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No. NEPRA/R/ADG(Trf)/TRF-566/SEPCO-2021/477-479
January 12, 2023

Subject: **Decision of the Authority in the matter of Motion for Leave for Review filed by Sukkur Electric Power Company Ltd. (SEPCO) 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-566/SEPCO-2021]

Dear Sir,

Please find enclosed herewith subject Decision of the Authority (18 Pages) in the matter Motion for Leave for Review filed by Sukkur Electric Power Company Ltd. (SEPCO) against the Determination of the Authority for its Supply of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 in Case No. NEPRA/TRF-566/SEPCO-2021.

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

Enclosure: As above

12/01/23

(Engr. Mazhar Iqbal Ranjha)

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

CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.

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

1. Sukkur Electric Power Company Limited (SEPCO), hereinafter called "the Petitioner" being a distribution licensee of NEPRA filed Motion for Leave for Review vide letter dated June 10, 2022, against determination of the Authority dated June 02, 2022 for its Distribution of Power Tariff under the Multi Year Tariff Regime for the FY 2020-21 to FY 2024-25.

2. The Petitioner has raised the following points in its review motion;

   i. T&D Losses (raised in Supply of power Tariff MLR, however, being relevant with Distribution business has been discussed in Distribution of power MLR)

   ii. O&M costs including Salaries & Wages and Post-Retirement Benefits

   iii. Pension benefits and Surplus Staff of GENCOs

   iv. Grant of Hardship

   v. Disparity Reduction Allowance

   vi. Grant of Honorarium

   vii. Appointment against Sanctioned Posts

   viii. Replacement hiring cost

   ix. Prime Minister Assistance Package

   x. Prior Year Adjustment (PYA)

   xi. RoRB calculations (issue raise during hearing)

3. <u>Proceedings</u>

3.1 The Motion for Leave for Review was admitted by the Authority on July 14, 2022. In order to provide a fair opportunity to the Petitioner to present its case, the Authority decided to conduct a hearing in the matter which was scheduled on August 24, 2022 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner. However, the Petitioner requested to reschedule the same for September 13, 2022. Subsequently the same was again Re-scheduled upon request of the Petitioner for September 27, 2022. Revised notices of hearing were sent to the Petitioner.

3.2 The hearing was held on September 27, 2022, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
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4. **Transmission and Distribution Losses**

4.1 AT very outset it is important to mention that Petitioner has raised the issue of T&D losses in Supply of Power Tariff MLR, however, being relevant with Distribution function, the issued has been deliberated in the instant Review motion for Distribution of power tariff.

4.2 The Authority vide its determination dated 2-6-2022 has allowed following level of T&D Losses to SEPCO 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	35.30 %	34.40 %	33.40 %	32.40 %	31.40 %
Allowed	17.89 %	17.41 %	17.05 %	16.68 %	16.31 %

4.3 The Petitioner being aggrieved from the assessment of the Authority has filed Motion for Leave for Review (MLR) and requested the Authority to revise the T&D losses targets as the losses of 17.05% (FY 2022-23) are neither based on SEPCO Tariff Petition nor based on third party study; hence it needs to be reconsidered. Further, the Authority is requested to allow the Technical Losses of 19.33% for FY 2022-23.

4.4 Furthermore, the Authority has revised the margin for Law & Order from 13% to 1.40% that is a reduction of 11.6% which is on a very higher side and it is requested to reconsider the said decision. The reduction of 11.6% will put a burden on SEPCO and would adversely affect the already weak financial position of the company.

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

4.6 The Petitioner in its MLR has requested the Authority that target of T&D Losses for the Year 2022-23 may kindly be allowed as below:

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
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Technical Losses	=	19.33% (as proposed by third Party)
Admin Losses	=	14.06%
TOTAL	=	33.39%.

4.7 Moreover, during course of hearing SEPCO requested to revise the T&D losses as per following:

Description	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Transmission Losses	4.53%	4.52%	4.51%	4.50%	4.45%
11KV Distribution Losses	11.46%	11.26%	11.06%	10.86%	10.61%
LT Losses	3.34%	3.32%	3.30%	3.28%	3.26%
Margin for Law & Order	10.42%	9.92%	9.42%	8.92%	8.42%
Total T&D Loss Requested	**29.75%**	**29.02%**	**28.29%**	**27.56%**	**26.74%**

4.8 **Technical Losses:** The third party technical losses as submitted by petitioner are 19.33%. The allowed losses targets are aligned not only with third party losses assessment but also with the investment allowed to SEPCO for energy loss reduction (ELR) projects at various levels. Following are the base lines for setting the start point of T&D loss targets.

Description	**Third Party Study**	**Determination FY 2020-21**	**Reasons for Decrease in Losses as compared to**
Transmission Losses (132 KV) (%)	4.53%	1.69%	SEPCO requested transmission losses of 1.69 % loss on actual basis for FY 2020-21 with gradual decrease of 0.1% in each preceding year in its MYT petition. The requested losses being lesser than third party have been allowed to SEPCO by the Authority.
11 KV Network Losses (%)	11.46%	11.46%	An investment of Rs. 7,825 Million allowed to SEPCO under the head of ELR for loss reduction at H.T level. The H.T loss for FY 2020-21 is same as per third party study with an overall decrease of 0.78% as per allowed investment.
LT Line Losses (%)	3.34%	3.34%	Allowed 3.34% losses as proposed by third party.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA AUTHORITY

Total Technical Loss (%)	19.33%	16.49%	-

4.9 Since SEPCO did not provide any fresh rationale or evidence along with its instant MLR which supports its request of revision of loss targets, therefore, the Authority has decided to maintain its earlier decision in the matter and not to consider the SEPCOs request to revise its determined targets of T&D losses.

4.10 **Law & Order**: The most of issues raised by SEPCO are governance/administration related such as Kunda connections, non-cooperation of law enforcement agencies, massive theft & non-payment culture, resistance by defaulters in case of disconnection of supply, majority of feeders are feeding to rural areas and 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 SEPCO to consumers. Therefore, the request of SEPCO for increase in Law & Order/Admin Margin would not be considered by the Authority and accordingly decided to maintain its earlier law and order margins.

5. <u>Salaries, Wages, Benefits & Post Retirement Benefits</u>

5.1 The Petitioner submitted that it had requested the Authority in its MYT petition to allow Operation & Maintenance (O&M) cost for the FY 2020-21 to 2024-25, in the following major heads;

Rs. in Million

Description	FY 2020-21	FY 2021-22	FY 2022-23	2023-24	FY 2024-25
	Requested	Requested	Requested	Requested	Requested
Salaries, Wages & benefits	4,247	4,610	4,969	5,341	5,744
Retirement Benefits	3,868	4,008	4,469	4,808	5,175
Total Employees Cost	**8,116**	**8,618**	**9,439**	**10,149**	**10,919**
Repair & Maintenance	818	758	946	1,017	1,095
Travelling	255	347	295	317	341
Transportation	183	183	211	227	245
Miscellaneous Expenses	300	308	347	373	402
Total O&M	**9,672**	**10,215**	**11,237**	**12,084**	**13,001**

5.2 The Petitioner also submitted that the Authority had allowed O&M cost for the FY 2020-21 to 2022-23 with the reduction of 33% from the FY 2020-21 & 26% from the FY 2021-22 & 2022-23 as under;

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA AUTHORITY

Rs. in Million

Head of Account	FY 2019-20	FY 2020-21	FY 2020-21		Inc/(Dec) by Requested V/s Allowed	
	Un-Audited Expenditure	Un-Audited Expenditure	Requested	Allowed	Amount	%age
1	2	3	4	5	6	7
Pay and Allowances' & Employees benefits	3,643	3,815	4,247	3,627	-621	-15%
Post Retirement benefits	5,634	4,816	3,868	1,428	-2,440	-63%
Repair & Maintenance	845	622	818	804	-14	-2%
Travelling Expenses	208	253	255	225	-30	-12%
Transportation Expenses	145	134	183	174.5	-8	-5%
Other Charges	245	435	300	205	-95	-32%
Total	**10,721**	**10,075**	**9,672**	**6,463**	**-3,209**	**-33%**

5.3 **On the issue of Salaries & wages**, the Petitioner submitted that it requested an amount of Rs.8,116 million, against its actual expenditure of Rs.9,277 million for the FY 2020-21. However, the Authority reduced the Salaries & wages cost by 15%.

5.4 The Petitioner provided the following summary of its allowed and requested expenses for the FY 2020-21, FY 2021-22 and FY 2022-23 under the head of Salaries, wages and other benefits;

Description	FY 2020-21		FY 2021-22		FY 2022-23	
	Requested	Allowed	Requested	Allowed	Requested	Allowed
Salaries, Wages & Benefits	4,247	3,627	4,610	4,435	4,969	4,918

5.5 The Authority observed that in the MYT determination of the Petitioner dated June 02, 2022, while assessing the Salaries, Wages & other benefits of the Petitioner, the matter was decided as under;

Considering the fact that the cost for the FY 2020-21 is being assessed, which would be used as reference during the MYT control period, <u>the Authority has decided to consider the costs as per the accounts of the Petitioner for the FY 2019-20 as base year</u> as explained in the preceding paras. It is also pertinent to mention that being a public sector company, the Petitioner is required to pay, its employees, increases in salaries & wages announced by the Federal Government through Budget.

<u>The actual cost reflected in the accounts of the Petitioner for the FY 2019-20, under Salaries & Wages (excluding postretirement benefits, discussed separately) is Rs.4,082 million</u>. 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, <u>the</u>

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY NEPRA AUTHORITY *cost of Salaries & Wages (excluding postretirement benefits, discussed separately), for both the Distribution and Supply Functions works out as Rs.4,504 million.*

Here it is pertinent to mention that the Petitioner, despite the Authority's clear directions, has still not provided the replacement hiring certificate. Therefore, the replacement hiring Cost, which works out as Rs.116 million for the FY 2020-21, which has been adjusted from the cost of Salaries & Wages assessed for the FY 2020-21.

In view thereof, net amount of Rs. 4,388 million net of replacement hiring cost 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.

The Petitioner is also directed to provide certificate of replacement hiring from its Auditors as directed by the Authority in its previous tariff determinations. Once the requisite certificate is provided by the Petitioner, the Authority may consider allowing the cost of replacement hiring prospectively and no adjustment would be allowed for previous periods deducted cost.

Since the accounts of the Petitioner, do not provide bifurcation of the Salaries, Wages and other benefits costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of Salaries, Wages and other benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of Salaries, Wages and other benefits (excluding postretirement benefits) for the FY 2020-21 pertaining to the distribution function works out as Rs.3,627 million.

The assessed Salaries & Wages costs for the FY 2020-21 i.e. Rs.3,627 million, shall be considered as the reference cost for working out future Salaries & Wages expenses of Distribution function, in the remaining control period as per the adjustment mechanism prescribed in the instant determination.

5.6 As per above, the Authority while assessing the Salaries, wages & other benefits of the Petitioner for the FY 2020-21 (excluding postretirement benefits), considered the actual costs under these heads as per the Provisional accounts of the Petitioner for the FY 2019-20, provided by the Petitioner itself. 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) was allowed to the Petitioner.

5.7 Here it is also pertinent to mention that Audited Accounts of the Petitioner for the FY 2019-20 have still not been provided. Upon inquiry, the Petitioner has submitted that the same are in process. Considering the fact that even the first half of the FY 2022-23 has also lapsed, non-provision of audited accounts even for the FY 2019-20 is gross

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

inefficiency on the part of the Petitioner, for which the tariff determinations cannot be delayed.

5.8 In view thereof and considering the fact that Audited accounts of the Petitioner for the FY 2019-20, are not available, any revision in the already allowed amount of Salaries, wages & other benefits of the Petitioner, is not justified. Accordingly, the Authority has decided not to accept the request of the Petitioner to allow any revision in the already allowed amount of Salaries, wages & other benefits of the Petitioner.

5.9 **On the issue of Post-Retirement Benefit;** The Petitioner submitted that the Authority has reduced Post Retirement Benefits by (63%) from requested FY 2020-21 & 75% from actual expenditure as mentioned below;

Rs. in Million

Description	FY 2020-21		FY 2021-22		FY 2022-23	
	Requested	Allowed	Requested	Allowed	Requested	Allowed
Post-Retirement Benefits- Distribution	3,868	1,428	4,008	1,571	4,469	1,706

5.10 The Petitioner submitted that as per its provisional financial statement for the FY 2020-21, the total expenditure for Post-retirement benefits for both Distribution and Supply Function is Rs.4,816 million based on the Actuarial valuation report. The Authority has allowed only Rs.1,428 million, for the Post retire benefits for the FY 2020-21 for the distribution function, which is insufficient to meet the Company obligation towards Post retirement benefits. The Petitioner accordingly requested to allow Rs. 4,816 million, as per the Actuarial valuation report.

5.11 The Authority noted that in the MYT decision of the Petitioner dated 02.06.2022, the matter was decided as under;

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 37% as compared to the allowed target of 18.11%. Similarly, the recovery ratio of the Petitioner during the FY 2019-20 remained far 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 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.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

The Authority is also cognizant of the fact that payment of postretirement benefits to the retired employees is a compulsory obligation of the Petitioner which can be best fulfilled through a separate postretirement Fund having sufficient funds. However, failure of the Petitioner to create a Fund or deposit the amount of already collected provision of postretirement benefits into the Fund, would not absolve the Petitioner from its responsibility in this regard.

In view thereof, the Authority has decided to consider the amount of actual payments as per the provisional 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.1,435 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.

Since the Audited accounts of the Petitioner, do not provide bifurcation of post-retirement benefits in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of post-retirement benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of post-retirement benefits for the FY 2020-21 pertaining to the Distribution function works out as Rs.1,428 million. At the same time the Petitioner is again directed to create a separate Fund for its post-retirement benefits and deposit the amount of already collected provision of postretirement benefits into the Fund.

5.12 As per the above decision, the Authority allowed the actual cost of post-retirement benefits for the FY 2020-21, based on the provisional accounts of the Petitioner for the FY 2019-20 as provided by the Petitioner itself. The amount of actual payments as per the provisional accounts of the Petitioner for the FY 2019-20 was considered 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 was allowed as Rs.1,435 million.

5.13 The Petitioner, however, again has requested for provision of post-retirement benefits. The Authority in its decision dated 02.06.2022 decided that although, the Petitioner created the Pension Fund, however, the Authority also took into account 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 37% as compared to the allowed target of 18.11%. Similarly, the recovery ratio of the Petitioner during the FY 2019-20 remained far below the allowed level of 100% recovery target. The Authority, therefore, keeping in view the operational performance of the Petitioner considered that at this point in time allowing provision for post-retirement benefits instead of actual payments made by the Petitioner, would not be in

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA AUTHORITY

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. 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.

5.14 In view thereof, the Authority does not see any justification to revise its earlier decision in the matter, and has therefore decided not to accept the request of the Petitioner to allow any revision in the already allowed amount of Post-retirement benefits.

6. Pension benefits and Surplus Staff of GENCOs

6.1 **Regarding Surplus Staff of GENCOs;** The Petitioner submitted that the Authority was requested to allow the cost of employees of GENCO's in the MYT Petition for the FY 2020-21 to 2024-25, in pursuance of decision of ECC dated 07-04-2021. PEPCO vide order dated 20-05-2021. has adjusted the 515 Nos. GENCO's employees declared Surplus in SEPCO, as under;

Sr.#	Cadre	BPS	No of Emp.
1	AM / B&AO	17	1
2	Accounts Assistant	16	4
3	Transport Supervisor	16	1
4	SSO-I	16	15
5	Steno	16	3
6	Accounts Assistant	15	5
7	LS-I	15	61
8	LS-II	14	28
9	SSO-II	14	31
10	UDC	11	4
11	Crane Operator	11	1
12	LDC	9	53

Sr.#	Cadre	BPS	No of Emp
13	UDC	9	16
14	Fitter	9	6
15	Meter Reader	9	6
16	Security Sargent	8	8
17	ALM	7	115
18	Bill Distributor	7	19
19	Telephone Operator	7	3
20	Security Guard	6	118
21	Driver	6	1
22	Plumber	5	1
23	Naib Qasid	1	15
	Total		515

6.2 The Petitioner requested an amount of Rs.340.928 million per year in this regard.

6.3 **Regarding Pensioners of GENCOs:** The Petitioner also stated that decision of ECC regarding adjustment of pensioners of GENCOs Power Plants under closure has been endorsed by the CEO, GHCL Islamabad vide letter dated: 26.11.2021. Para-6 of the summary presented by Power Division in this regard is reproduced below:

"It is proposed that 2,368 pensioners of GENCOs may be adjusted in their pension disbursing DISCOs or WAPDA as per detail attached at (Annex-IV). Similarly, 1753 employees of these plants would be adjusted in DISCOs (details at Annex- V). Pensioners of these employees will be paid by the relevant DISCOs on their retirement according to rules of the relevant DISCOs. In turn the respective DISCOs and WAPDA would claim adjustment of the same from NEPRA in their respective tariffs."

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

6.4 The Petitioner submitted that there are 347 Nos. of GENCOs Pensioners, which are receiving monthly pension amounting to Rs.10.685 million on behalf of GENCO and funds are being re-imbursement by concerned GENCO on monthly basis. Now SEPCO has to pay the monthly pension to these pensioners w.e.f. 01.10.2021 for which it has to claim adjustment from NEPRA in its Consumer End Tariff. In addition to monthly pension, the Petitioner submitted that it will also bear the free electricity and Medical facility as per rules.

6.5 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.

6.6 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.

6.7 Similarly, regarding cost of GENCOs surplus staff, the Petitioner is directed to bring the matter as part of its Mid-term review, by clearly providing details of each such employee, its actual cost incurred if any, along-with the quantified benefits accrued. The Authority understands that with this surplus staff of GENCOs being transferred to DISCOs, the Petitioner's requirement of additional recruitment would become minimum, if not eliminated. The Petitioner is therefore directed to account for this fact in its midterm review petition for the purpose of additional recruitment.

7. <u>Grant of Hardship 2021;</u>

7.1 The Petitioner has submitted that its Board of Directors in 59th meeting held on 15-07-2021, has approved the Hardship allowance equivalent to one month basic pay to all employees of Company, having financial impact Rs.164.404 million. The Petitioner accordingly requested to allow this cost under the head "employee benefits".

7.2 The Authority understands that appreciation and providing incentives to employees can encourage employee performance and stimulate productivity. Employees are given such incentives in order to get maximum output from them, however, such incentives are given by the organizations out their profits/ returns. Therefore, if the Petitioner wants to incentivize its employees by allowing hardship allowance, it needs to be paid by the Petitioner out of its profits/ returns and shall not be charged as cost to power sector consumers. It is also important to highlight that no such cost was requested by the Petitioner either in its original MYT petition or subsequently during hearing of the MYT

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

Petition held on 16.12.2021. Therefore, the instant request of the Petitioner does not merit consideration and hence declined.

8. Disparity Reduction Allowance:

8.1 The Petitioner on the issue submitted that Government of Pakistan has approved Disparity Reduction Allowance @ 15% of basic pay of pay scale 2017 to all Federal Government Employees from BPS-01 to BPS-19 w.e.f 1st March, 2021 vide notification dated 23rd February, 2022. The same has a financial impact Rs.173.581 million, which may be allowed.

8.2 The Authority on the request of the Petitioner to allowing Disparity reduction allowance @ 15% of Basic Pay w.e.f. March 2021, noted that as per the notification of the Federal Govt., the allowance is applicable w.e.f. March 2022 as reproduced below;

> Subject:- **GRANT OF DISPARITY REDUCTION ALLOWANCE-2022**
>
> **The undersigned is directed to convey the approval of the Federal Government for grant of Disparity Reduction Allowance @ 15% of the basic pay of Basic Pay Scales 2017 w.e.f. 1st March 2022. This allowance shall be admissible to civil employees in BPS 1-19 of the Federal Government, (including employees of the Federal Secretariat, attached departments and subordinate offices) who have never been allowed additional allowance / allowances equal to or more than 100% of the basic pay (whether frozen or not) or performance allowance subject to the following conditions:**

8.3 As per the above notification, impact of Disparity Reduction Allowance @ 15% for the FY 2021-22, for the 04 months period i.e. from March 2022 to June 2022, has already been incorporated in the allowed Salaries, Wages & Other Benefits of the Petitioner for the FY 2021-22. Similarly while allowing Salaries, Wages & Other Benefits for the FY 2022-23, the impact of Disparity reduction allowance @15% for the complete year i.e. FY 2022-23 has been allowed to the Petitioner.

8.4 In view of the above discussion, the instant request of the Petitioner does not merit consideration and hence declined.

9. Grant of Honorarium:

9.1. The Petitioner submitted that its Board of Directors in 66th Board meeting held on 18.11.2021 has approved honorarium equivalent to the one month basic pay to all employees of the Company, having financial impact Rs.145.99 million. The Petitioner requested the Authority to allow this cost under the head "employees benefits".

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

9.2. Regarding request of the Petitioner for grant of Honorarium, the Authority noted that as per practice, DISCOs are allowed one bonus @ one basic pay. The Authority as per practice has been allowing the same to the Petitioner and other DISCOs. As per the provisional accounts provided by the Petitioner for the FY 2019-20, which were considered as basis for assessment of Salaries, Wages & Other Benefits of the Petitioner for the FY 2020-21, no disclosure for the said cost was available, therefore was not allowed to the Petitioner as part of the Salaries, Wages & Other Benefits.

9.3. In view thereof, the Authority has decided to allow this cost of Rs.146 million to the Petitioner as part of its reference Salaries, wages & Other Benefits costs for the FY 2020-21. The same has been indexed for future years i.e. FY 2021-22 and FY 2022-23, as per the indexation/ adjustment mechanism prescribed in the MYT determination. The year wise additional impact of the same is as under;

Rs. Mln

Description	FY-21	FY-22	FY-23	Total
Honorarium	146	164	179	**489**

9.4. 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.

10. <u>Appointment against Sanctioned Posts;</u>

10.1. The Petitioner submitted that Board of Directors of SEPCO in its 66th Board meeting held on 18-11-2021, has approved to appointment 172 new hiring proposed i.e. 86 Posts in BPS 17 & 18 and 86 Nos. of Linemen in BPS-05 as under, having annual financial impact of Rs.150.18 million;

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
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Sr. #	Nomenclature of the Post	BPS	No of Posts	Impact (Rs./Month)
1	Dy: Manager (Project Finance)	18	1	131,825
2	Dy: Manager (Security)	18	1	131,828
3	Dy: Manager (PMC)	18	1	131,825
4	Dy: Manager (Transport)	18	1	131,825
5	Dy: Manager (Legal) WMC	18	2	131,825
6	Dy: Manager (Public Relations)	18	1	131,825
7	Dy: Manager (Tax & Banking)	18	1	131,825
8	Dy: Manager (Tariff)	18	1	131,825
9	Dy: Manager (E&SG)	18	1	131,825
10	Dy: Manager (Safty)	18	1	131,825
11	Jr: Engineer / SDO	17	40	4,367,360
12	Assist: Manager (Store)	17	7	764,288
13	Assist: Manager (PS/A)	17	5	545,920
14	Jr: Engineer (Civil) Eng:	17	2	218,368
15	Assistant Manager (CA)	17	6	655,104
16	Assistant Manager (Comm)/ RO	17	12	1,310,208
17	Assistant Manager Admn	17	3	327,552
	Total		**86**	**9,638,875**
18	Assistant Linemen	5	**86**	**2,876,442**
	Total		172	12,515,317

10.2. The Authority on the issue of additional hiring in the MYT decision of the Petitioner dated 02.06.2022, decided as under;

Regarding additional recruitment, the Authority observed that Salaries & Wages cost for the FY 2019-20, as per the 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 3rd year of the MYT control period, whereby the Petitioner would provide complete detail/ justification of the recruitment made along-with benefits achieved. The mid-term review would be carried out, in case the Petitioner remains in the Public sector.

10.3. Thus, the matter has already been deliberated in detail as mentioned above, whereby the Authority decided to consider the financial impact of any additional hiring during the midterm review as 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.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

10.4. In view thereof, the Authority does not see any justification to revise its earlier decision in the matter, and has therefore decided not to accept the request of the Petitioner to allow any cost of proposed additional hiring.

10.5. The Authority understands that with this surplus staff of GENCOs being transferred to DISCOs, the Petitioner's requirement of additional recruitment would become minimum, if not eliminated. The Petitioner is therefore directed to account for this fact in its midterm review petition for the purpose of additional recruitment.

11. Replacement hiring cost

11.1. The Petitioner stated that the Authority has adjusted an amount of Rs.116 million from the cost of Salary & wages for the FY 2020-21 due to non-provision of certificate of replacement hiring by the Company. The Petitioner has requested the Authority to allow the cost of Rs.116 million in the cost of Salary & wages for FY 2021-22, as the requisite certificate will be provided to the Authority within 02 Months.

11.2. The Authority on the issue of additional hiring in MYT decision dated 02.06.2022, decided as under;

Here it is pertinent to mention that the Petitioner, despite the Authority's clear directions, has still not provided the replacement hiring certificate. Therefore, the replacement hiring Cost, which works out as Rs.116 million for the FY 2020-21, which has been adjusted from the cost of Salaries & Wages assessed for the FY 2020-21.

In view thereof, net amount of Rs.4,388 million net of replacement hiring cost 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.

The Petitioner is also directed to provide certificate of replacement hiring from its Auditors as directed by the Authority in its previous tariff determinations. Once the requisite certificate is provided by the Petitioner, the Authority may consider allowing the cost of replacement hiring prospectively and no adjustment would be allowed for previous periods deducted cost.

11.3. Regarding replacement hiring certificate the Authority had been directing the Petitioner since FY 2014-15 to provide the required replacement hiring certificate but the same has not yet been provided by the Petitioner. Even in the review petition, the Petitioner has again submitted to provide the certificate within 02 months.

11.4. In view thereof, the Authority in the MYT determination of the Petitioner dated 02.06.2022 and in its earlier decisions, disallowed the said costs and deducted the same on account of replacement hiring. The Authority in the MYT determination of 02.06.2022 again directed the Petitioner to provide certificate of replacement hiring

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

from its Auditors and once the requisite certificate is provided by the Petitioner, the Authority may consider allowing the cost of replacement hiring prospectively but no adjustment would be allowed for previous periods deducted cost.

11.5. In light of above discussion, the instant request of the Petitioner to allow cost immediately without provision of requisite certificate is not justified and hence declined.

12. <u>Prime Minister Assistance Package:</u>

12.1. The Petitioner has requested an amount of Rs.1,487.5 million for the Prime Minister Assistance Package for the families of the employees who died in service w.e.f 09-01-2015, to be paid to them as lump sum grant and payment in view of Plot.

12.2. Regarding, P.M Assistance package, the Authority in the MYT determination of the Petitioner dated 02.06.2022, decided as under;

Regarding PM assistance package, although the Petitioner has not provided any detailed workings/ submissions, however, the Authority in principle agrees with the request of the Petitioner to allow the Prime Minister Assistance Package as announced by the Federal Government for the families of employees who died during service. However, for the requested amount, the Authority considers that allowing any such costs, upfront would be unfair with the consumers, therefore, the Authority may consider such costs once the actual expenditure is incurred by the Petitioner. Therefore, the Petitioner is required to provide employees name, CNIC number, designation, date of death, along with the financial impact, etc. once the actual payment is made, in its next tariff petition/adjustment request for consideration of the Authority.

12.3. As mentioned above, the Authority has already decided that SPECO may be allowed the cost on account of Prime Minister Assistance Package, in its next tariff petition/adjustment request once the Petitioner provides actual details in terms of employees name, CNIC number, designation, date of death, financial impact, etc. once the actual payment is made.

12.4. In light of above discussion, the instant request of the Petitioner to allow cost immediately without provision of requisite information is not justified and hence declined.

13. <u>Prior Year Adjustment (PYA)</u>

13.1. The Petitioner regarding PYA submitted in the Review Motion that it will claim PYA through addendum after reconciliation of its figures with the Authority. No such addendum has been submitted by the Petitioner, therefore, the Authority does not see any action required in the matter.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA AUTHORITY

14. RORB Calculation

14.1. The Petitioner during the hearing submitted that as per the MYT determination, 70% cut has been imposed on return on CWIP *(based on Maharashtra Electricity Regulatory Commission practices)* which is inconsistent with previous practices of the Authority and not covered in its any regulations. Disallowing the Debt Portion of CWIP is unrealistic and not matching with Capital Structure of the Company. The Petitioner has provided following workings in this regard;

Description	Unit	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
RORB Determined 30%	[Mln Rs.]	999	1,311	2,262	4,572
RORB Proposed 100%	[Mln Rs.]	**3,040**	**3,569**	**3,947**	**10,556**
Withheld (70%)	[Mln Rs.]	(2,041)	(2,258)	(1,685)	(5,984)

14.2. The Petitioner also submitted that excess deduction was made on account of deferred credits, which resulted in lower RORB. The Petitioner has provided following workings in this regard;

Description	2018-19	2019-20	2020-21
Deferred Credit			
NEPRA Determined	13,674	13,087	12,979
Actual	5,047	5,293	5,909
Execee Adjustment	**8,627**	**7,794**	**7,070**
Cash Shortfall			
Deposit	3,038	3,275	3,273
Meter Security	1,080	1,174	1,271
	4,118	**4,449**	**4,544**

14.3. 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.

14.4. 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.

14.5. 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

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA AUTHORITY

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.

14.6. 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.

14.7. 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.

14.8. 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;

Rs. Mln

Description	FY-21	FY-22	FY-23	Total
Already Allowed RORB	999	1,311	2,261	4,571
Revised RORB	**1,543**	**2,303**	**4,439**	**8,285**
DOP	*1,541*	*2,300*	*4,432*	*8,272*
SOP	*3*	*4*	*7*	*14*

14.9. 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.

15. In view of the above discussion the Petitioner is hereby allowed following year wise amount under the head of RORB and Salaries, wages & Other Benefits. 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.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

Rs. Mln

Description	FY-21	FY-22	FY-23	Total
Honorarium	146	164	179	**489**
Increase in RORB	544	992	2,178	3,714

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

AUTHORITY

Mathar Niaz Rana (nsc)
Member

Rafique Ahmed Shaikh
Member

Engr. Maqsood Anwar Khan
Member

Tauseef H. Farooqi
Chairman

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA AUTHORITY

12/01/2023