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No. NEPRA/TRF-233/FESCO-2013/6291-6293

June 16, 2014

Subject: Decision of the Authority in the matter of Motion for Leave for Review filed by Faisalabad Electric Supply Company Ltd. (FESCO) against Tariff Determination of the Authority dated February 6, 2014 [Case # NEPRA/TRF-233/FESCO-2013]

Dear Sir,

In continuation of this office letter No. NEPRA/TRF-233/FESCO-2013/1201-1203 dated February 6, 2014 whereby Determination of the Authority in the matter of petition filed by Faisalabad Electric Supply Company Ltd. (FESCO) for Determination of its consumer-end tariff pertaining to FY 2013-14 was sent to the Federal Government for notification in the official Gazette.

2. Please find enclosed herewith the decision of the Authority along with Annex-II & III (21 pages) in the matter of Motion for Leave for Review filed by Faisalabad Electric Supply Company Ltd. against NEPRA's determination dated 06.02.2014 in Case No. NEPRA/TRF-233/FESCO-2013.

3. The Decision of the Authority is being intimated to the Federal Government for the purpose of notification in the official Gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997) read with Rule 16(11) of the National Electric Power Regulatory Authority Tariff (Standards and Procedure) Rules, 1998.

4. Please be informed that the Schedule of Electricity Tariffs (SOT), earlier intimated vide Determination dated 06.02.2014 has been revised and attached as Annex-III of this decision, which will supersede the earlier SOT attached with the original determination dated 06.02.2014 as Annex-III. The order of the Authority along with Annex-III attached to this decision needs to be notified in the official Gazette.

Enclosure: As above

(Syed Safer Hussain)

Secretary
Ministry of Water & Power
'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 FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO) AGAINST
TARIFF DETERMINATION OF THE AUTHORITY DATED FEBRUARY 6, 2014**

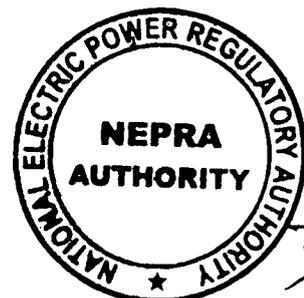
1. Background

1.1 Faisalabad Electric Supply Company Limited (FESCO), hereinafter called "the Petitioner", being a Distribution Licensee of NEPRA filed a motion for leave for review vide letter no. 3316/FD/FESCO/CPC on February 17, 2014 against the Authority's decision dated February 6, 2014 pertaining to the FY 2013-14. The Motion for review was based on the following issues / contentions:

- i) Delayed tariff determination for the FY 2013-14;
- ii) Target of Transmission and Distribution losses set as 9.13% against the request of 10.83%;
- iii) Consumer-mix variance assessed as Rs. 1,100 million against the actual figure of Rs. 2,834 million;
- iv) Expense of Rs. 247 million on recruitments already made disallowed by the Authority and new recruitments of 1,131 personnel with financial impact of Rs. 201 million also denied;
- v) Direction for creation of post retirement benefit fund is inconsistent with IAS-19 and section 224 of Companies Ordinance, 1984;
- vi) Special Repair and Maintenance of damaged / sick distribution transformers amounting to Rs. 568 million disallowed by the Authority;
- vii) Miscellaneous concerns regarding the disallowed Cost of Working Capital, setting up of pay-out ratio and energy conservation.

2 Proceedings

2.1 The Review motion was admitted by the Authority on 27th February, 2014. In order to give a fair opportunity of being heard, the Petitioner and concerned parties were given notices of hearing which was scheduled on 20th March, 2014. However, the Petitioner requested for rescheduling of the same and the hearing was then convened on 27th March, 2014. Accordingly, revised notices of hearing were sent to the concerned parties and stakeholders for hearing to be conducted on March 27, 2014 at NEPRA's head office. During the hearing, the Petitioner was represented by their Chief Executive Officer and Finance Director.





3. Impact of Delayed Tariff Determination

- 3.1 The Petitioner in its review motion pleaded that the tariff determination of the FY 2013-14 has been assessed and conveyed in the eighth month of the relevant financial year while it is yet to be 'notified' to become effective. As per the Petitioner the elapsed months were the months of lower consumption and the forthcoming months are of higher demand; therefore, the targets set by the Authority need to be revised.
- 3.2 The Authority considered the Petitioner's objection of delay of seven months in issuing tariff determination of FY 2013-14 and found it incorrect. The Petitioner filed the petition on 3rd July, 2013 which was returned due to lack of critical information. The Petitioner after making deficiency good refilled petition on 6th August, 2013. Thereafter the Authority processed the petition in accordance with the Tariff Standard & Procedure Rules -1998 and gave its decision within the stipulated time period. The notification of consumer- end tariff has to be done by GoP in terms of Section 31(4) of NEPRA Act. Hence, the issue of becoming determined tariff effective is beyond NEPRA domain. In addition to aforementioned, the Petitioner's request for resetting the targets has neither been substantiated nor supported with any working indicating financial implication arising thereof. Further, it is pertinent to mention that the Authority allows Petitioner's legitimate cost which it is not able to recover due to delay of notification.
- 3.3 In view of aforementioned , the Authority is of the view that the Petitioner's request is not supported with financial implications or working, therefore does not merit Authority's consideration in this regard.

4. Transmission and Distribution Losses

- 4.1 The Petitioner pleaded that the Authority had allowed transmission and distribution (T&D) losses of 9.13% as against the requested loss of 10.83%. As per the Petitioner, a considerable period of seven months has already lapsed and the revised targets of T & D losses are unachievable, in the remaining five months of the summer season due to increase in demand, existing working structure of power sector and socio economic conditions of Pakistan. The Petitioner during the hearing submitted that its actual losses in the lapsed period were within the Authority's set limits and presented the actual losses position as against the Authority's target as below;





Description	First 8 months Actual	Remaining 4 month of FY 2013-14		
		Proposed by FESCO in tariff petition	As per determination to achieve the target of 9.13%	Difference
Losses %	9.50 %	14 %	7.97 %	6.03 %

Based on the above analysis, the Petitioner pleaded that the target set by the Authority is unrealistic and is based on incorrect assumptions.

- 4.2 The Petitioner further presented a comparison of year wise T&D losses as below;

Financial Year	Target T&D Losses	Actual Losses
2006-07	12.60 %	11.47 %
2007-08	11.43 %	11.20 %
2008-09	11.23 %	10.66 %
2009-10	11.03 %	10.91 %
2010-11	10.83 %	11.25 %
2011-12	10.83 %	10.91 %
2012-13	10.83 %	10.87 %

- 4.3 In order to justify its claim the Petitioner also submitted a comparison of T&D losses with other DISCOs.
- 4.4 In addition to the aforementioned, the Petitioner also submitted that the Authority has given target of T&D losses after disallowing the administrative losses of 1.70% declaring it as inefficiency of the Petitioner. The Petitioner submitted that the administrative losses are not only caused due to the inefficiency, rather it is also caused due to the consumers, financial constraints, defective meters, estimated meter reading, external elements and unrealistic tariff and other regulatory constraints. It was further stated that the administrative loss is also caused by certain inherent factors such as PVC cable loss of 0.50 % and Meter loss with 90% meters having permissible loss limit of 1% and 10% meters having permissible limit of 2%. The Petitioner further elaborated on the reasons for administrative losses caused by the various factors as below;





Consumers

- Sudden increase or decrease in the drawn load especially during load shedding of natural gas;
- Use of in-efficient electrical appliances that draws heavy current; and
- Personal traits of consumers including standard of living, socio-economic constraints, pilferage of energy, status symbolism and immorality.

External Elements

- In effective laws
- Un even implementation of laws
- Political reasons
- Geographic reasons
- Less budgetary grants
- Education level

Unrealistic tariff and Regulatory Constraints

- Unrealistic tariff affects the recovery of revenue requirement of a DISCO and results in scarcity of staff, less budgetary approvals, insufficient repair and maintenance, less options of vigilance & supervision, less capacity building etc. Likewise, Regulator allows certain percentage of accuracy of Meters etc., meaning thereby there is all possibility of error to that extent. Even for these reasons, the assessed and approved investment plans could not be fully utilized.

4.5 Based on the afore stated grounds, the Petitioner submitted to the Authority to allow administrative losses of 1.70% in the target of T&D losses as the un realistic target would wipe out the equity of the Petitioner and will compromise it's payment capacity, business plan and ultimately would enhance circular debt. The Petitioner further stated that linking of target with the study will delay the adjustments and shift the burden to consumers in future.

4.6 The Authority's assessment of losses is discussed in detail at para 11.10 to 11.12 of the tariff determination for the FY 2013-14. The assessment is based on the Petitioner's own calculation of technical and administrative losses. The Authority was constraint to use the Petitioner's calculations as the Petitioner failed to comply with the Authority's direction for carrying out study of T&D losses. The Authority noted with great concern that the Petitioner in its review motion request has again not indicated any firm date of the completion of the required study rather it started defining administrative losses, which in Authority's view, is not the mandate of the Petitioner. The Authority has always considered administrative losses as theft therefore it is



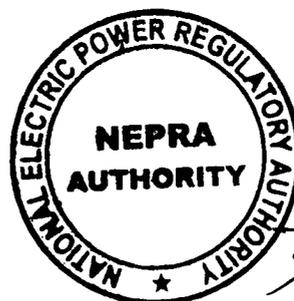


categorized as inefficiency on the part of Petitioner. Here it is pertinent to mention that the Petitioner while defining its own notion of administrative losses has totally ignored to draw the line between technical losses and administrative losses as some parameters which the Petitioner is classifying as administrative, may be technical from the assessment point of view. During the hearing, the Petitioner was directed to submit the standard source of the presented definition, yet till today nothing has been submitted by the Petitioner in this regard.

- 4.7 As far as the argument of seasonal variation is concerned, the overall assessment takes into account the impact on this account. The Authority has only excluded the impact of pilferage for making its assessment. In view thereof the Petitioner's argument being invalid is rejected.
- 4.8 In the absence of T&D losses study an in house study of T&D losses was carried out. The Authority's study is based on (a) benchmarking (i) 132 KV transmission losses (ii) Distribution transformer (iii) LT lines and (b) calculating 11KV feeder losses proportional to peak demand. The calculation based on the above parameters shows the Petitioner's losses at a level of 9.50%. The study also considers the parameter of actual demand of DISCOs. Based on the report, the target losses of FESCO come out to be 9.50%, which are being adopted in the instant case.

5. Under Assessed Prior Year Adjustment

- 5.1 The Petitioner has raised objection to the assessment of prior year adjustment to the extent of consumer mix variance. As per the Petitioner, the Authority has assessed the mix variance as Rs. 1,100 million, whereas the actual variance comes out to be Rs. 2,834 million. Therefore, there is under-assessment of Rs. 1,734 million.
- 5.2 The Petitioner further submitted that the judgment of Lahore High Court whereby it has allowed exemption from FPA to the domestic consumers having consumption up to 350 units is pending before the Divisional Bench (DB) of Lahore High Court. As per the Petitioner, in the civil petition for leave to Appeal, the Supreme Court of Pakistan has not suspended the operation of the Judgment rendered by the DB of Islamabad High Court. As such the FPA withheld by the consumers are liable to be paid and therefore, the withheld amount of FPA may also be allowed to be recovered.
- 5.3 On the issue of consumer mix variance, the Authority assessed Rs.1,100 million based on the available record. In order to determine the actual position in this regard the Authority directed the Petitioner vide its letter# NEPRA/R/TRF-100-DISCOs/5605-06 dated 30th May, 2014 to submit the month wise subsidy claims for the FY 2012-13. The same was submitted vide letter # 4680 FD/FESCO/CPC dated 6th June, 2014. While going through the record, it was observed that for





the purpose of calculating flexed revenue on actual sales, the Petitioner has used the average sale rate of Rs. 14.39 / kWh for the whole month of July, 2103. Yet on the other side, the provided evidence (on which the Petitioner is contending) shows 445.354 GWhs for the month of July 2013 charged on the previous years determined average sale rate of Rs. 11.34 / kWhs . Thus, if the same working of Petitioner is used and apple to apple comparison is done, the consumer mix variance is re calculated as Rs. 221 million instead of already assessed Rs. 1,100 million. In view thereof , the Authority has decided to reassess the consumer mix to the tune of Rs. 221 million instead of previously assessed Rs. 1,100 million.

- 5.4 The issue of fuel price adjustment has been discussed in detail at para 11.4 of tariff determination of FY 2012-13. The same has again been discussed briefly at para 13.2 of tariff determination of FY 2013-14. Since the issue has already been addressed in the said determination, therefore the matter does not merit Authority's reconsideration.
- 5.5 From the record a credit entry of Rs. 1,376.675 million under the head of PPP has been noted, which needs to be clarified by the Petitioner pertaining to the last year. Accordingly the Petitioner is directed to explain the reason thereof. Based thereon necessary adjustment ill be made.

6. Financial impact of Recruitment (already made) and Fresh Employment

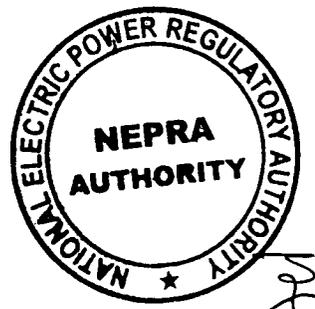
- 6.1 The Petitioner submitted that it carried out recruitment during FY 2009-10 to FY 2011-12 against the vacant posts within its approved sanctioned strength and intimated the Authority on 9th Jan, 2013 about the financial impact of this recruitment as Rs 230 million. The Petitioner further stated that in response to the Authority's direction to get an external audit certificate on the financial impact, it submitted the certificate vide letter dated 9th Jan, 2014. However, the same was rejected by the Authority in para 14.2.7 of the tariff determination for the FY 2013-14, without raising any objections at the time of submission of certificate or during the processing. The Petitioner contended that the certificate serves the purpose of the Authority and may be accepted
- 6.2 The Petitioner also requested to reconsider the disallowed cost of additional recruitment of 1,131 personnel during the FY 2013-14. According to the Petitioner, the additional recruitment was disallowed by the Authority on the ground that the Petitioner could not justify the hiring against the yard stick approved by the Authority. The Petitioner contended that the Authority has not allowed any yardstick rather the same was approved by WAPDA according to which there are 3,060 positions of different cadre lying vacant in FESCO. The Petitioner also presented a break-up of vacancies during the hearing for review motion. The Petitioner further stated that it is the prerogative of the management





of FESCO to hire staff as per the Company's requirements and approval of Board of Directors. The Petitioner has also objected that the Authority has not given any reason for discarding the justification for new recruitment which is violation of section 24 of General Clause Act.

- 6.3 The Petitioner also linked its administrative losses with recruitment and stated that one of the factors affecting the administrative losses is the dearth of qualified engineers and staff. The yardstick and sanctioned strength of employees as issued by WAPDA was approved after observing due procedure and keeping in view all parameters, consequently, the same has been adopted at various times by XWDISCOs. Based on these grounds, the Petitioner has requested to allow the cost in respect of previous and new hiring as workforce is retiring each year and without their replacement, the company would not be able to meet the emerging growth and work efficiently and effectively.
- 6.4 As far as the issue of certificate is concerned, the Petitioner was required to submit certificate of recruitments in the tariff determination for the FY 2012-13. The Petitioner submitted an incomplete certificate on 9th January, 2014. The deficiencies in this regard were recorded clearly in the decision dated 6th February, 2013 at para 14.2.7 of the tariff determination for the FY 2013-14. The Petitioner in its review motion objected that the deficiencies were not pointed out during the process or at the time of submission. While disagreeing with Petitioner's contention, the Authority considers that provision of certificate is a regulatory requirement therefore the direction in this regard was also passed in the determination of the Petitioner. Further, since the same is applicable for all the XWDISCOs hence was recorded accordingly in the determination. The Authority noted it with grave concern that the observations of the Authority recorded and communicated to the Petitioner in the 2nd week of February, 2014 still not responded by the Petitioner. It appears as if the Petitioner is not taking Authority's directions seriously. In view thereof, the Authority has decided to issue audit frameworks in this regard. The same would be communicated to the Petitioner in due course of time. The Petitioner is directed to conduct the said audit in accordance with International Standards on Auditing. Upon submission of the same the Authority would decide the fate of this cost.
- 6.5 The Authority has discussed the new hiring cost requested by the Petitioner with reasonable clarity in the tariff determination for the FY 2013-14. The Petitioner in its motion for leave for review has misquoted the decision of the Authority. The referred relevant extracts of para 14.2.8 of the decision are repeated hereunder;





"that the Petitioner has not quantified the benefits of additional recruitments rather it is relying on the yardstick of WAPDA which was never approved by the Authority."

6.6 It appears that the Petitioner has not carefully read the Authority's decision. The new employments requested by the Petitioner in the tariff petition has been reproduced under para 14.2.3 of the tariff determination and discussed in para 14.2.8, wherein the petitioner was directed to quantify the benefits of additional recruitments in view of improved customer service, losses reduction etc. The statement of Petitioner that the Authority has not given any justification for rejection of new employments is hence incorrect and misleading. The Petitioner in its motion for review attributed lack of staff as one of the factors for higher administrative losses yet again failed to quantify and correlate the reduction of administrative losses with the additional recruitment.

6.7 Since, the Petitioner has failed to provide any new evidence or reason which would formulate the basis for the Authority to reconsider its decision in this regard; hence the request of the Petitioner is declined.

7. Creation of independent post retirement benefit fund

7.1 The Petitioner submitted that the provision for retirement benefits is made in the financial statements on the basis of the Actuarial valuation report of M/s Sidat Hyder Morshad Associates (Pvt) Limited as per International Accounting Standard-19 (IAS-19) and therefore, the observation of Authority on excess provisions is not accurate. In addition to this the Petitioner also objected to the Authority's directions to create separate post retirement benefit fund and consideration of amount actually paid into the fund in future years for approval is contrary to section 234(I) of the Companies Ordinance, 1984. As per the Petitioner, the said section of Companies Ordinance, 1984 requires each company to record its actual expenses in its financial statements in the current year or distribute it over several years along with the reason for distribution to present a true and fair view of the state of affairs of the company. The Petitioner submitted that it is recognizing retirement liabilities in its financial statements in accordance with these requirements and the regulations of Securities and Exchange Commission of Pakistan (SECP), which NEPRA is disallowing since last 7 years. The Petitioner further claimed that this divergence between regulatory requirements of NEPRA and SECP is de-shaping its financial outlook, more so when it is being privatized.

7.2 The Petitioner also referred to a revision in IAS-19 as per which all gains and losses are to be recognized immediately through other comprehensive income and considering the fact that it has an amount of Rs. 7,251 million as unrecognized



actuarial loss as at 30th June, 2013, NEPRA should also consider these new requirements. During the hearing, it was further submitted that IAS-19 allows both funded and unfunded defined benefit plans. Therefore, in compliance of these requirements, it is maintaining an unfunded retirement benefit scheme in the form of pensions and provident fund being participatory fund is already funded.

- 7.3 The Petitioner also stated that Creation of Independent Post Retirement Benefit Funds (Provident and Pension) is not a regulatory requirement and therefore does not fall in the domain of NEPRA. Such instructions should have been passed by SECP only who is the corporate regulator. The Petitioner further claimed that the Authority has not recorded any reason for declining its request with respect to post retirement benefit fund in the determination.
- 7.4 The Petitioner also argued that the cost of establishing a separate post retirement benefit fund will always be higher than the return on it and therefore will lead to increase the consumer-end tariff. The Petitioner informed the Authority that as per audited financial statements, the gross liabilities of company in respect of post retirement benefit fund is Rs. 20,322 million as at June 30, 2013 and hence, it does not have sufficient funds to put this huge amount in a separate fund as it will not only create liquidity crunch for it but also increase the average tariff for existing and prospective consumers. During the hearing, the Petitioner again submitted that taking out this huge amount will increase circular debt. Based on these grounds, the Petitioner has requested the Authority to review the directions for creation of Pension Fund and meanwhile allow the provision for retirement benefits in the tariff.
- 7.5 The Authority has considered the arguments put forward by the Petitioner and in its opinion the provisions for post retirement benefits are made on the basis of Actuarial Valuation Report in compliance of statutory requirements and requirements of IAS-19. The Authority's observation was with respect to the abnormally excess provision charged (concern mentioned at para 14.2.5 of the decision dated 6th February, 2014). The Authority's decision in this regard is well considered. The Authority considers that the Petitioner's justification does not form reasonable ground to alter Authority's decision in this regard.
- 7.6 Section 234 (I) of the Companies Ordinance, 1984 states as below:

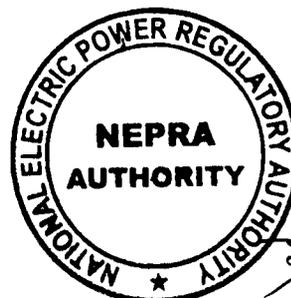
"Every balance-sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account or income and expenditure account of a company shall give a true and fair view of the profit and loss of the company for the financial year so, however, that every item of expenditure fairly chargeable against the year's income shall be brought into account and, in case where any item of expenditure which may in





fairness be distributed over several years has been incurred in any one financial year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the financial year."

- 7.7 The Petitioner's argument of divergence between regulatory requirements of NEPRA and SECP is not valid as the Authority has never ordered the Petitioner not to recognize any expense in its financial statements. The Petitioner has always been free to present its current state of affairs in its financial statements. It appears that the Petitioner is confused with two different concepts. One is regulatory assessments and the other is financial reporting. The regulatory assessments are for the future period whereby the financial reporting shows the state of affairs of business for a historical period OR the state of affairs on a certain historic date. It is not necessary that both would be same and in the instant case had never been the same. (e.g. Authority does not allow provision for bad debts whereas some DISCOs record it) Thus, the Petitioner has never been stopped from recording its future liabilities. Here it is pertinent to mention that the Petitioner was under multi year tariff regime upto FY 2011-12, whereby the O&M cost allowed to it included every cost component under the head of O&M, including provision for post retirement benefits. Thus, the assumption that the Authority has been disallowing it for the last 7 years, is not correct.
- 7.8 The Petitioner must comply with all the requirements of IAS-19 and the revisions as well. The direction to record gains and losses through statement of comprehensive income has no impact on the valuation / provision for retirement benefits in the financial statements rather it is a change in disclosure requirements. The Authority is well aware of the options in IAS-19, yet it has directed the XWDISCOs to adopt a funded post retirement benefit funds in respect of all the benefit plans in view of liquidity crisis of power sector in particular and country in general. The funded plan will generate its own income and will reduce expenses of Petitioner and in the longer run the Distribution Margin and eventually consumer-end tariff.
- 7.9 As regard the Petitioner's concern with respect to the Authority's mandate, the Authority is the custodian of consumer's rights .The provision for post retirement benefits is a legitimate cost and liability of the Petitioner which has been borne by its consumers and any cost which is affecting electricity consumers, is the domain of the Authority as per Section 7(3) of the NEPRA Act. If this cost is borne by the consumers of FESCO, the Authority wants to ensure that this cost is utilized for the very purpose for which it is allowed. From the arguments of the Petitioner's Representative it appears that it wants its consumers to be burdened on account of provision for retirement benefits and then use the money for some





other purpose. In order to safeguard the interests of consumers the Authority has directed the Petitioner to create a separate fund so that the money of pensioners is safe and the Petitioner is also able to fulfill its future liability.

- 7.10 The Petitioner's request with respect to post retirement benefit fund are noted and responded with sufficient clarity in para 14.2.9 and 14.2.10 of the tariff determination for the FY 2013-14. Therefore, the claim of Petitioner of no reason given for declining his request is again without any ground. The Petitioner may transfer any fund easily available in the fund and each year the amount transferred will be allowed in the next year's tariff determination. The Petitioner has used fancy words of net worth, liquidity crunch etc, yet it has not presented any details of cost of establishment of fund to support its claim of high cost.
- 7.11 Considering the fact that the Authority had been allowing provisions of retirement benefits to the petitioner in all previous years of multi-tariff regime upto FY 2011-12 and the petitioner has a practice of withholding distribution margin (DM) and transferring the remaining amount to CPPA, the claims of Petitioner that it has no cash to transfer to the separate fund is very alarming. In view thereof, the Authority has decided to further scrutinize the matter in next tariff determination in case of non compliance in this regard.
- 7.12 In view of aforementioned discussion, the Authority declare the entire argument of Petitioner as baseless and misleading. The Authority reiterates its earlier direction for creating a separate fund as soon as possible or else disciplinary proceedings shall be initiated as per Rules.
- 8. Special Repair and Maintenance disallowed by Authority**
- 8.1 The Petitioner pleaded that it requested for an amount of Rs. 568 million for the repair and maintenance of damaged and sick transformers in the tariff petition for the FY 2013-14, however, the Authority declined the same. As per the Petitioner, the amount allowed for general/ routine repair and maintenance of the transformers is never sufficient since the damage of transformers is a routine process which can only be curtailed by the timely repair. The Petitioner further pleaded that being routine expense, such cost shall be treated as "Revenue Expense" and not to be accounted as "Capital Expenditure".
- 8.2 The Petitioner further objected to the assessment of NEPRA whereby repair of transformer is stated to be a part of Energy Loss Reduction (ELR) and Distribution of Power (DOP) and submitted that repair of transformers has never been a part of ELR and DOP. Furthermore, the Petitioner has referred to para 12 of International Accounting Standard-16 (IAS-16) and stated that this para does not recognize costs of repair and maintenance as carrying cost.





- 8.3 In addition to the aforementioned, the Petitioner submitted that the denial of NEPRA in an earlier tariff petition has no bearing on new tariff petition which is an independent submission; more specifically where the cause is recurring. Based on these grounds, the Petitioner has requested the Authority to allow an amount of Rs. 528 million on account of special repair and maintenance of sick and damaged transformers.
- 8.4 During the hearing, the Petitioner submitted the break-up of repair and maintenance expense as below;

Description	Projected Expense by Petitioner for FY 2013-14	Determined Expense by Authority for FY 2013-14
	Rs. In million	
R&M of Building Civil Works	13	580
R&M of Distribution Plant	708	
R&M of General Plant	14	
R&M of Other Physical Property	17	
Sub-Total R&M	753	
Special R&M of Sick Transformers	568	Nil
Total	1,321	580

The Petitioner also submitted a break-up of cost of Special Repair and Maintenance of sick and damaged transformers.

- 8.5 The very scope of the instant review has already addressed under para 14.3.2 and 14.3.3 of the tariff determination for the FY 2013-14 wherein the Authority also referred to para 12.5.3 and para 12.5.4 of the tariff determination for the FY 2012-13 where the issue was dealt with sufficient clarity. In addition para 14-16 of the Authority's decision dated 18th September, 2013 also clearly elaborates on the issue. The Petitioner's argument that one decision has no relevance to the other shows lack of understanding of tariff setting mechanism on the part of the Petitioner. If the Petitioner keep on coming with the same request and justify it with the same argument and rationale, the Authority would be constrained not to change its decision and consequently, the Petitioner would have the same assessment on the issue.
- 8.6 The Petitioner has referred IAS- 16, which that relates to property plant and equipment. The Authority considers that the referred IAS needs to be looked into its true perspective. The para 7 of the standard clearly states that any cost shall be recognized as an asset in case the future economic benefits associated with the cost flow to the entity and the cost is reliably measured. Further under para 12 and 13, the





IAS 16 allows cost of day-to-day servicing of the asset to be recognized as repair and maintenance, whereas the cost of replacement of parts and major repair of the asset to be recognized as increase in cost of the asset. The cost of special repair and maintenance as requested by the Petitioner comprises of repair of sick transformers and replacement of transformers which does not come under day to day maintenance and hence cannot be allowed as an expense rather it should be capitalized as per the requirements of IAS-16.

- 8.7 The Authority denied the expense in its decision dated 6th February, 2014 as PC-1s submitted by the Petitioner with its tariff petition for the FY 2013-14 included the expenditure on rehabilitation of transformers and the same has been referred by the Authority in the decision. The Petitioner in its motion for review pleaded that this expense must not be capitalized and it must be treated as revenue expense as per para 12 of the IAS-16. The Authority is of the opinion that it has already allowed day to day repair and maintenance cost (as defined under para 12 of the IAS -16) to the Petitioner. The actual audited expense of Petitioner in this head was Rs. 528 million for the FY 2012-13,(recorder as per IAS - 16 by the Petitioner) whereas the Authority approved an expense of Rs. 580 million for the FY 2013-14 taking into account impact of inflation and addition of new consumers. In view thereof, the Petitioner's concern already stands addressed.
- 8.8 Further, Authority had been allowing increasing amounts under repair and maintenance head to the Petitioner over the years and the present huge number of sick and damaged transformers shows Petitioner's inefficiency. The Petitioner has presented reduction in losses in the FY 2012-13 by 0.04%, in the event where the Petitioner claims such large number of defected transformers in the system, it is incomprehensible that how it achieved reduction in losses. Further it also raises questions on the efficient utilization of the Petitioner's expenditure already incurred on this account. The Authority has also observed that Petitioner is making contradictory statements to make its case for the approval of instant expense.
- 8.9 In view of aforementioned discussion, the Authority see no new ground or evidence which would form basis for the Authority to change its initial assessment in this regard. Thus , the Petitioner's request is declined.

9. Miscellaneous Objections

- 9.1 The Petitioner has also raised certain miscellaneous objections to the determination for the FY 2013-14 that are discussed as below:

Cost of Working Capital disallowed by the Authority

- 9.2 The Petitioner has objected that the revised working of Cost of working capital as directed by the Authority in the public hearing of tariff determination for FY 2013-14 was submitted vide letter No 222/FD/FESCO/CPC dated 17th Sep 2013. Furthermore,





the Petitioner submitted that the necessary information including the financial Statement has been provided as per Authority's direction and no information was pending on the part of the Petitioner. However, the same was not considered and cost of working capital was denied by the Authority as being on a higher side. Consequently, the Petitioner has requested the Authority to allow the cost of Working capital amounting to Rs. 1,359 million.

9.3 Although the Authority at para 18.6 concluded that the cost worked out by the Petitioner is abnormally high and shall adversely affect the consumers yet before that it also indicated deficiencies in its working on which it concluded the aforementioned.

9.4 For the purpose of clarity , the Authority is reproducing the relevant extracts of the para. 18.6 .

"As regard the issue of working capital, the Authority after careful consideration of the Petitioner's provided working is of the view that it's submitted working for both options was not in accordance with the international practices and principles. The working capital requirement is normally worked out considering the current receivables and current payables. Further, the Petitioner has failed to correlate between its date of invoice from CPPA and its billing to the consumers. The Authority considers that the working capital requirement worked out by the Petitioner is abnormally high, which would adversely affect the consumers; therefore being without judicious basis and against the consumer's interest is declined."

9.5 The revised working submitted by the Petitioner again includes the aforementioned deficiencies, hence the Authority has decided to decline the Petitioner's request in this regard.

Pay out Ratio

9.6 The Petitioner has objected that the Authority was requested to set-up a Pay Out Ratio to gauge the performance of all DISCO's and fix the circular debt issue. However, the Authority has not fixed any target for DISCOs in this regard and same may be fixed.

9.7 The Authority, in Para 22.4 of the tariff determination for the FY 2013-14, while appreciating the Petitioner's proposal concluded that this proposal is more relevant for FESCO to be adopted for its internal management and to gauge performance of its various cost centers. In view thereof, the Authority directed the Petitioner to implement the same in its own DISCO.

Energy Conservation

9.8 The Petitioner submitted that detailed working of incentives for the consumers involved in energy conservation was submitted as per the directions of Authority vide letter No. 222/FD/FESCO/CPC dated 17th Sep 2013. However, the Authority has over-simplified the issue and the same merits re-consideration.





9.9 The Petitioner revised working is very vague. The calculation is based on general assumption that energy will be conserved @ 5% and 10%. Further, the proposal is silent on the below mentioned points.

- Which mechanism will be used to calculate the conserve energy of each consumer?
- What will be the incentive for those consumers?
- How the incentives will be passed on to the consumers?

9.10 In view of the afore stated ambiguities, the Authority cannot proceed with the proposal. The Petitioner however may re-work the proposal in light of above shortcomings and re-submit for possible consideration in next year's tariff determination.

Other Grounds

9.11 The Petitioner has objected to the tariff determination on certain other grounds as below;

- The Authority only allowed a sum of Rs.6,700 Million against the investment plan of Rs.10,895 Million without giving any reason / justification and the under assessed amount shall badly impair the investment plan. Also, the Petitioner submitted that it is not clear from the decision that which investments should be undertaken at the expense of others. The Petitioner further submitted that the implementation of this determination shall lead to recovery of capital cost directly from the consumers and thus affect the consumers adversely.
- The impugned determination is in violation of section 24-A of General Clauses Act.
- The impugned determination is stepping into the domain of the Ministry of Finance and GOP by giving instruction to recover the FPA in the form of subsidy from GOP instead of consumers.
- The tariff determined by NEPRA is unrealistic and do not address the risk of investors.

9.12 The comments of Authority on each of the objection are as below;

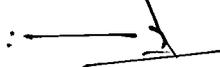
- The Authority at para 12.3.10 clearly indicates that it is highly desirable that the Petitioner carry out its investments beyond the Authority's assessment. The Authority assesses an investment amount on projected basis, as it is incorporated in its return. Return on any investment beyond the Authority's assessment is catered automatically next year in the existing mechanism. As regard the Petitioner's concern that which investment it may carry out is an

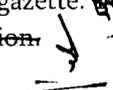




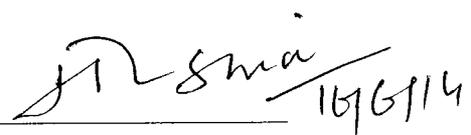
operational issue which the Petitioner may decide at its own in order to meet the Authority's set target of T&D losses. The Authority considers it that the domain of Petitioner's BOD. Further , the Petitioner has not elaborated on the recovery of capital cost from consumers, hence the Authority cannot comment on it.

- Further the Petitioner gave vague and incomplete arguments about General Clauses Act, domain of NEPRA on recovery of FPA and tariff being unrealistic which does not merit any discussion in the instant decision.

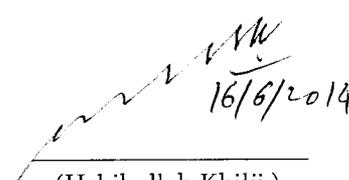
10. ~~Decision~~ Order : 

- 10.1 Based on the revision of T&D losses target & Consumer mix variance , the Authority considers that the review would result in the modification of its revenue requirement and SOT correspondingly.
- 10.2 After incorporating the above changes in the original determination the Schedule of Tariff (SOT) has been revised and attached as Annex-III of this decision, which will supersedes the earlier SOT attached with the original determination as Annex III.
- 10.3 In term of Section 31(4) of the NEPRA Act order of the Authority along with Annex-III attached to this decision is being intimated to the Federal Govt. for notification in the official gazette. ~~For the purpose of clarification the revised order is also attached for notification.~~ 

AUTHORITY


(Major (R) Haroon Rashid)
Member


(Khawaja Muhammed Naeem)
Member


(Habibullah Khilji)

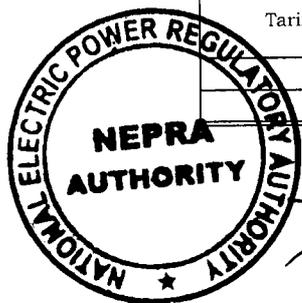



16.06.2014

Faisalabad Electric Supply Company (FESCO)
Estimated Sales Revenue on the Basis of New Tariff

1

Description	Sales GWh	Sales Mix	Tariff (NEPRA)		Revenue (as per NEPRA)		
			Fixed Charge Rs./kW/ Month	Variable Charge Rs./ kWh	Fixed Charge Rs.Million	Variable Charge Rs.Million	Total Rs. Million
Residential							
Up to 50 Units	311	3.63%		4.00	-	1,246	1,246
For peak load requirement less than 5 kW							
01-100 Units	1707	19.91%		11.09	-	18,923	18,923
101-300 Units	1328	15.49%		14.00	-	18,590	18,590
301-700Units	336	3.92%		15.00	-	5,045	5,045
Above 700 Units	85	1.00%		17.50	-	1,494	1,494
For peak load requirement exceeding 5 kW)							
Time of Use (TOU) - Peak	3	0.03%		17.50	-	51	51
Time of Use (TOU) - Off-Peak	15	0.18%		11.50	-	176	176
Total Residential	3,786	44.16%				45,524	45,524
Commercial - A2							
For peak load requirement less than 5 kW	270	3.14%		17.50	-	4,717	4,717
For peak load requirement exceeding 5 kW							
Regular	11	0.12%	400.00	15.00	16	160	177
Time of Use (TOU) - Peak	36	0.42%		17.50	-	633	633
Time of Use (TOU) - Off-Peak	152	1.77%	400.00	11.50	289	1,744	2,033
Total Commercial	468	5.46%			306	7,255	7,561
Industrial							
B1	247	2.88%		14.50		3,586	3,586
B1 Peak	24	0.28%		17.50	-	416	416
B1 Off Peak	137	1.60%		11.50	-	1,576	1,576
B2	97	1.14%	400.00	14.00	119	1,363	1,482
B2 - TOU (Peak)	184	2.15%		17.50	-	3,228	3,228
B2 - TOU (Off-peak)	1064	12.41%	400.00	11.30	2,124.83	12,026	14,150
B3 - TOU (Peak)	109	1.27%		17.50		1,900	1,900
B3 - TOU (Off-peak)	707	8.25%	380.00	11.20	772	7,917	8,688
B4 - TOU (Peak)	79	0.93%		17.50		1,391	1,391
B4 - TOU (Off-peak)	529	6.17%	360.00	11.10	484	5,867	6,351
Total Industrial	3,178	37.07%			3,499	39,269	42,767
Single Point Supply for further distribution							
C1(a) Supply at 400 Volts-less than 5 kW	0	0.00%		15.00	-	4	4
C1(b) Supply at 400 Volts-exceeding 5 kW	6	0.07%	400.00	14.50	7	89	96
Time of Use (TOU) - Peak	2	0.02%		17.50		30	30
Time of Use (TOU) - Off-Peak	8	0.09%	400.00	11.50	11	88	99
C2 Supply at 11 kV	64	0.75%	380.00	14.30	67	918	985
Time of Use (TOU) - Peak	6	0.07%		17.50		106	106
Time of Use (TOU) - Off-Peak	29	0.34%	380.00	11.30	36	327	364
C3 Supply above 11 kV	49	0.58%	360.00	14.20	36	702	739
Time of Use (TOU) - Peak	19	0.22%		17.50		324	324
Time of Use (TOU) - Off-Peak	91	1.06%	360.00	11.20	80	1,016	1,097
Total Single Point Supply	274	3.19%			238	3,605	3,843
Agricultural Tube-wells - Tariff D							
Scarp	46	0.54%		14.50	-	674	674
Agricultural Tube-wells	14	0.17%	200.00	14.00	9	200	208
Time of Use (TOU) - Peak	114	1.33%		17.50		2,001	2,001
Time of Use (TOU) - Off-Peak	681	7.94%	200.00	11.20	484	7,625	8,109
Total Agricultural	856	9.98%			493	10,500	10,993
Public Lighting - Tariff G							
Tariff H - Residential Colonies attached to industries	7	0.08%		15.00	-	98	98
	4	0.05%		15.00	-	67	67
Sub-Total	11	0.13%			-	165	165
Total Revenue	8,572	100.00%			4,535	106,317	110,852



**SCHEDULE OF ELECTRICITY TARIFFS
FOR FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)**

A-1 GENERAL SUPPLY TARIFF - RESIDENTIAL

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED	VARIABLE CHARGES	
		CHARGES Rs/kW/M	Rs/kWh	
a)	For Sanctioned load less than 5 kW			
i	Up to 50 Units	-	4.00	
	For Consumption exceeding 50 Units			
ii	001 - 100 Units	-	11.09	
iii	101 - 300 Units	-	14.00	
iv	301 - 700 Units	-	15.00	
v	Above 700 Units	-	17.50	
b)	For Sanctioned load 5 kW & above			
	Time Of Use	-	Peak 17.50	Off-Peak 11.50

As per the Authority's decision residential consumers will be given the benefits of only one previous slab. Under tariff A-1, there shall be minimum monthly charges at the following rates even if no energy is consumed.

- a) Single Phase Connections: Rs. 75/- per consumer per month
b) Three Phase Connections: Rs. 150/- per consumer per month

A-2 GENERAL SUPPLY TARIFF - COMMERCIAL

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED	VARIABLE CHARGES	
		CHARGES Rs/kW/M	Rs/kWh	
a)	For Sanctioned load less than 5 kW	-	17.50	
b)	For Sanctioned load 5 kW & above	400.00	15.00	
			Peak	Off-Peak
c)	Time Of Use	400.00	17.50	11.50

Under tariff A-2, there shall be minimum monthly charges at the following rates even if no energy is consumed.

- a) Single Phase Connections; Rs. 175/- per consumer per month
b) Three Phase Connections: Rs. 350/- per consumer per month



**SCHEDULE OF ELECTRICITY TARIFFS
FOR FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)**

B - INDUSTRIAL SUPPLY TARIFFS

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
B1	Upto 25 kW (at 400/230 Volts)	-	14.50	
B2(a)	exceeding 25-500 kW (at 400 Volts)	400.00	14.00	
	Time Of Use			
B1 (b)	Up to 25 KW		17.50	11.50
B2(b)	exceeding 25-500 kW (at 400 Volts)	400.00	17.50	11.30
B3	For All Loads up to 5000 kW (at 11,33 kV)	380.00	17.50	11.20
B4	For All Loads (at 66,132 kV & above)	360.00	17.50	11.10

For B1 consumers there shall be a fixed minimum charge of Rs. 350 per month.

For B2 consumers there shall be a fixed minimum charge of Rs. 2,000 per month.

For B3 consumers there shall be a fixed minimum charge of Rs. 50,000 per month.

For B4 consumers there shall be a fixed minimum charge of Rs. 500,000 per month.

**C - SINGLE-POINT SUPPLY FOR PURCHASE IN BULK BY THE DISTRIBUTION SYSTEMS
AND MIXED LOAD CONSUMERS NOT FALLING IN ANOTHER CONSUMER CLASS**

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
			Peak	Off-Peak
C -1	For supply at 400/230 Volts			
	a) Sanctioned load less than 5 kW	-	15.00	
	b) Sanctioned load 5 kW & up to 500 kW	400.00	14.50	
C -2(a)	For supply at 11,33 kV up to and including 5000 kW	380.00	14.30	
C -3(a)	For supply at 66 kV & above and sanctioned load above 5000 kW	360.00	14.20	
	Time Of Use			
C -1(c)	For supply at 400/230 Volts 5 kW & up to 500 kW	400.00	17.50	11.50
C -2(b)	For supply at 11,33 kV up to and including 5000 kW	380.00	17.50	11.30
C -3(b)	For supply at 66 kV & above and sanctioned load above 5000 kW	360.00	17.50	11.20



**SCHEDULE OF ELECTRICITY TARIFFS
FOR FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)**

D - AGRICULTURE TARIFF

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES	
			Rs/kWh	
D-1(a)	SCARP less than 5 kW	-		14.50
D-2	Agricultural Tube Wells	200.00		14.00
			Peak	Off-Peak
D-1(b)	SCARP and Agricultural 5 kW & above	200.00	17.50	11.20

Under Agriculture tariff, there shall be minimum monthly charges Rs.2000/- per consumer per month, even if no energy is consumed.

Note:- The consumers having sanctioned load less than 5 kW can opt for TOU metering.

E - TEMPORARY SUPPLY TARIFFS

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES	
			Rs/kWh	
E-1(i)	Residential Supply	-		17.50
E-1(ii)	Commercial Supply	-		17.50
E-2	Industrial Supply	-		14.50

For the categories of E-1(i&ii) above, the minimum bill of the consumers shall be Rs. 50/- per day subject to a minimum of Rs.500/- for the entire period of supply, even if no energy is consumed.

F - SEASONAL INDUSTRIAL SUPPLY TARIFF

125% of relevant industrial tariff

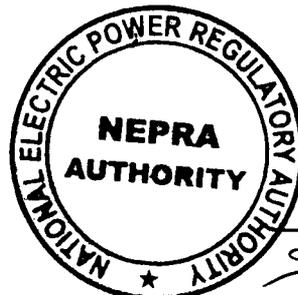
Note:

Tariff-F consumers will have the option to convert to Regular Tariff and vice versa. This option can be exercised at the time of a new connection or at the beginning of the season. Once exercised, the option remains in force for at least one year.

G- PUBLIC LIGHTING

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES	
			Rs/kWh	
	Street Lighting			15.00

Under Tariff G, there shall be a minimum monthly charge of Rs.500/- per month per kW of lamp capacity installed.



**SCHEDULE OF ELECTRICITY TARIFFS
FOR FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)**

H - RESIDENTIAL COLONIES ATTACHED TO INDUSTRIAL PREMISES

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED	VARIABLE CHARGES
		CHARGES Rs/kW/M	Rs/kWh
	Residential Colonies attached to industrial premises	-	15.00

