Registrar

National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-636/HAZECO/Distribution/TRF/2025/ 390-97 January 07, 2026

SUBJECT: **DETERMINATION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY HAZARA ELECTRIC SUPPLY COMPANY LIMITED (HAZECO) FOR DETERMINATION OF DISTRIBUTION TARIFF FOR THE FY 2025-26**

Please find enclosed herewith the subject Determination of the Authority (total 32 pages).

2. The Determination of the Authority, is hereby intimated to the Federal Government for filing of uniform tariff application in terms of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997. The instant determination of the Authority along-with order part, be also notified in terms of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, while notifying the uniform tariff application decision of the Authority.

Enclosure: As above

Wasim Anwar

(Wasim Anwar Bhinder)

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

Copy to:

1. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
2. Mr. Shehriyar Abbasi, Deputy Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
3. Secretary, Energy and Power Department, Government of Khyber Pakhtunkhwa, 1st Floor, A-Block, Abdul Wali Khan Multiplex, Civil Secretariat, Peshawar
4. Managing Director, National Grid Company (NGC) of Pakistan, 414 WAPDA House, Shaharah-e-Qauid-e-Azam, Lahore
5. Chief Executive Officer, Central Power Purchasing Agency Guarantee Ltd., (CPPA-G), Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad
6. Chief Executive Officer, Hazara Electric Supply Company (HAZECO), 426/A, PMA Link Road, Jinnahabad Abbottabad
7. Chief Executive Officer, Independent System and Market Operator (ISMO) of Pakistan, Pitras Bukhari Road, Sector H-8/1, Islamabad

National Electric Power Regulatory Authority
(NEPRA)

PETITION NO: NEPRA/TRF-636/HAZECO/Distribution/TRF/2025

DETERMINATION OF DISTRIBUTION OF POWER TARIFF PETITION

FOR

HAZARA ELECTRIC SUPPLY COMPANY LIMITED (HAZECO)

FOR THE FY 2025-26 UNDER

NEPRA TARIFF (STANDARDS AND PROCEDURE) RULES - 1998

Islamabad
January 07, 2026

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Abbreviations

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

MoWP	Ministry of Water and Power
MVA	Mega Volt Amp
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
NOC	Network Operation Centre
NTDC	National Transmission & Despatch Company
O&M	Operation and Maintenance
OGRA	Oil and Gas Regulatory Authority
PESCO	Peshawar Electric Supply Company Limited
PDEIP	Power Distribution Enhancement Investment Program
PDP	Power Distribution Program
PPA	Power Purchase Agreement
PPAA	Power Procurement Agency Agreement
PPP	Power Purchase Price
PYA	Prior Year Adjustment
R&M	Repair and Maintenance
RAB	Regulatory Asset Base
RE	Rural Electrification
RFO	Residual Fuel Oil
RLNG	Re-gasified Liquefied Natural Gas
RoE	Return on Equity
RORB	Return on Rate Base
ROR	Rate of Return
SBP	State Bank of Pakistan
SOT	Schedule of Tariff
STG	Secondary Transmission Grid
SYT	Single Year Tariff
T&D	Transmission and Distribution
TFC	Term Finance Certificate
TOU	Time of Use
TOR	Term of Reference
TPM	Transfer Price Mechanism
USCF	The fixed charge part of the Use of System Charges in Rs./kW/Month
UOSC	Use of System Charges
WACC	Weighted average cost of capital
WAPDA	Water and Power Development Authority
XWDISCO	Ex-WAPDA Distribution Company

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DETERMINATION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY HAZECO ELECTRIC SUPPLY COMPANY LIMITED (HAZECO) FOR DETERMINATION OF DISTRIBUTION TARIFF FOR THE FY 2025-26

PETITION NO: NEPRA/TRF-636/HAZECO/Distribution TRF/2025

PETITIONER

Hazara Electric Supply Company Limited (HAZECO), WAPDA Computer Center, Abbotabad.

INTERVENER
Nil

COMMENTATOR
Nil

REPRESENTATION

HAZECO was represented by its Chief Executive Officer along-with his technical and financial teams.

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1. Background

1.1. The Authority issued Distribution and Supplier of Last Resort (SoLR) Licenses to Hazara Electric Supply Company (HAZECO) vide decisions dated 23.05.2025. The Petitioner was thus required to file its tariff Petitions for both the Distribution and Supply functions, in line with the NEPRA Guidelines for determination of Consumer End tariff (Methodology and Process) 2015, along-with its distribution investments plan and assessment of T&D losses. The Authority accordingly vide letter dated 23.05.2025, directed HAZECO to immediately file the Multi-Year Petitions for determination of tariff for the Distribution and Supply businesses and to also file interim tariff petitions for its Distribution and Supply business for the FY 2025-26, as the Tariff for the FY 2025-26 is required to be implemented w.e.f. 01.07.2025.

1.2. Pursuant thereto, the Petitioner filed its tariff petitions along-with application for grant of interim tariff for the FY 2025-26, vide letter dated 04.06.2025. The Authority admitted the tariff petitions filed by HAZECO and also while acceding to the request of the Petitioner, allowed an interim tariff for the FY 2025-26 vide decision dated 23.06.2025, after following the due process of law.

1.3. The Petitioner, inter alia, requested the following costs for its Distribution of power function for the FY 2025-26;

Description	Unit	FY 2025-26
Power Purchases	GWh	2,722
T&D Losses	%	15.39%
Units Lost	GWh	419
Unist to be sold	GWh	2,303
Margin		
Salaries and benefits	Rs. Mln	4,583
Repair and Maintenance	Rs. Mln	229
Travelling expenses	Rs. Mln	51
Vehicle expenses	Rs. Mln	122
Other expnese	Rs. Mln	68
Total O&M Costs	Rs. Mln	5,053
Depreciation	Rs. Mln	748
Return on Rate Base	Rs. Mln	2,423
Gross Distribution Margin	Rs. Mln	8,224
Less: Other Income	Rs. Mln	-378
Net Distribution Margin	Rs. Mln	7,846
Requested Tariff	Rs./kWh	3.41

2. Proceedings

2.1. In terms of Rule 4 of the Rules, the Petition was admitted by the Authority. Since the impact of any such costs has to be made part of the consumer end tariff, therefore, the Authority, in order to provide an opportunity of hearing to all the concerned parties and to meet the ends of natural justice, decided to conduct a hearing in the matter.

2.2. Hearing in the matter was scheduled on November 06, 2025, for which notice of admission / hearing along-with the title and brief description of the petition was published in the newspapers and also uploaded on NEPRA website; Individual notices were also issued to stakeholders/ interested parties.

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3. Issues of Hearing

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

i. Whether the projected power Purchases and sales are justified?

ii. Whether the requested O&M cost for FY 2025-26, is justified and what are the basis for such projections?

iii. Whether the requested new hiring is justified and what are basis for new hiring?

iv. Whether the requested amount for FY 2025-26 under heads of Other Income, Deprecations and RORB based on WACC of 17.05% is justified?

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

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

4. Filing Of Objections/ Comments

4.1. Comments/replies and filing of Intervention Request (IR), if any, were desired from the interested person/ party within 7 days of the publication of notice of admission in terms of Rule 6, 7 & 8 of the Rules. In response no intervention request/ comments were received.

4.2. During the hearing, the Petitioner was represented by its Chief Executive Officer along-with its technical and financial teams.

4.3. On the basis of pleadings, evidence/record produced and arguments raised during the hearing, issue-wise findings are given as under:

5. Whether the projected power Purchases and sales are justified?

5.1. The Petitioner, during the hearing submitted following historical trend of its purchases/ sales;

Year	Units Purchased (MkWh)	Units Sold (MkWh)
2023-24	2,517	2,121
2024-25	2,646	2,233
2024-25 (July-Sept)	788	643
2025-26 (Jul -Sept)	836	708

5.2. The Petitioner submitted that based on the forecast analysis as well as the historic trend, units projected sale for FY 2025-26 is 2,303 MkWh for 805,584 consumers & a growth of about 2 to 3 % is considered owing to increase in the demand.

5.3. The Authority noted that PPP is the major component of consumer-end tariff, which accounts for around 90% of total consumer-end tariff. The Authority has determined the power purchases (GWhs) along-with its cost for each of the DISCOs through a separate decision, therefore, for the purpose of instant decision, the power purchases (GWhs) of the Petitioner as per the separate PPP decision, have been taken into account.

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6. Whether the requested/projected O&M cost is justified and what are the basis for such projections?

7. Whether the requested new hiring is justified and what are basis for new hiring?

7.1. The Petitioner submitted that its Revenue Requirement for Distribution of Electricity has two components i.e. Distribution Margin and Financial Charges. The Distribution Margin of Distribution (Non-Sale Elements) comprises of Actual salaries and wages of GSO Circle, PD GSC and PD C&O, XEN Operations etc. since these circles /directorates are responsible for construction, rehabilitation, augmentation and similar activities involved in Distribution (Non-Sale Elements) for providing electricity to the end consumers. The Petitioner made the following submissions in this regard:

- ✓ The XEN offices comprise of technical as well as administrative staff, the salaries of technical officer and officials such as XEN, SDO, line man, assistant line man, line supervisor etc. have been allocated to Distribution (Non-Sale Elements) on actual basis except for meter reader, bill distributer and meter reader supervisor, as the same has been allocated to Power Supply (Sale of Electric Power) as their job description relates to billing and recovery.
- ✓ Moreover, the expenditure of HQ, and other offices has been allocated on the most suitable basis to Distribution (Non-Sale Elements) or Power Supply (Sale of Electric Power). Distribution Margin is calculated in the light of NEPRA Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015 and is equally important as HAZECO must earn sufficient distribution margin and adequate stream of cash flow to maintain its system, discharge its financial commitments, invest to expand and maintain the network and to provide a reasonable return to the sponsors on their investment.
- ✓ The sum of O&M Cost, Depreciation and RORB minus Other Income results in HAZECO's Distribution Margin, dividing this by the total units sold yields the average Distribution Margin per kwh. The bifurcated DM of HAZECO for Distribution Licensee for FY 2023-2024 was Rs.3.12/kWh and the DM for FY 2025-26 is projected Rs.3.41/kwh. O&M expenses include Salaries & Wages, Repair & Maintenance, Travelling, Vehicle Running and Other Expenses. Based on the impact of increase in inflation, salaries and other allowances, the Audited O&M Expense for Distribution (Non-Sale Elements) FY 2023-24 are Rs.4,127 million and the projections for FY 2024-25 & 2025-26 are as per detail below:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	3,814	4,047	4,583
Repair and Maintenance	189	208	229
Traveling Expenses	36	41	51
Vehicle Expenses	57	85	122
Other Expenses	30	62	68
Grand Total	4,127	4,443	5,052
%Increase/(Decrease)		8%	14%

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✓ The Average O&M Expense (Rs./kWh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Salaries and Benefits	1.80	1.81	1.99
Repair and Maintenance	0.09	0.09	0.10
Traveling Expenses	0.02	0.02	0.02
Vehicle Expenses	0.03	0.04	0.05
Other Expenses	0.01	0.03	0.03
Grand-Total	**1.95**	**1.99**	**2.19**
%Increase/(Decrease)		2%	10%

✓ Salaries & Wages including employee's retirement benefits is the major component of O&M expense. The following additional increases are also made by GoP in its annual budget for FY 2024-25 along with various other impacts:

Increase in Pay & Allowances announced for FY 2025-26:

i. Expected increase in salaries (15%).

ii. Impact of Additional recruitment.

iii. The cost of new hiring has been claimed as an additional requirement for the newly established HAZECO. In the absence of adequate staff hiring, the company will not be able to operationalize its functions effectively.

iv. Employees Retirement Benefits have been based on the average of annual increase in the last two years audited figures.

✓ Keeping in view the above increases, the Salaries and Wages are based on the Bifurcated Audited Financial Statement of HAZECO for FY 2023-24 and Provisional figure for FY 2024-25 and projected for FY 2025-26 are as under:

Mln. Rs.

Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Pay & Allowances	5,770	6,122	6,933

New Recruitment:

Description	FY 2026
	Prov.
New Hiring (Nos)	
Cost (Mln. Rs.)*	419

✓ The requirement for a Single Year Tariff (SYT) has been presented in the proposal based on a rational and data-driven approach. The consumer base growth has been assessed by comparing the number of consumers in January 2024 and January 2025, and the increase

has been duly quantified. In addition, the projected retirements during FY 2025–26 have been factored in, and based on this analysis, the need for new hiring of qualified professionals and essential staff has been determined to ensure operational readiness and regulatory compliance.

- ✓ It is important to highlight that the projected human resource requirements presented herein are based on reasonable assumptions and operational forecasts, which may be revised as per ground realities during the course of implementation. Accordingly, the number and categories of staff may change depending on actual functional needs and regulatory considerations. Furthermore, the recruitment process at HAZECO will be carried out in accordance with the approved organogram and will also consider the manpower being transferred from PESCO under the bifurcation scheme. All recruitments will be undertaken in line with government policy guidelines and approvals from the competent forums.
- ✓ However, the then PEPCO has devolved all the matters regarding HR affairs of DISCOs being processed by the then PEPCO to DISCOs vide letter No. GMHR#5778-5810, dated 14.01.2021 conveying that respective BoDs should exercise the powers of the MD PEPCO which will bring an opportunity for the Company to proceed for HR requirements through its BoD against critical requirements as and when considered necessary or unavoidable.
- ✓ HAZECO is currently working on strength of 1,731 employees approximately out of which 58 are officers of different grades. The shortage of the staff is the main cause of losses and system constraints being faced by HAZECO at present.
- ✓ The O&M expenses are one of the major unknowns for XWDISCOs in Pakistan due to many uncontrollable factors such as statutory implications arising out of increase in salaries (as announced by the Federal Government), increase in certain expenses due to growth in consumer base, this includes increase in maintenance expenses, meter reading expenses, whereas other expenses are directly linked to the rate of petroleum. The employees' cost includes costs related to salaries and benefits of all staff (administrative, operational and security). To ensure an efficient, coordinated, economical distribution system and to build, maintain and operate the system more systematically, it will be employing a highly skilled and technically proficient team to manage all aspects of the distribution of power to ensure that all key commercial interests of all stakeholders are maintained, protected and prioritized.
- ✓ The O&M cost needs to be bifurcated into controllable and uncontrollable cost components and the 'Uncontrollable costs' are requested to be trued-up at the end of every year and the 'Controllable costs' should be indexed every year with CPI change less agreed efficiency factor, adjustable in last two years, to pass on the benefit of system efficiency to the consumers.

<u>Controllable Cost:</u>

- ✓ The controllable O&M costs are projected by assuming an inflation rate of 10%. The controllable cost during FY 2025-26 will also increase due to new projects (as envisaged in DM) and accordingly this new addition in per unit base cost of controllable component may be allowed in the related year in which project is planned to be completed and indexed subsequently as part of controllable cost component.

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Uncontrollable Cost:

- ✓ With regards to uncontrollable cost different growth rates are projected for different cost streams based on management experience. Uncontrollable cost factors could be affected by growth in employee benefits, consumer growth rates and growth in regulatory fee etc. The uncontrollable cost will also increase due to new projects (as envisaged in DIIP) and accordingly projected cost includes impact of new projects.
- ✓ The detail of controllable and uncontrollable costs is as under;

Controllable Costs	Uncontrollable Costs
Travelling Expenses	Pay and Allowances – Existing
Office Supplies & Store handling	Rent, Rate & Taxes
Vehicle Expenses	Injuries & Damages
Power, Light & Water	Collection Expenses
Communication & Postage	Legal Charges
Advertising & Publicity	Management Fee
Subscription & Periodicals	Audit Charges
Misc. Expenses	
Bank Charges	
Insurance Premium	

Adjustment mechanism:

- ✓ The following adjustment mechanism is proposed:
  a. The base year FY 2024-25 does not reflect the true cost and accordingly factor "N" is included to account for the new recruitments.
  b. Adjustment in Salary & Pension (including pension part of post-retirement benefit) may be linked with the Increase announced by GoP in Annual Budget on actual basis.
  c. 5% increase on account of Annual Increment may be allowed.
  d. The remaining allowances / benefits may be adjusted on the basis of CPI for controllable costs and on the basis of actual in case of uncontrollable costs.
  e. An additional variable "N" may be included to account for the New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc.) against vacant positions and the same may be indexed as proposed above.
  f. The O&M part of Distribution Margin shall be indexed with CPI (component wise).
- ✓ Accordingly, the O&M will be indexed for next year according to the following formula:

$$O\&M_{Rev} = [O\&M_{Ref} \times (1 + (\Delta CPI - X))] + O\&M_{Actual} + N$$

Where:

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

O&M *(Ref) is Reference O&M Expense for the Reference Year which is controllable cost*

O&M *(Actual) is Actual O&M Expense for the Current Year and is uncontrollable cost*

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*ΔCPI *is Change in Consumer Price Index published by Pakistan Bureau of Statistics latest available on 1st July against the CPI as on 1st July of the Reference Year in terms of percentage (excluding pay & allowances and pension)*

X *is Efficiency factor and may be allowed to the extent that the actual expenses are less than the determined instead of 30%, which is on a very higher side as CPI is not a true reflection of DISCOs expenses*

N *is New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc), including indexation of controllable and un-controllable costs to account for the expenditure that is not in the Base Cost*

**Note: Change in CPI may be used component wise instead of general NCPI, e.g., for vehicle expenses, NCPI under transport category should be used or it should be linked with PSO prices.*

Repair & Maintenance:

- ✓ Repair and Maintenance expenses have been assumed at around 2% of the net Fixed Assets in operation. HAZECO has to maintain its old and over loaded system in order to ensure un-interrupted power supply to the consumers, moreover cost of material has also increased due to inflationary pressure. Therefore, Repair & Maintenance expenditure has been projected for Distribution (Non-Sale Elements) as Rs.229 million for FY 2025-26.
- ✓ The repair & maintenance cost shall enable the company to ensure smooth and efficient functioning of the transmission and distribution system in operation. Moreover, it shall contribute to the benefit of the consumers at large by reducing power outages, system breakdowns and better service quality in addition to contribution in reduction of the T&D Losses. Foregoing in view, NEPRA is requested to allow full amount of the repair & maintenance projected for FY 2025-26. The repair and maintenance are mainly for standalone items necessary for keeping the system in operation with no additional benefits.
- ✓ The projected Repair & Maintenance for Distribution of Power Business for FY 2025-26 is as under:

Mln. Rs.

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Repair And Maintenance	189	208	229
%Increase/(Decrease)		10%	10%

- ✓ The average Repair & Maintenance expense (Rs./Kwh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Repair And Maintenance	0.09	0.09	0.10
%Increase/(Decrease)		5%	7%

- ✓ Adjustment in Repair & Maintenance may be linked with the percentage of Fixed Assets (i.e. 2% of the net Fixed Assets) in operation.

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Travelling expenses:

✓ Travelling Expenses for Distribution (Non-Sale Elements) have been projected Rs. 51 Million FY 2025-26, respectively.

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	36	41	51
%Increase/(Decrease)			26%

✓ The Average Travelling Expense (Rs./kWh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Travelling Expense	0.02	0.02	0.02
%Increase/(Decrease)			7%

✓ Adjustment in Travelling Expenses may be linked with the CPI.

Vehicle running expenses:

✓ Vehicle Running Expenses for Distribution (Non-Sale Elements) were Rs. 57 million for the FY 2023-24 and projected for FY 2025-26 as Rs. 122 million.

Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	57	85	122
%Increase/(Decrease)			42%

✓ The Average Vehicle Expense (Rs./kWh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Vehicle Expense	0.03	0.04	0.05
%Increase/(Decrease)			38%

✓ Adjustment in Vehicle Running Expenses may be linked with the CPI.

Operating expenses:

✓ Other Expenses include Rent, Rates and Taxes, Utility expenses, communications, office supplies, professional fees, auditor's remuneration, outsourced services, management fees, electricity bill collection expenses etc.

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Rs. in Million

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	30	62	68
%Increase/(Decrease)			10%

✓ The Average Other Expenses (Rs./kWh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Other Expense	0.01	0.03	0.03
%Increase/(Decrease)			7%

Adjustment mechanism:

✓ Adjustment in Other Operating Expenses may be linked with the CPI.

7.2. The Petitioner presented the following head wise detail of the requested amounts and the parameters for the proposed increase:

Rs. In Million

DESCRIPTION	FY 2024-25	FY 2025-26	Difference	
	Distribution Tariff		Amount	%
Salaries, Wages & other benefits	*4,047*	*4,583*	536	13%
Repair & Maintenance	*208*	*229*	21	10%
Travelling Expenses	*41*	*51*	10	25%
Vehicle Running Expenses	*85*	*122*	37	43%
Other Expenses	*62*	*68*	6	10%
Total O&M Cost	4,443	5,052	609	14%

- **Salaries and other benefits:** Increase is proposed based on GoP actual increase.
  - ✓ 10% ARA, 30% DRA and
  - ✓ annual increments.
  - ✓ 10% increase in Pension
  - ✓ Estimated cost of Rs.419 million for hiring against 163 positions of different cadres duly approved by the BOD
- **Repair & Maintenance:** The remaining costs are proposed to be adjusted on the basis of NCPI for controllable costs and on the basis of actual in case of uncontrollable costs.
- **Travelling Expenses:** Increase in line with inflation and as per NCPI and due to increase in number of employees.
- **Vehicle Expense:** Increase due to the POL price and number of increase in vehicle with new company.

7.3. Regarding new hiring the Petitioner submitted that:

- HAZECO is currently working with strength of 1770 employees, out of which 53 are officers of different grades. Total sanctioned strength of the company is 4534 out of which 183 are officers. There are 2764 vacant posts.
- The Petitioner was recently carved out from PESCO and some of the employees have opted to stay with the parent company i.e. PESCO. The new hiring is explicitly

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justified by a "severe shortage of resources" and the need to mitigate "losses and system constraints and operations would be "unsustainable" without the required recruitment.

- The number of new hiring is projected based on two factors:
  - ✓ To fill the vacant positions required to operate the company business which is also primarily necessary to handle the market growth.
  - ✓ Subtracting the projected number of employee retirements.
- The cost of this new hiring is not included in the regular salary budget, however, it is claimed separately as an adjustment factor 'N' in the O&M formula. Estimated cost of Rs.293 million for hiring against 115 positions of different cadres duly approved by the BOD.

7.4. The Authority observed that as per section 31(3) of NEPRA Act, 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:

- ✓ *"(a) tariffs should allow licensees the recovery of any and all cost prudently incurred to meet the demonstrated needs of their customers Tariff."*
- ✓ *(b) tariffs should generally be calculated by including a depreciation charge and a rate of return on the capital investment of each licensee commensurate to that earned by other investments of comparable risk;*
- ✓ *(c) tariffs should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service;*
- ✓ *(d) tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve the efficiencies in the cost of providing the service and the quality of service;"*

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

7.6. Here it is also pertinent to mention that as per the approved tariff methodology the Power Purchase Price is the only uncontrollable cost which is allowed a pass-through item. The other remaining costs are to be treated as controllable costs.

7.7. Considering the fact that the Petition has been filed for one year i.e. for the FY 2025-26, the Authority has decided to consider the costs as per the Audited/ provisional accounts of the Petitioner for the FY 2024-25 as base year.

7.8. The Authority considers that for projections or assessment of OPEX costs, the two commonly used approaches are the Ex-Ante approach and the Ex-Post approach. In a regime where the allowed OPEX is determined Ex-Ante, there will inevitably be

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deviations between the allowed and actual OPEX in the form of efficiency savings or losses. Thus, resulting in two broad options, one that the utility bears all savings or losses, i.e. no action is taken by the Regulator. The 2nd that the utility shares the savings or losses with consumers. The former provides the utility with a profit incentive to cut costs, but at the same time places the utility at greater financial risk in the face of losses. The latter somewhat dilutes efficiency incentives but also limits the losses/gains for the utility and its customers. However, the widely used approach is that no adjustments to allowed Revenues or OPEX allowances are made in the next period to compensate for a deviation from allowed OPEX in the current period except for certain allowed adjustments in terms of CPI etc.

7.9. In view thereof, the head wise assessment of the Petitioner under each of the requested costs is as discussed hereunder.

8. Salaries, Wages and Other benefits (including post-retirement benefits)

8.1. The Authority noted that head of Salaries, Wages and Other Benefits include employees Pay & Allowances and Post-retirement benefits and accounts for over 80% of the Petitioner's total O&M costs, excluding therefrom depreciation and RoRB. The Authority understands that employees of XWDISCOs are hired on Government pay scales, thus, any salary increase announced by the Federal Government in Fiscal Budget is also applicable on the employees of XWDISCOs. Therefore, salaries & wages cost of employees can be considered as un-controllable cost for XWDISCOs as long as they remain in public sector.

8.2. Considering the fact that the cost for the FY 2025-26 is being assessed, the Authority has taken into consideration the costs based on the bifurcated accounts of the Petitioner & PESCO for the FY 2024-25, and information shared by the Petitioner subsequently in this regard.

8.3. The actual total cost as provided by the Petitioner for the FY 2024-25, under Salaries & Wages (including post-retirement benefits) is Rs.3,804 million. The said amount has been considered as base cost and increases as approved by the Federal Government on Salaries and Wages in the Federal Budget for the FY 2025-26 i.e. ad-hoc relief allowance of 10% and DR allowance of 30%, along-with impact of annual increment i.e. 5% have been incorporated thereon.

8.4. Accordingly, the cost of Salaries & Wages (including post-retirement benefits), for both the Distribution and Supply Functions works out as Rs.4,203 million. The same is hereby allowed to the Petitioner for the FY 2025-26 for both its distribution and Supply functions.

8.5. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Salaries, Wages and other benefits costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of Salaries, Wages and other benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Thus, the cost of Salaries, Wages and other benefits (including postretirement benefits) for the FY 2025-26 pertaining to the distribution function works out as Rs.2,694million.

8.6. Considering the fact that employees of XWDISCOs are hired on Government pay scales, and any salary increase announced by the Federal Government in the Federal Budget is applicable on the employees of the Petitioner, therefore, being un-controllable cost, the Authority has decided to actualize the Pay & Allowances and other benefits cost of the

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Petitioner, based on its audited accounts for the relevant year for its existing employees. The impact of any such adjustment would be allowed as part of PYA in the next tariff determination.

9. Additional Recruitment

9.1. Regarding additional recruitment, the Authority observed that Salaries & Wages cost for the FY 2024-25, as per the accounts of the Petitioner, has been considered as base cost, therefore, impact of any new recruitment made till FY 2024-25 has already been accounted for. For future recruitment, the Authority understands that allowing any cost upfront either on account of new hiring or outsourcing, would be unfair with the consumers, without considering/ analyzing its benefits. The Authority understands that it will be in a better position to adjudicate on the issue, once the Petitioner provides details of actual cost incurred in this regard and substantiates the same with the quantified benefits accrued. Although, the Authority has decided to actualize the Pay & Allowances cost of the Petitioner, based on its audited accounts for the relevant year, however, that would only be to the extent of existing employees. Accordingly, the Petitioner is directed to provide detail of services actually outsourced during each year or new hiring if any, along-with its financial impact and benefits accrued, for consideration of the Authority, in its subsequent adjustment/ indexation request. This addresses the concern of the Petitioner regarding inclusion of an "N" factor.

10. Repair & Maintenance Costs

10.1. Regarding Repair and maintenance expenses, the Petitioner has assumed the same at around 2% of the net Fixed Assets in operation. The Petitioner while justifying its submissions stated that it has to maintain its old and over loaded system in order to ensure un-interrupted power supply to the consumers, moreover cost of material has also increased due to inflationary pressure. Accordingly, the Petitioner projected repair & maintenance costs of Rs.229 million for Distribution Function for the FY 2025-26.

10.2. The Petitioner submitted that R&M cost shall enable the company to ensure smooth and efficient functioning of the transmission and distribution system in operation. Moreover, it shall contribute to the benefit of the consumers at large by reducing power outages, system breakdowns and better service quality in addition to contribution in reduction of the T&D Losses. The Petitioner for the adjustment of above costs proposed that this may be linked with the percentage of Fixed Assets (i.e. 2% of the net Fixed Assets) in operation.

10.3. The Authority has carefully examined the Petitioner's request of linking the R&M cost as a percentage of Net Fixed Assets (NFAs). The Authority, while going through the actual expenditure incurred by the Petitioner on account of R&M during the FY 2022-23 and FY 2023-24, as per the Audited accounts for these periods showing bifurcation of costs between PESCO and HAZECO, observed that R&M costs works out as 1.03% and 1.38% of the NFAs for the FY 2022-23 & FY 2023-24 respectively. Moreover, the Petitioner has not provided any rationale or working to substantiate its request of setting R&M as 2% of NFAs except that it has to maintain old and over loaded system in order to ensure un-interrupted power supply to the consumers, and that cost of material has also increased due to inflationary pressure.

10.4. No doubt that the adherence to service standards and improvement of customer services is only possible through continuous repair and maintenance of distribution network,

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however, at the same time the Petitioner has also requested for huge CAPEX of around Rs.5,365 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 Petitioner's 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 sprit of multiyear tariff regime.

10.5. In view of the foregoing and keeping in view the current approved tariff methodology, the Authority has decided to allow an amount of Rs.172 million under R&M head for both the Distribution and Supply functions, for the FY 2025-26 after incorporating the inflationary impact on the R&M cost as per the data/ information provided by the Petitioner for the FY 2024-25 and keeping in view the bifurcated accounts of the Petitioner, for the FY 2024-25, provided by PESCO. The same is hereby allowed to the Petitioner for the FY 2025-26 for both its distribution and Supply Functions.

10.6. Since the Audited accounts of the Petitioner, do not provide bifurcation of the R&M costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of R&M costs in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of R&M for the FY 2025-26 pertaining to the distribution function works out as Rs.110 million.

10.7. The DISCOs are also directed to provide a certification from its Auditors that Repair and Maintenance expenditure does not include any CAPEX nature item. In case any CAPEX nature cost has been booked as R&M expenses, the same may be disclosed separately in the financial statements. The Authority may consider to revise the R&M assessment of the Petitioner, based on such disclosure/certification.

11. Other O&M Expenses

11.1. Other O&M expenses include Travelling costs, Vehicle Maintenance and other expenses i.e. Rent, Rates & Taxes, Power, Light and Water, Communication, Bill Collection Charges, Office supplies, Director Fees, Auditor Remuneration, Professional Fees, Outside Service Employed, Management Fees, NEPRA License Fees, Advertisement & Publicity, Subscriptions & Periodicals, Representation & Entertainment, Insurance, Bank Charges, and other miscellaneous expense.

11.2. The Petitioner projected its Other O&M costs including Travelling, Vehicle Maintenance and other expenses as under, for its distribution functions for the FY 2025-26;

Description	FY 2025-26
	Rs. Mln
Travelling Expenses	51
Vehicle running Expenses	122
Other Expenses	68
Total	**241**

11.3. The Authority noted that as per the approved tariff methodology, all other operating expenses are part of O&M costs which are to be assessed through NCPI-X formulae for the tariff control period. Here it is pertinent to mention that the Petitioner itself has requested

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that other O&M expenses, may be linked with CPI. Accordingly, for assessment of Other O&M costs for the FY 2025-26, the Authority, has decided to allow an amount of Rs.214 million under Other O&M expenses for both the Distribution and Supply functions, for the FY 2025-26 after incorporating the inflationary impact on the Other O&M cost as per the data/ information provided by the Petitioner for the FY 2024-25 and keeping in view the bifurcated accounts of the Petitioner for the FY 2024-25, provided by PESCO. The same is hereby allowed to the Petitioner for the FY 2025-26 for both its distribution and Supply Functions.

11.4. By considering the figures as per the financial statements, the Authority has incorporated all the costs including bill collection, building rent, NEPRA fee, insurance cost, rent, rates & taxes, and travelling, transportation etc.

11.5. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Other O&M costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of other O&M costs in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of other O&M expenses for the FY 2025-26 pertaining to the distribution function works out as Rs.137 million.

11.6. In case the Petitioner's actual O&M cost for the FY 2025-26, once its audited accounts for the said year area available, is lower than the amount allowed for that year, any saving in this regard, shall be shared between consumers and the Petitioner in the ratio of 50:50.

PPMC Fee

11.7. Here it is pertinent to mention that some DISCOs during the hearing requested to allow cost on account of Management Fee of Power Planning and Monitoring Company (the "PPMC"). DISCOs in support of their request referred to the SRO 1358-I (2025) dated 29.07.2025, issued by the Ministry of Energy (PD), pursuant to the Federal Cabinet decision dated 27.10.2021, the National Electricity Policy, 2021, the National Electricity Plan (2023–2027), whereby it has been designated as a "designated entity" for the implementation of the priority areas of the NE Plan, and strategic roadmap as per the NE policy. The SRO further mandates the company to charge a fee from DISCOs, for the services rendered, as may be approved by the BoD of PPMC from time to time. The BoD of PPMC may, on annual basis, approve the annual budget and allocation of fees to DISCOs.

11.8. It has also been submitted that clause 34(f) of the IMF Country Report clearly acknowledges PPMC's role in supporting policy, regulatory and tariff affairs, sector reforms, privatization, CD management and integrated power and energy planning.

11.9. The Authority noted that the National Electricity Plan allows the designated entity to charge a regulatory fee, which shall be allowed by the Regulator. The Authority also noted that previously the Authority discontinued the PEPCO fee in the absence of appropriate structure in place. The Authority also takes cognizance of the SRO dated 29.07.2025, issued by the Ministry of Energy (PD), pursuant to the Cabinet decision, as well as other justifications submitted by the DISCOs regarding the declaration of PPMC as a "designated entity" and its role in supporting policy, regulatory, and tariff matters, sector reforms, privatization, CD management, and integrated power and energy planning.

11.10. However, the Authority is of the view that it would be in a better position to adjudicate the matter, once the DISCOs provide details of the actual costs incurred and the functions/

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services performed as designated entity for DISCOs and others, duly substantiated with documentary evidence and justifications.

11.11. Accordingly, the Authority has decided to pend upfront allowing such cost on account of PPMC at this stage and may consider the same as part of the PYA, subject to the Petitioner furnishing the above details, with proper justification and supporting documentary evidence, along with fulfillment of the process prescribed in the SRO No. 1358(I)/2025.

11.12. On the submissions of the Petitioner, to allow certain costs as uncontrollable, the Authority noted that as per the approved tariff methodology, Power Purchase Price is the only uncontrollable cost which is allowed a pass through item. However, considering the fact that XWDISCOs employees are hired on Government pay scales, thus, any salary and pension increase, announced by the Federal Government in Fiscal Budget is also applicable on such employees/ pensioners of XWDISCOs. Therefore, salaries & wages cost and pension expenses to the extent of such employees can be considered as un-controllable cost for XWDISCOs as long as they remain in public sector.

12. Whether the requested amount for FY 2025-26 under heads of Other Income, Deprecations and RORB based on WACC of 17.05% is justified?

Depreciation

12.1. The Petitioner has submitted that Depreciation is calculated on the basis of the value of existing Assets plus the additions in assets during the FY 2025-26. Actual depreciation for FY 2023-24 was Rs. 688 million. The assets are depreciated on straight line method as per utility practice i.e. land at 0 %, buildings and civil works at 2%, Plant and machinery at 3.5%, office equipment and mobile plant at10% & other assets at10%. Based upon these assumptions, figure for depreciation has been worked as Rs. 748 million for FY 2025-26.

12.2. Based upon these assumptions, the figure for depreciation has been worked as under for the distribution functions;

Mln. Rs.

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	688	719	748
%Increase/(Decrease)			4%

12.3. The Average Depreciation Expense (Rs./kWh) for FY 2025-26 is assessed as under:

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Prov.	Proj.
Depreciation	0.32	0.32	0.32
%Increase/(Decrease)			1%

12.4. The Petitioner has proposed that adjustment in Depreciation Expenses may be linked with the Gross Fixed Assets in operation.

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12.5. The Authority noted that as per the Methodology, depreciation expense for the FY 2025-26, will be determined by applying depreciation charge on the Gross Fixed Assets in Operation, including new investment.

12.6. Regarding allowed investment for FY 2025-26 and FY 2026-27, since the Distribution Investment Plan (DIP) of the Petitioner is under regulatory proceedings, the Authority has decided to allow the following provisional Investments under head of own financing, which shall be subject to adjustments pursuant to the final decision of the Authority in matter of DIP of the Petitioner.

Rs. Mln

Provisional Capex	HAZECO
FY 2025-26	5,364
FY 2026-27	5,364

12.7. The Authority decided that the above approved Investments are provisionally allowed for purpose of tariff rebasing and does not include the cost for AMI, APMS, scanning meters, Data Centers, etc., the investment in this smart metering area can only be started once DIP is approved, wherein the detailed project wise scope and cost approvals shall be decided in the final decision of DIP of the Petitioner.

12.8. Regarding the T&D Losses target, the Authority has decided to provisionally approve the following loss target.

Provisional T&D Loss	HAZECO
FY 2025-26	15.39%
FY 2026-27	15.39%

12.9. The Petitioner is directed to carry out its T&D loss study through an independent third party, as per the approved terms of references (ToRs), which shall be communicated to the Petitioner separately by NEPRA. The independent third-party T&D loss study must be submitted by the Petitioner within nine (09) months of issuance of this decision. In case, the T&D loss studies are not submitted within the allowed time period, the following T&D Loss target shall become applicable for FY 2025-26 and FY 2026-27, and all relevant tariff adjustment shall be reworked on such revised targets. The financial impact of such revision shall be made part of PYA of subsequent tariff rebasing.

RevisedT&D Loss Target (Failure to submit study)	HAZECO
FY 2025-26	7.70%
FY 2026-27	7.70%

12.10. The submitted T&D loss study by an independent third-party shall be considered by the Authority for revision / firm up of T&D loss Targets for the applicable period in the next

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rebasing of the tariff for DISCOs (January 2027) or mid-term (December 2027) review of the DIP, as the case may be.

12.11. Not used

12.12. Not used

12.13. 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 as mentioned above, the Gross Fixed Assets in Operation for the FY 2025-26 have been worked out. Accordingly, the depreciation charge for the FY 2025-26 has been assessed as Rs.871 million calculated on actual depreciation rates for each category of Assets as per the Company policy.

12.14. The actual depreciation reflected in the audited accounts of the Petitioner, do not provide bifurcation of depreciation cost in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of depreciation cost in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the depreciation cost for the FY 2025-26 pertaining to the distribution function works out as Rs.784 million.

RoRB

12.15. The Petitioner has submitted that NEPRA allowed WACC of 20.4% to PESCO for the FY 2024-25 in its tariff determination for FY 2024-25, against the requested WACC of 21.27%, hence, the same needs to be reconsidered in view of the MYT determination, wherein adjustments on account of variation in KIBOR is permissible on biannual basis. HAZECO has calculated WACC of 17.05% based on the following calculations:

*Weighted Average Cost of Debt for FY 2024-25 include 3 month's Kibor plus 2% spread. By incorporating the above adjustment of ERC, the calculation of WACC and RORB will be as under: **WACC** = [14.47% * 30%] + [18.16% * 70%] = **17.05%**

12.16. HAZECO stated that it has no other source of revenue except Tariff to pay off the principal, interest and exchange risk payable to EAD except for consumer end Tariff and if not allowed, it will in any way effect the consumers as the same will be passed in the form of deficit financing resulting in financial hardship to the consumers.

12.17. HAZECO is of the opinion that return should be adequate enough to not only cover the cost of debt but also to cater for the exchange rate parity as well as reasonable return to the equity holders. The Authority is therefore requested to allow RORB @17.05% WACC, including debt as per following calculations:

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Description	UoM	2023-24	2024-25	2025-26
		Audited	Prov.	Proj.
Net Fixed Assets in Operation	[Mln Rs]	14,381	16,455	18,785
Add: Capital Work In Progress - Closing Bal	[Mln Rs]	5,498	6,366	8,568
Less: Cap. WIP-Deposit Portion	[Mln Rs]	1,100	1,202	1,304
Investment in Fixed Assets	[Mln Rs]	18,780	21,620	26,049
Less: Deferred Credits	[Mln Rs]	5,564	5,863	6,287
Regulatory Assets Base	[Mln Rs]	13,216	15,757	19,763
Average Regulatory Assets Base	[Mln Rs]	12,379	14,486	17,760
Rate of Return	[%age]	21.27%	17.05%	17.05%
Return on Rate Base	[Mln Rs]	2,633	2,470	3,028

12.18. In view thereof, HAZECO has requested the following RoRB for its Distribution Business for the FY 2025-26;

Mln. Rs.

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
RORB	2,106	1,976	2,423
%Increase/(Decrease)			23%

12.19. 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;

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

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

Cost of Equity;

$Ke = R_F + (R_M - R_F) \times \beta$

Where;

R_F is the risk free Rate

R_M is the Market Return

β is Beta

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The cost of debt;

Kd = KIBOR + Spread

12.22. Accordingly, the WACC as per the given formula works pout as under;

WACC= ((Ke x (E / V) + (Kd x (D / V))
Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;

12.23. 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.

12.24. 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 2016 to FY 2025. Further, return of different neighboring markets and other international markets were also analyzed.

12.25. For risk free rate, the yield of 05 years PIB is considered. The weighted average yield of accepted bids for 5 years PIB as of 17.07.2025 remained at 11.4916%. 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.

12.26. By taking into account the aforementioned factors, the RoE of the Petitioner works out differently, however, keeping the request of the Petitioner and the Authority's earlier decisions in the matter of other XWDISCOs and K-Electric, the Authority has decided to allow RoE component of 14.47%, PKR based.

12.27. 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 + 1.50% spread, as maximum cap. Consequently, the cost of debt has been worked out as 12.64% i.e. 3 Months KIBOR of 11.14% as of July 02, 2025 plus a spread of 1.50% *(150 basis points)*.

12.28. In view thereof, the WACC for the FY 2025-26 has been worked out as under;

Cost of Equity;
Ke = 14.47%
The cost of debt is;
Kd = 12.64%

WACC= ((Ke x (E / V) + (Kd x (D / V))
Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;
WACC = ((14.47% x 30%) + (12.64% x 70%)) = 13.19%

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12.29. Based on above and using WACC of 13.19% on RAB by including allowed investment for the FY 2025-26, the RoRB of the Petitioner for the FY 2025-26 has been worked out as under;

	HAZECO
Description	FY2025-26
Fixed Assets O/B	24,063
Addition	2,419
Fixed Assets C/B	26,483
Depreciation	9,834
Net Fixed Assets	16,648
Capital WIP C/B	8,444
Fixed Assets Inc. WIP	25,092
	-
Less: Deferred Credits	14,091
Total	11,002
RAB	11,002
WACC	13.19%
RORB	1,451

12.30. The total amount of RoRB as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, the RORB for the FY 2025-26 pertaining to the distribution function works out as Rs.1,161 million.

12.31. The allowed RAB for the year will be trued up downward, keeping in view the amount of investment allowed for the FY 2025-26, other than consumer financed investments. In case, the Petitioner ends up making higher investments than the allowed (other than consumer financed investments), 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.

12.32. Here it is also pertinent to mention that the amount of receipts against deposit works has been adjusted while working out the cost of working capital, therefore, no adjustment on this account has been made from the RAB. In view thereof, any interest earned on such deposits shall not be adjusted as part of other income. The Petitioner therefore shall ensure a separate disclosure of such income in its audited accounts. In case of failure to disclose such income separately, the entire interest income shall be adjusted as part of other income.

12.33. The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover the risk of floating KIBOR. Accordingly, fluctuation in the reference KIBOR would be adjusted biannually. In addition, the Authority has also decided to adjust savings, if any, resulting from cheaper financing by the Petitioner. If the Petitioner manages to negotiate a loan below 1.50% spread, the entire savings would be passed onto the consumers annually, through PYA. In case of more than one loan, the saving with respect to the spread would be worked out based on individual loans. In case, the spread is greater than the allowed cap of 1.50%, additional cost would be borne by the Petitioner itself. Similarly,

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if the Petitioner's total actual cost of debt remains lower than the cost allowed for the year, the entire savings would also be passed onto the consumers annually, through PYA.

Other Income

12.34. The Petitioner has submitted that main sources of other income include Interest Income, Sale of Scrap, Amortization of Deferred Credit, Rental & Service Income etc., whereas the Wheeling Charges and Late Payment Surcharge have been excluded as per decision of NEPRA.

12.35. Accordingly, the Petitioner has projected the following amounts as Other Income for the FY 2025-26 for its distribution functions:

Mln. Rs.

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
Other Income	-305	-340	-378
%Increase/(Decrease)			11%

12.36. The Average Other Income (Rs./kWh) for FY 2025-26 is assessed as under;

Distribution of Power Business			
Description	2023-24	2024-25	2025-26
	Audited	Act/Pro.	Proj.
Other Income	(0.14)	(0.15)	(0.16)
%Increase/(Decrease)			8%

12.37. Other income is considered to be a negative cost which may include, but not be limited to, amortization of deferred credit, meter and rental income, late-payment charges, profit on bank deposits, sale of scrap, income from non-utility operations, commission on PTV fees and miscellaneous income.

12.38. Since the other income would be trued up based on the Audited accounts of the Petitioner, therefore, for the FY 2025-26, the Authority has decided to allow an amount of Rs.627 million as requested by the Petitioner, including the amount of amortization of deferred credit but exclusive of the amount of late payment charges (LPS) for both of its Distribution and Supply functions.

12.39. The Authority in consistency with its earlier decision, on the issue, has not included the amount of LPS while assessing the other income for the FY 2025-26. Here it is pertinent to mention that the LPS recovered from the consumers on utility bills shall be offset against the late payment invoices raised by CPPA (G) against respective XWDISCO only, and in the event of non-submission of evidence of payment to CPPA (G), the entire amount of Late Payment charge recovered from consumers shall be made part of other income and deducted from revenue requirement in the subsequent year.

12.40. The total amount of Other Income as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, Other Income for the FY 2025-26 pertaining to the Distribution function works out as Rs.431 million.

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Working Capital

12.41. The Authority during proceedings directed the Petitioner to provide it working capital calculation and has considered the submissions of the Petitioner and in order to access the working capital requirement of the Petitioner, the Authority obtained details of number of days available with the Petitioner to pay in terms of energy procured from National Grid. Based on the information provided by CPPA-G and in line with the mechanism adopted for KE, the working capital requirement of the Petitioner for its Distribution function has been assessed as under;

Distribution working Capital	Credit Period in Days	Factor	HAZECO
Stores and Spares (3% of GFA)	3%	3%	794
Trade debt (30 days of Revenue Receivable)	30	0.08	217
Total Current Assets			1,012
Current Liabilities	2/3	66.67%	674
Working Capital Requirement			337
Less Receipt Against Deposit Work			2,871
Net Working Capital			(2,534)
Cost of debt local			12.00%
Working Capital Cost			(304)

12.42. As mentioned in the table above, the Petitioner's working capital requirement for the distribution function has been assessed as Rs.337 million. The Authority considers that receipts against deposit works, being related with distribution network business, are also required to be accounted for as part of working capital calculations. By including the amount of receipt against deposit works available with the Petitioner, as per the data provided by HAZECO, its net cost of working capital requirement for the distribution function works out as negative Rs.304 million, based on 11% KIBOR+ 1% spread. The allowed spread of 1% shall be the maximum cap, subject to downward adjustment at the end of each financial year, if actual spread remains lower. The same is allowed to HAZECO for the CY 2026, and is subject to adjustment, as per the mechanism provided below, once the audited accounts of HAZECO for the FY 2025-26 are available. The allowed cost of working capital shall be subject to adjustment as under;

Actualization of Previous year based on allowed revenue as PYA

Current Assets

- Lower of 30 days receivables based on allowed revenue (including the impact of allowed adjustments), but excluding Working Capital cost OR Actual average Receivables for the Financial Year (excluding opening receivables).
- Stores & Spares - Lower of 3% of Avg. GFA (opening + closing)/2 or Actual average Stores & Spares. GFA based on based on Audited account to the extent of allowed Investment.
- Lower of allowed Cash & bank balance or Actual Cash & Bank Balances (Excluding cash/bank balance not meant for O&M expenses)

Current liabilities

- 2/3rd of aforementioned current assets (Receivables + Stores & spares + Cash)

- Receipt against deposit work figure will be actualized based Audited Financial statement initially and finally based on third party evaluation.
- Any other amount retained by HAZECO
- For the purpose of 3 - Month KIBOR, the actual weighted average KIBOR of finance cost incurred by HAZECO shall be considered. Similarly, for the purpose of spread, actual weighted average spread incurred by HAZECO shall be considered. In case actual weighted average spread is lower than 1% cap, the same shall be adjusted downward only. No upward adjustment of spread is allowed.

12.43. Since the amount of receipts against deposit works has been adjusted while working out the cost of working capital, therefore, any interest earned on such deposits shall not be adjusted as part of other income. The Petitioner therefore shall ensure a separate disclosure of such income in its audited accounts. In case of failure to disclose such income separately, the entire interest income shall be adjusted as part of other income.

13. Whether there will be any claw back mechanism or not?

13.1. Although DISCOs made their submissions on this issue, however, the Authority noted that DISCOs were not able to fully comprehend the issue.

13.2. The Authority understands that sharing mechanism for any savings by the utility has already been provided under each head separately e.g. O&M costs, T&D losses, cost of debt etc. therefore, no such mechanism is separately required. However, still if there is any additional return by the Petitioner, which could not be comprehended at this stage, the same would be shared between the DISCO and consumers equally.

14. Upfront Indexation/adjustment for the period July 2026 to December 2026

14.1. The MoE (PD) vide letter dated 18.08.2025, submitted that NEPRA determines the consumer-end tariff for XWDISCOs and K-Electric in accordance with Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the Act), read with Rule 17 of the NEPRA (Tariff Standards and Procedure) Rules, 1998. The uniform rebased tariff, once determined, is notified by the Federal Government under Section 31(7) of the Act. The latest rebasing was notified on July 1, 2025. In accordance with the NEPRA (Tariff Standards and Procedure) Rules, 1998 read with Part 5 of the NEPRA Determination of Consumer-end Tariff (Methodology & Process) Guidelines, 2015, the Distribution Companies (DISCOs) are required to initiate the tariff determination process by submitting their minimum filing requirements by January 31st of each year. The submission is followed by Authority's internal meetings, public hearing, tariff determination and notification by the Government. Keeping in view the recent annual tariff determinations, the rebasing is notified by the Federal Government in the month of July, each year with effect from 1st July.

14.2. The MoE (PD) further mentioned that as an unfortunate coincidence, the consumers face high Fuel Charges Adjustments (FCAs) as well as the annual tariff rebasing, simultaneously in the summer months. This increase in tariff coupled with higher consumption leads to significant hike in the consumer electricity bills of summer months which in turn results in unaffordability, public dissatisfaction and nationwide protests in the country. The issue

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can be streamlined if the timing of annual rebasing is shifted from summer to winter months where the electricity consumption is lower and any tariff increase can be absorbed in consumer bills. This would result in relatively stable and sustainable electricity prices throughout the year. The National Electricity Plan Strategic Directive 8 also stipulates that the Regulator shall also revisit the "Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015" to enable alignment of schedule of regulatory proceedings for planning activities and rate case & tariff determinations.

14.3. The MoE (PD) submitted that the Cabinet has approved that policy guidelines may be issued to NEPRA to revise the annual tariff determination process timelines by amending the relevant legal and regulatory framework in a way that the rebasing is notified with effect from 1st January, each year, after completion of all regulatory proceedings. In this regard, it is highlighted that NEPRA has already determined Power Purchase Price (PPP) references up to June 2026. Projections for the remaining six months will be shared subsequently.

14.4. In light of above and in exercise of powers under Section 31 of the Act, the Federal Government issued the following policy guidelines for implementation by NEPRA;

"NEPRA shall revise the annual tariff determination process timelines by amending the relevant legal and regulatory framework (guidelines, rules and procedures) to ensure that annual rebasing is notified with effect from January 1st of each year, after completion of all regulatory proceedings."

14.5. HAZECO also vide letter dated 20.10.2025 submitted that the MoE (PD) vide letter dated 16.10.2025, has conveyed that the Federal Government has approved the revision of the annual tariff determination schedule, making it effective from 1st January each year. The Authority has already determined the Power Purchase Price (PPP) references up to June 2026, accordingly, it is submitted that the references for the remaining period up to December 2026 may also be determined, in line with the above-mentioned directives.

14.6. HAZECO further stated that it has already submitted its Tariff Petitions for FY 2025-26 and the decision of the Authority is awaited. HAZECO accordingly requested the Authority to determine the consumer-end tariff for the period from July 1, 2026 to December 31, 2026 in accordance with the revised annual rebasing timeline effective January 1, 2026, to ensure smooth and timely transition to the revised rebasing schedule.

14.7. The matter was discussed during the hearing, and the Petitioner requested the following costs on account of interim indexation for the 06 months period from Jul. 26 to Dec. 26;

Rs. in Million

Description	Requested for FY 2025-26	(Jul to Dec 2026)
Salaries, Wages & Other Benefits	3,154	1,587
Post Retirement Benefits	3,780	1,919
Other O & M Costs	950	480
Depreciation	831	415.50
Return on Rate Base	3,028	1,514
Gross Distribution Margin	11,743	5,916
Less: Other Income	(550)	(270)
Net Distribution Margin	11,193	5,646
Units to be Sold	2,303	1,239
Per Unit DM	4.86	4.56

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14.8. The Authority has considered the guidelines issued by the Federal Government regarding tariff rebasing to be made effective from 1st January, instead of July each year. The Authority is cognizant of the fact that rebasing of tariff effective July, if upward, coupled with high consumption, leads to increase in overall electricity bills during summer months; thus, adversely impacting DISCOs performance in terms of recoveries and losses. However, even with re-basing in January, the overall billing impact for the consumers in summer months would remain same, had the rebasing been made effective from July. Nonetheless, in light of NE Plan, SD 8 and the instant policy guidelines, the Authority has completed the consultation process for revision in "Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015", and the same are now in the process of notification.

14.9. Further, in light of the instant policy guidelines, the Authority has determined the revised Power Purchase Price (PPP) references for the period from January 2026 to December 2026 through a separate decision. Pursuant thereto and keeping in view the request of the Petitioner to also determine tariff for the period from July 1, 2026 to December 31, 2026, in accordance with the revised annual rebasing timelines, the Authority has also determined provisional revenue requirement of HAZECO for the period from July 1, 2026 to December 31, 2026 as under:

Description	Units	July to December 2026 FY 2026-27
Pay & Allowances	[Mln. Rs.]	1,205
Post Retirement Benefits	[Mln. Rs.]	1,055
Repair & Maintainance	[Mln. Rs.]	91
Traveling allowance	[Mln. Rs.]	25
Vehicle maintenance	[Mln. Rs.]	25
Other expenses	[Mln. Rs.]	63
O&M Cost	[Mln. Rs.]	2,465
Depriciation	[Mln. Rs.]	369
RORB	[Mln. Rs.]	846
O.Income	[Mln. Rs.]	(314)
Margin without PYA	[Mln. Rs.]	3,367

14.10. For the purpose of rebasing for the period from Jan. to Dec. 2026, the amount recovered by the Petitioner, to the extent of distribution and supply margin along-with PYA, from Jul. to Dec. 25, based on interim tariff allowed for the FY 2025-26, has been adjusted from the revised assessed tariff for the FY 2025-26. The recovered amount has been calculated by applying the Rs./kWh rate as per the interim tariff (to the extent of Distribution & Supply Margin and PYA), with the projected unit sales from July to December 2025.

14.11. The adjusted revenue requirement so worked out for the period from Jan. to Jun. 26 has been clubbed together with the provisional revenue requirement determined for the period from Jul. to Dec. 2026, to work out the overall revenue requirement of the Petitioner for the period from January 2026 to December 2026. The Schedule of Tariff (SoT) of the Petitioner has been designed accordingly.

14.12. Any under over recovery of the determined revenue requirement for the FY 2025-26, based on the allowed regulatory targets in terms of T&D losses, recovery etc., and provisional revenue requirement being allowed for the six months period i.e. from Jul. to

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Dec.26, would be adjusted subsequently, while determining the final revenue requirement of the Petitioner for the FY 2026-27.

15. Order

15.1. In view of the discussion made in preceding paragraphs and accounting for the adjustments discussed above, the allowed revenue requirement of the Petitioner, for the FY 2025-26 along-with upfront indexation/adjustment from July to December 2026 and Tariff table of CY 2026 (January 2026 to December 2026), to the extent of its Distribution function is summarized as under;

Description	Unit	Revised Allowed FY 2025-26 DOP	Allowed CY 2026 DOP
Units Purchased	[MkWh]		3,094
Units Sold	[MkWh]		2,618
Units Lost	[MkWh]		476
Units Lost	[%]		15.39%
Pay & Allowances	[Mln. Rs.]	1,464	1,175
Post Retirement Benefits	[Mln. Rs.]	1,230	633
Repair & Maintainance	[Mln. Rs.]	110	88
Traveling allowance	[Mln. Rs.]	30	22
Vehicle maintenance	[Mln. Rs.]	30	(7)
Other expenses	[Mln. Rs.]	77	(44)
O&M Cost	[Mln. Rs.]	2,941	1,867
Depriciation	[Mln. Rs.]	784	723
RORB	[Mln. Rs.]	1,161	565
O.Income	[Mln. Rs.]	(431)	(448)
Margin without PYA	[Mln. Rs.]	4,455	2,707
Prior Year Adjustment	[Mln. Rs.]		-
Working Capital	[Mln. Rs.]		(304)
Total	[Mln. Rs.]	4,455	2,403
Revenue Requirement	[Mln. Rs.]	4,455	2,403
Average Tariff	[Rs./kWh]		0.92

15.2. The above assessment has been carried out based on the data/information provided by the Petitioner, which the Authority believes is correct and based on facts. In case of any deviation / misrepresentation observed at a later stage, the Petitioner shall be held responsible for the consequences arising out, under NEPRA Act, Rules and Regulations made thereunder. Any consequential adjustment' if required will be made accordingly.

15.3. The Petitioner is directed to submit its next tariff petition under the MYT regime by the end of July 2026, and the monthly and quarterly adjustments as per the following time lines;

Description	Pass Through	ADJUSTMENTS/ INDEXATION	TIME LINES
Power Purchase Price	Pass through	The Authority, keeping in view of any abnormal changes may review Power Purchase Price references along with any Quarterly adjustment	
Fuel Cost		Monthly, as per the approved mechanism. Impact of FCA on T&D losses would be adjusted on Quarterly basis.	Data to be provided by CPPA (G) by close of the month
Variable O&M		Quarterly, as per the approved Quarterly adjustment mechanism.	Request to be furnished by the Petitioner not later than a period of 07 Days on Quarterly basis.
Capacity Charges		Quarterly, as per the approved Quarterly adjustment mechanism.	Request to be furnished by the Petitioner not later than a period of 07 Days on Quarterly basis.
Transmission, UOSC & MOF Charges		Quarterly, as per the approved Quarterly adjustment mechanism.	Request to be furnished by the Petitioner not later than a period of 07 Days on Quarterly basis.

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15.4. For determination of use of system charges based on the aforementioned revenue requirement the petitioner is directed to file its use of system charges petitions in line with applicable documents.

15.5. The Petitioner is responsible to provide distribution service within its service territory on a non-discriminatory basis to all the consumers who meet the eligibility criteria laid down by the Authority and make its system available for operation by any other licensee, consistent with applicable instructions established by the system operator.

15.6. The Petitioner is directed to ensure separate disclosure of each item in its audited financial statements as mentioned in the determination.

15.7. The Petitioner is also directed to ensure breakup of its Operating cost in terms of Distribution and Supply function separately in its audited financial statements.

15.8. The Petitioner shall follow the performance standards laid down by the Authority for distribution and transmission of electric power, including safety, health and environmental protection instructions issued by the Authority or any agency of the Federal or Provincial Government;

15.9. The Petitioner shall ensure to develop, maintain and publicly make available, its investment program for satisfying its service obligations and acquiring and selling its assets.

15.10. The Petitioner shall disconnect the provision of electric power to a consumer for default in payment of power charges or to a consumer who is involved in theft of electric power on the request of Licensee.

15.11. The Petitioner shall comply with, all the existing or future applicable Rules, Regulations, orders of the Authority and other applicable documents as issued from time to time.

16. Summary of Direction

16.1. The Authority hereby directs the Petitioner to;

i. provide the reconciled date of sales mix with its reported revenue as per audited financial statements each year.

ii. provide the IDC amount with subsequent adjustment request and reflect the same in its Audited Financial Statements each year.

iii. get its data, regarding units billed to lifeline consumers, domestic consumers (consuming up-to 300 units) and Agriculture consumers, reconciled with PITC and submit such reconciliation to the Authority every year.

iv. ensure that by the time it files its next tariff petition/ adjustment request, MDI for all consumers at all levels is properly recorded.

v. provide a certification from its Auditors that Repair and Maintenance expenditure does not include any CAPEX nature item

17. The Determination of the Authority, is hereby intimated to the Federal Government for filing of uniform tariff application in terms of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

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18. The instant determination of the Authority along-with order part, be also notified in terms of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, while notifying the uniform tariff application decision of the Authority.

AUTHORITY

Amina Ahmed
Member

Engr. Maqsood Anwar Khan
Member

Waseem Mukhtar
Chairman