rs.89 million. Therefore, the Authority is of the considered view that allowing reference cost, inclusive of pending cost for the previous periods, would not be prudent as it would unnecessarily jack-up the reference cost, resulting in additional amounts to the Petitioner's for the future years of the MYT, hence not allowed.
118. Regarding point of the Petitioner to adjust actual expenditure in any head only, if the same is less than the indexed amount, instead of CPI-X, the Petitioner needs to understand that spirit of the MYT is to bring efficiency in the operations and to encourage efforts towards making expenses efficient. With the allowed adjustment mechanism of O&M expenses with CPI-X, the Petitioner will be ensuring reduction in its O&M costs, through more efficient and less costly O&M, as compared to increases allowed in the Tariff, the benefits of which would be retained by the Petitioner, during the tariff control period.
119. In light of above discussion, the Authority has decided not to accept the request of the Petitioner to allow any increase in the Other O&M costs and modify the Adjustment mechanism for the allowed O&M costs.

#### CPPA-G Overhead Charges

120. The Petitioner has stated that the Authority has deducted Rs.145 million under the head of "Management Fees and Other Charges" on account of PEPCO management fee

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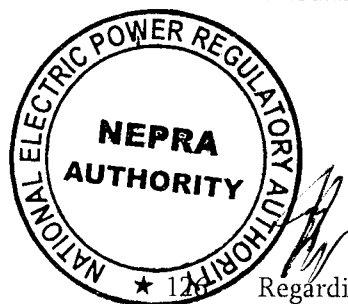
for FY 2019-20, however, the said amount includes payment of Rs.57 million to PITC for MIS related services. Accordingly, it is requested to reconsider the decision and allow the same to PESCO as it has already been incurred and the year-wise details of PEPCO management fee has already been shared with NEPRA. Moreover, an amount of Rs.107 million has been incurred under the head of Other Expenses of FY 2020-21, which may be considered as it is the management fee paid to PITC as well.

121. The Authority is therefore requested to allow Rs.57 million other than PEPCO management fee and also allow Rs.107 million for FY 2020-21. Moreover, the Authority is requested to allow PEPCO management fee for FY 2019-20 on the basis of Audited Accounts and by considering the fact that during FY 2020-21, PESCO has not accepted/booked the said expenditure as per the Authority directions/ decisions.
122. The Authority noted that Management fee cost was not allowed to the Petitioner while assessing the base tariff for the FY 2020-21, on the pretext that it relates to PEPCO Management fee. However, as now the Petitioner has provided the detail of Management fee, whereby an amount of Rs.107 million pertains to the fee paid to PITC, the Authority has decided to allow this cost as part of O&M cost for the FY 2020-21, to be indexed as per the mechanism already provided in the MYT determination for future periods during the MYT.
123. This would result in additional total cost of Rs.360 million i.e. Rs.107 million for the FY 2020-21, Rs.121 million for the FY 2021-22 and Rs.131 million for the FY 2021-22. The above amount would be allowed as part of PYA to the Petitioner in its next indexation/ adjustment request for the FY 2023-24, to be filed in February 2023.

#### Depreciation

124. The Petitioner stated that its audited expenditure for FY2020-21 under the head Depreciation is Rs.3,296 million, whereas the Authority in its MYT Determination has allowed Depreciation to the tune of Rs.3,207 million for the FY2020-21, resulting in short fall of Rs. 89 million, which is unjustified.
125. The Authority is requested to review its decision, and allow Depreciation for the MYT control period based on actual/proposed investment, the amount capitalized/ to be capitalized and the amount transferred/ to be transferred in work in progress, as per detail tabulated below:

	Rs. in Mln			
Description	2019-20	2020-21	2021-22	2022-23
Depreciation	3,026	3,296	3,625	3,988
% Increase (YoY)		9%	10%	10%



Regarding assessment of Depreciation Expenses, the Authority in the MYT decision of the Petitioner for the FY 2020-21 to FY 2024-25 has decided as under;

*The Authority noted that as per the Methodology, depreciation expense for the test year, which in the instant case is FY 2020-21, will be determined by applying depreciation charge on the*

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*Gross Fixed Assets in Operation, including new investment and will be considered reference for the tariff control period.*

*"..In order to make fair assessment of the depreciation expense, the Authority accounts for the investments approved for the year. After taking into account the new investments, the Gross Fixed Assets in Operation for the FY 2020-21 have been worked out as Rs.92,662 million. Accordingly, the depreciation charge for the FY 2020-21 has been assessed as Rs.3,206 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..."*

127. The Authority also prescribed the following mechanism for adjustment of Depreciation expenses during the MYT control period;

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

$$\text{DEP (Rev)} = \text{DEP (Ref)} \times \frac{\text{GFAIO (Rev)}}{\text{GFAIO (Ref)}}$$

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

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

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

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

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. In such case the Authority may also revise the efficiency targets in terms of T&D losses etc.

128. As per the given adjustment mechanism, it is clear that allowed Depreciation for the previous year will be trued downward only, keeping in view the allowed investment. Therefore, the depreciation allowed for the FY 2020-21 and onward would be trued as per the prescribed mechanism.

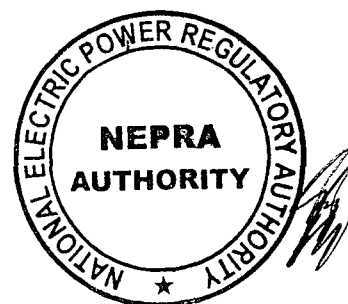
### Supplemental Charges

129. The Petitioner submitted that NEPRA has allowed offsetting the Late Payment Charges (LPC) recovered from the consumers against the Late Payment Invoices of markup on delayed payments i.e. supplemental charges raised by CPPA-G since FY 2014-15 yet the same is not enough to pay off the supplemental charges completely. It submitted that CPPA-G is charging supplemental charges to PESCO on account of delayed payments to IPPs and the shortfall is as under:

*2. Mr. M. H.*



Bln. Rs.				
FY	Supplemental Charges	Late Payment Charges Account	LPS received in Cash	Shortfall
2014-15	4.941	1.637	1.118	3.304
2015-16	2.042	1.451	1.189	0.591
2016-17	2.621	1.595	1.233	1.026
2017-18	2.846	1.839	1.325	1.007
2018-19	7.973	2.044	1.290	5.929
2019-20	13.011	3.084	1.354	9.927
2020-21	17.006	2.895	1.786	14.111
2021-22 (Up to Dec-21)	14.770	1.726	0.965	13.044
Total	65.210	16.271	10.260	48.939



130. The Petitioner accordingly requested the Authority to allow the same to PESCO.
131. Regarding assessment of Supplemental Charges, the Authority in the MYT decision of the Petitioner for the FY 2020-21 to FY 2024-25 has decided as under;

*The Authority noted that in the tariff determination of PESCO for distribution of power for the FY 2018-19 & FY 2019-20, it has been decided as under;*

*"Regarding other issues raised by the Petitioner in its instant Petition i.e. Tariff for AJK, Supplemental charges and Industrial Support package, the Authority observed that the Petitioner failed to present any new information, evidence / rationale to substantiate its aforementioned requests, which could form any basis for the Authority to reconsider its earlier decision in this regard; therefore, the request of the Petitioner to reconsider Supplemental charges, Tariff for AJK, and Industrial Support package is declined. The Authority has already discussed these issues in detail and with reasonable clarity in the Petitioner's determination dated July 12, 2018 i.e. Tariff for AJK under para 14.1 & 14.2, Supplemental charges under para 16.5 and Industrial Support Package under 22.1 to 24.1."*

*In view thereof, the Authority does not see any rationale to change its earlier decision."*

132. The Authority noted that this issue has already been deliberated in detail in earlier decisions of the Authority and the fact that the Petitioner has not raised any new grounds in support of its claim, the Authority has decided to maintain its earlier decision in this regard. The request of the Petitioner is thus declined.

#### Impact of Positive FCA on the Supplies To Life Line Consumers

133. The Petitioner stated that for impact of positive FCA on Lifeline consumers, the Authority was requested vide letter dated 14.05.2022, as discussed at para 19.7 of the determination dated 02.06.2022, however, the matter was deferred. It also stated that the said matter has repeatedly been discussed with the Tariff team and being legitimate cost, should have been allowed to PESCO in time because it is already over delayed and the delay is resulting in heavy financial charges to PESCO / Power Sector, which may be considered. Earlier, during regulatory proceeding these charges were allowed as part of periodic adjustments, however, since the issuance of Quarterly Adjustments determinations, the Authority on the issue of Periodic Quarterly Adjustments in Tariff for FY 2017-18 to FY 2020-21, has neither allowed the impact of lifeline consumers in the quarterly tariff determinations, nor the same has been allowed in Annual Tariff Determinations of PESCO as part of Prior Year Adjustments (PYA) thereby, resulting in the shortfall of Rs.1,023 million for the period FY 2017-18 to FY 2020-21. The

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yearly detail of pending / unrecovered positive FCA on lifeline consumers as per the Quarterly requests filed by PESCO and Quarterly FCA allowed by NEPRA is as under:

*Rs. In Million*

Period	Impact of T&D Losses & Lifeline Consumers as per PESCO	Impact of T&D Losses as per NEPRA Determination	Impact of FCA regarding Lifeline Consumers
FY 2017-18	565	511	54
FY 2018-19	2,352	2,150	202
FY 2019-20	5,446	4,940	506
FY 2020-21	2,731	2,470	261
Total	11,095	10,071	1,023

134. The Authority is therefore, requested to allow the impact of positive FCA, amounting to Rs.1,023 million in the matter of life line consumers as part of Prior Year Adjustment in the Multi-Year Tariff Petition filed by PESCO for its Consumer End Tariff for FY 2020-21 to FY 2024-25.

135. The Authority noted that as per the MYT determination of the Petitioner dated 02.06.2022, it has already been stated that the claim of the Petitioner requires further deliberation, therefore would be considered in the next tariff adjustment/ indexation request of the Petitioner. The relevant extract of the decision is as under;

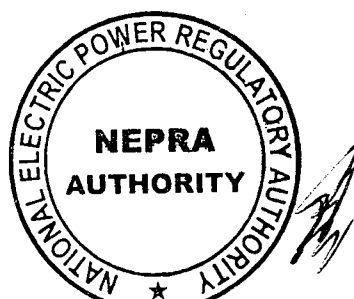
*"Here it is pertinent to mention that the Petitioner vide letter dated 14.05.2022, has provided its workings regarding impact of life line consumers on quarterly adjustments, by claiming an amount of Rs.1,023 million for the period from 4th quarter of FY 20 17-18 till the FY 2020-21. The Authority considers that the claim of the Petitioner requires further deliberation, however, considering the fact that the instant tariff determinations are at final stage, the Authority has decided to consider this claim in the next tariff adjustment indexation of the Petitioner."*

136. Thus, request of the Petitioner would be considered in the next adjustment request of the Petitioner for the FY 2022-23, to be filed in February 2023. However, a preliminary analysis of the data provided by the Petitioner shows difference between the number of units used by PESCO for calculation of impact of lifeline consumers and the units used by NEPRA in its calculations. Here it is pertinent to mention that NEPRA while working out the impact of life line consumers used the data provided by PITC for each DISCO. Therefore, the Petitioner is directed to reconcile its data with PITC and submit the same along-with its next tariff adjustment/ indexation request.

#### Uniform Seasonal Pricing Structure (USPS)

137. The Petitioner has also requested that Uniform Seasonal Pricing structure relief package was announced by the Federal Govt. vide decision dated 12-11-2019 for the period Nov-19 to Feb-20 on units consumed above the consumption at the rate of Rs.11.97/unit made during the same period / month last year. The Petitioner submitted that it has resulted in subsidy claim of Rs.707.50 million for which subsidy claims were forwarded to the MoE but were returned by the MoE (PD) with the remarks that the said S.R.O does not speak of USPS subsidy by the Federal Government.

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138. The Authority observed that the said package was announced by the Federal Government, whereby the applicable tariff was reduced by the Federal Government for certain category of consumers. Therefore, the Petitioner shall take-up this matter with the Federal Government for provision of subsidy in the matter, as nothing is pending on the part of the Authority.

#### Turnover Tax

139. The Petitioner stated that according to its MYT determination dated 02.06.2022, the Authority has decided that while going through the financial statements of the DISCOs including the Petitioner, it has been observed that significant amount of tax refund is appearing from FBR. In view thereof, the Authority decided to allow actual tax paid by the Petitioner net off of the amount of Tax Refund outstanding from FBR. It is to clarify that the amount of refund appearing in the Financial Statements relates to taxes receivables under Sales Tax Act, 1990, and is not adjustable against the Turnover Tax.
140. The Petitioner further stated that as per the filed income tax return, tax was paid for the FY 2019-20 amounting Rs.2,046 million, instead of Rs.1,576 million as determined in the MYT determination. Similarly, the tax paid for FY 2020-21 is Rs.2,145 million, therefore, the Authority is requested to allow Turnover Tax for FY 2019-20 & 2020-21 to tune of Rs.2,046 million & Rs.2,145 million, respectively.
141. It also submitted that as per the Income Tax Ordinance, 2001, the rate of Turnover Tax applicable on the company total Revenue is 1.25%, therefore, considering the regulatory requirement, the Authority is requested to allow turnover tax of Rs.2,145 million, Rs.2,947 million & Rs.4,703 million for the control period of FY 2020-21, FY 2021-22 and FY 2022-23 respectively, by considering the determined Revenue Requirement. The detail of actual and proposed turnover tax declared in the tax returns is as under:

Description	UOM	FY 2019-20 (Actual)	FY 2020-21 (Actual)	FY 2021-22 (Provisional)	FY 2022-23 (Proposed)
Rate of Tax	[%age]	1.50%	1.25%	1.25%	1.25%
Turnover Tax	[Mln Rs]	2,046	2,145	2,947	4,703

S.No.	Payment Month	FY 2021-22
1	September	500
2	December	505
3	March	510
4	To be paid in June & with the return	1,432
	Total	2,947



#### Inadmissible Input Tax;

142. The Petitioner has also requested to allow the inadmissible input tax by submitting that NEPRA guidelines for the Determination of Consumer End Tariff and Tariff Determination for FY 2017-18 allows for the claim of actual tax pertaining to relevant financial year. The Petitioner in this regard submitted that after the enactment of 25th Constitutional Amendments, the supply of electricity to erstwhile Tribal Areas (PATA) has been classified as Exempt Supplies under the Sales Tax Act, 1990 for the period 23rd July, 2018 up to 30th June, 2023. As per Section 8 of the Sales Tax Act, 1990 Input Tax Adjustment is not allowed on supplies classified

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as exempt. Resultantly, the input tax credit on such supplies is disallowed to PESCO and sales tax charged by CPPA-G on such supplies to erstwhile Tribal Areas (PATA) has to be borne by PESCO. The Petitioner, on the basis of declaration in Sales Tax Returns, provided the following details;

Description	Mln. Rs.			
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22 (Jul.21-Apr.22)
Sales Tax on Supplies to erstwhile Tribal Areas (PATA)	3,315	2,628	2,298	3,131

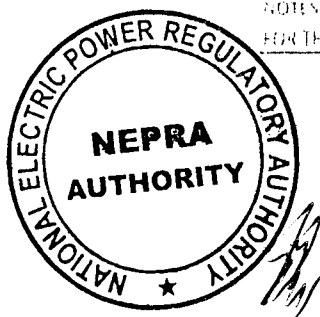
143. The Petitioner stated that the above tax is not admissible under section 8(2) of Sales Tax Act, 1990 read with Rules 25 of Sales Tax Rules relating to exempt supplies and resulted in increase of Power Purchase Price as per applicable IFRS. The Authority is again requested to consider the same and allow the aforesaid amount to PESCO as per actual expenditure made by PESCO, since taxes are pass through item as clause 16(2) of the NEPRA Guidelines for determination of Consumer End tariff (Methodology and Process) 2015.

144. The Authority regarding Turn Over Tax in the MYT decision of the Petitioner dated 02.06.2022, has decided as under;

*Regarding Turnover Tax, the Authority while going through the financial statements of the DISCOs including the Petitioner, has observed that significant amount of tax refund is appearing from FBR. In view thereof, the Authority has decided to allow actual tax paid by the Petitioner net off of the amount of Tax Refund outstanding from FBR, if any, once the Petitioner provides detail of actual tax assessments vis a vis tax paid for the last five years. Accordingly, the Petitioner is directed to provide details of actual tax assessments, tax allowed and the amount of tax paid for the last five years.*

145. The Authority noted that as per note 17.2 of the Audited Financial statements of the Petitioner for the FY 2020-21, an amount of over Rs.856 million is appearing as Income Tax Receivables. Therefore, the plea of the Petitioner that the amount appearing in the Financial Statements relates to taxes receivables under Sales Tax Act, 1990, and is not adjustable against the Turnover Tax is not correct as reproduced below;

PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021



	Note	2021 Rupees	2020 Rupees
Government taxes and other charges			
Income tax receivable		1,175,011,435	1,175,011,435
Income tax refund receivable		326,047,632	792,484,166

146. The Petitioner is therefore again directed to provide complete reconciliation of the amount of tax assessment, tax paid, tax allowed by the Authority and the amount appearing as income tax receivable in its financial statements. The Authority would consider this issue once the aforementioned details are provided by the Petitioner based on its Audited accounts for the periods.

147. Regarding inadmissible input tax, the Authority noted that the Petitioner is only allowed any corporate tax as pass through, therefore, no other tax is admissible as part of tariff. The Petitioner may take-up the issue of in-admissible income tax either with the Federal Government or relevant tax authorities.
148. In view of the above discussion the Petitioner is hereby allowed following year wise amount under the head of Postretirement Benefit, Other Expenses and RORB. The amount so allowed 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.

Rs. Mln				
Description	FY-21	FY-22	FY-23	Total
Already Allowed				
RORB	2,673	3,406	4,495	10,574
Post Retirement Benefits	5,560	6,116	6,642	18,319
Other expenses	811	913	991	2,715
	9,044	10,435	12,128	31,608
Revised Assessed				
RORB	4,220	5,622	7,514	17,356
Post Retirement Benefits	6,658	7,324	7,953	21,935
Other expenses	918	1,034	1,123	3,074
	11,796	13,979	16,590	42,365
Net Increase	2,752	3,544	4,462	10,757

149. 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. Farooq  
Chairman

