National Electric Power Regulatory Authority

Islamic Republic of Pakistan

Registrar

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad
Ph: +92-51-9206500, Fax: +92-51-2600026
Web: www.nepra.org.pk, E-mail: registrar@nepra.org.pk

No. NEPRA/R/ADG(Trf)/TRF-606/FESCO-2024/ 2289-93 February 12, 2025

Chief Executive Officer,
Faisalabad Electric Supply Company Limited (FESCO),
FESCO Headquarters, Abdullah Pur,
Faisalabad

Subject: **Decision of the Authority regarding Motion for Leave for Review filed by Faisalabad Electric Supply Company (FESCO) against Determination of Authority regarding Distribution tariff Petition under MYT regime for the period FY 2023-24 to FY 2027-28**

Please find enclosed herewith the subject Decision of the Authority (total 06 pages) for information and further necessary action.

Enclosure: **As above**

Waseem Anwar

(Wasim Anwar Bhinder)

Copy to:

1. Secretary, Ministry of Energy (Power Division), 'A' Block, Pak Secretariat, Islamabad
2. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
3. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
4. Secretary, Energy Department, Government of the Punjab, 8th Floor, EFU House, Main Gulberg, Jail Road, Lahore
5. Chief Executive Officer, NTDC,414 WAPDA House, Shaharah-e-Qauid-e-Azam, Lahore
6. Chief Executive Officer, Central Power Purchasing Agency Guarantee Limited (CPPA-G), Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad

DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE FOR REVIEW FILED BY FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO) AGAINST DETERMINATION OF THE AUTHORITY REGARDING DISTRIBUTION TARIFF PETITION UNDER THE MYT REGIME FOR THE PERIOD FY 2023-24 TO FY 2027-28

1. The Faisalabad Electric Supply Company Limited (hereinafter referred as "FESCO"), being a distribution licensee of NEPRA, filed tariff petition for determination of its distribution tariff under the Multi Year Tariff Regime, for a tariff control period of 05 years i.e. from FY 2023-24 to 2027-28. The Petition was decided by the Authority vide determination dated March 14, 2024 **(the Determination)**.

2. FESCO, being aggrieved with the Determination, filed a Motion for Leave for Review ("MLR") dated 25.03.2024, under Rule 16(6) of NEPRA (Tariff Standards and Procedure) Rules, 1998, read with other enabling provisions of law. The Petitioner raised the following points in its MLR;

   i) To reconsider the earlier decision and allow RoRB of Rs.16,355 million (Net increase of Rs.2,445 million) for the FY 2023-24, by not considering the impact of Security Deposit and receipt against deposit works as part of deferred credit after excluding therefrom the cash /bank balances and amount of stores and spares.

   ii) To allow impact of under assessed actual depreciation of Rs.1,341 million (Rs.437 million for the FY 2020-21 and Rs.904 million for the FY 2021-22) in the Prior Year Adjustment (PYA) of FY 2024-25.

   iii) Any other relief that it is deemed necessary for equitable and legal disposal of the Review may also be granted.

3. The MLR was admitted by the Authority on May 14, 2024. In order to provide a fair opportunity to the Petitioner to present its case, the Authority decided to conduct a hearing in the matter which was scheduled on 02.10.2024 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner.

4. The hearing was held on 02.10.2024, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

5. The Petitioner's submissions and the claim presented during the hearing is as under;

   <u>Excess Amount of Deferred Credit than Actual Adjusted against Regulatory Asset Base.</u>

   ✓ FESCO requested to allow under assessed RoRB of Rs.1,675 million due to excess amount of Deferred Credit adjusted against Regulatory Asset Base for FY 2023-24 under;

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

Description	Determined RAB (PKR Millions)		RAB as per FESCO (PKR Millions)	
	2022-23	2023-24	2022-23	2023-24
Fixed Assets O/Bal	112,237	128,487	112,237	128,487
Addition	16,250	18,330	16,250	18,330
Fixed Assets C/B	**128,487**	**146,817**	**128,487**	**146,817**
Depreciation	41,159	46,618	41,157	46,618
Net Fixed Assets	**87,328**	**100,199**	**87,330**	**100,199**
Capital WIP C/Bal	25,822	31,329	25,822	31,329
Fixed Assets incl. WIP	**113,150**	**131,528**	**113,152**	**131,528**
Less: Deferred Credit	52,441	60,862	44,544	52,965
Total	**60,709**	**70,666**	**68,608**	**78,563**
RAB	65,687		73,586	
WACC	21.18%		21.18%	
RORB	**13,910**		**15,585**	
Under Assessed RORB	**(13,910 – 15,585) = (1,675)**			

- ✓ The Authority, in its determination dated 14.03.2024, adjusted FESCO's RAB owing to insufficient cash balance as on 30.06.2023 against FESCO's pending liability of receipt against deposit works and consumer security deposits. The Authority considered receipts against deposit works and security deposits, a part of Deferred Credit for the assessment of RAB for FY 2023-24, after excluding the cash/bank balances and stores.
- ✓ Security deposits are maintained in separate bank accounts, in compliance with Section 217 of the Companies Act and Section 5.4 of NEPRA Consumer Service Manual (CSM). Further, all collected amounts for deposit works are used exclusively for their intended purposes i.e. ongoing projects.
- ✓ For the FY 2022-23, insufficient cash balance as on 30.06.2023 against FESCO's pending liability of receipt against deposit works and consumer security deposits is Rs.3,633 million, instead of Rs.7,897 million as taken by NEPRA as evident from the figures tabulated below;

Description	PKR Million
Balance of Receipt against Deposit works	20,200
Balance of Security Deposit as on 30.06.2023	11,916
Cash & Bank Balances as on 30.06.2023	(23,478)
Value of Stores	(5,005)
Difference	**3,633**

- ✓ In view thereof, the Petitioner requested the Authority to re-consider the revised amount of deferred credit while truing up the RORB for the FY 2023-24 and the differential amount of Rs.1,675 may be allowed as PYA in the next indexation.

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

Under assessed actual depreciation of Rs.1,341 million for FY 2020-21 and 2021-22 adjusted in PYA

- ✓ FESCO submitted that the Authority trued up allowed depreciation for FY 2020-21 & 2021-22 after taking comparative amounts of opening and closing accumulated depreciation is tabulated hereunder;

Description	FY 2020-21	FY 2021-22	Total
	PKR Millions		
Allowed	4,204	4,520	8,724
Depreciation (NEPRA)	3,111	2,726	5,837
Over /(Under) Allowed	**1,093**	**1,794**	**2,887**

- ✓ The depreciation calculation requires to be revised as below;

Description	FY 2020-21	FY 2021-22	Total
	PKR Million		
Allowed	4,204	4,520	8,724
Actual Depreciation	3,548	3,628	7,176
Over /(Under) Allowed	**656**	**892**	**1,548**

- ✓ The closing accumulated depreciation on June 30, 2021 and June 30, 2022 included depreciation of those assets removed/retired from site amounting to Rs.437 and Rs.449 million for the FY 2020-21 and 2021-22, respectively.
- ✓ Impairment loss of Rs.453 million due to revaluation of Buildings was also adjusted against the actual depreciation. Later on, in the annual indexation of FESCO's Tariff for the FY 2024-25, the impairment loss for the FY 2021-22, was adjusted back as part of PYA.
- ✓ The Petitioner accordingly requested the Authority to consider the actual amount of Depreciation and allow an adjustment of Rs. 886 million (1,339-453) as PYA in its next indexation.

6. The Authority has carefully considered the submissions made by the Petitioner. **Regarding RoRB,** the Authority noted that RoRB of the Petitioner for the FY 2022-23 was trued up vide decision dated 14.06.2024, in line with the Petitioner's MYT determination, based on its audited accounts and keeping in view the investment approved by the Authority for the FY 2022-23. While allowing true-up of RoRB for the FY 2022-23, the Authority adjusted deferred credits of Rs. 45,591 million based on audited accounts of the petitioner for FY 2022-23 as detailed below:

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

Deferred Credit for FY 2022-23	PKR Million
Deferred Credit as per FS of FY 2022-23	40,911
Add:	
Receipt aginst deposit works	20,200
Security deposits	12,964
Subtotal	**74,075**
Less:	
Cash at bank	4,478
Term Deposits Reciepts	19,000
Stores and Spares	5,005
Subtotal	**28,483**
Total	**45,591**

7. The Petitioner has not provided any reconciliation of its requested deferred credit amount of Rs.44,544 million with the audited accounts. As per the Petitioner's Audited accounts, balance of security deposits is Rs.12,964 million, whereas, the Petitioner has claimed it as Rs.11,916 million. However, no working has been provided by the Petitioner to substantiate this claim. Further, while working out RAB for the FY 2022-23, the Petitioner has included opening balance of fixed assets as Rs. 112,237 million, whereas, as per its Audited accounts for the FY 2022-23, the opening balance of Fixed Assets is Rs. 110,097 million. The Authority based on the Audited Accounts, has already allowed an amount of Rs 2,927 million as true up of RoRB for the FY 2022-23 vide decision dated 14.06.2024, as under;

RoRB in PYA for FY 2022-23	PKR Million
Allowed	8,282
Actual	11,209
Under/(Over) Recovery	**2,927**

8. In view thereof, the Authority does not see any justification to review its earlier decision in the matter and hence request of the Petitioner is declined.

9. Regarding RoRB for the FY 2023-24, the Authority allowed RoRB, based on projected RAB after considering the allowed investments, projected capitalization and deferred credits. The same as per MYT determination of the petitioner would be trued up subsequently once its audited accounts for FY 2023-24 are available. Relevant excerpts of the MYT determination in this regard are as follows:

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY

4.43. Regarding RoRB, the reference RoRB is required to be adjusted every year based on the amount of RAB worked out for the respective year after taking into account the amount of investment allowed for that year, as per the mechanism provided in the MYT.

4.44. Accordingly, the revised RAB of the Petitioner for the FY 2024-25, based on the Investment allowed for the FY 2024-25 i.e. Rs.24,914 million, and incorporating therein 100% balance of CWIP, works out as Rs.85,618 million. The average RAB of the Petitioner however, for the purpose of calculation of RoRB, works out as Rs. 77,072 million for the FY 2024-25.

4.45. It is relevant to mention here that the Authority in the MYT determination, allowed the adjustments on account of variation in KIBOR on biannual basis. The same would be adjusted subsequently once the actual KIBOR and Audited accounts of the Petitioner for the FY 2024-25, are available for true up of RORB.

4.46. Based on the above discussion, the total RoRB of the Petitioner for the FY 2024-25 works out as Rs.16,320 million. The same is being allowed to the Petitioner for both the distribution and supply of power functions.

4.47. In order to bifurcate the allowed RoRB in terms of Distribution and Supply Functions, the criteria adopted by the Authority in the MYT determination has been used, wherein, complete amount allocated to Distribution function.

4.48. In addition, the mechanism given in the previous MYT, also provided that the allowed RoRB for previous year to be trued up, based on actual investments, for the respective year. Further, the variations on account of KIBOR are also required to be allowed on biannual basis. In view thereof, the RoRB cost allowed for the FY 2022-23, has been trued up and made part of PYA of the Petitioner for the FY 2024-25, on both these accounts as under;

RORB	Unit	FESCO
Allowed KIBOR	%	9.75%
Actual KIBOR 04.07.2022	%	15.32%
Actual KIBOR 03.01.2023	%	17.06%
RoRB (Investment + KIBOR)		
Allowed	Rs. Mln	8,282
Actual	Rs. Mln	11,209
Under/(Over) Recovery		2,927

10. In view thereof, the request of the Petitioner to allow an adjustment of Rs.1,675 million on account of under assessment of RoRB for the FY 2023-24 does not merit consideration at this point in time, and would be adjusted once the Audited accounts of the Petitioner for the FY 2023-24 are available. Any such adjustment, if required, would be allowed in the subsequent tariff adjustments. Accordingly, the request of the Petitioner is declined.

11. On **the issue of less allowed depreciation**, the Authority vide MYT determination of FESCO dated 14.03.2024, for the period from FY 2023-24 to FY 2027-28, trued up depreciation charge of the petitioner for FY 2020-21 and FY 2021-22 as part of PYA, based on the audited financial statements of the Petitioner. While doing so, the Authority considered the allowed and actual depreciation as follows:

Description	Depreciation FY 2020-21	Depreciation FY 2021-22
Allowed	4,204.00	4,520.00
Actual	3,111.28	3,179.47
Difference	(1,092.72)	(1,340.53)

NEPRA AUTHORITY

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY

12. The actual depreciation expense was taken from the Audited financial statements of FESCO for the FY 2020-21 and FY 2021-22, a breakup of which is as under:

Description	Depreciation charge for FY-2021	Depreciation charge for FY-2022
Buildings	50.10	64.05
Feeders	1,190.18	2,369.33
Grids & Equipment	1,777.76	629.89
Vehicles	31.41	49.72
Furniture and Fixtures	61.83	66.48
Total	**3,111.28**	**3,179.47**

13. The Petitioner, in its working has considered actual depreciation as Rs.3,548 million and Rs.3,628 million for the FY 2020-21 and FY 2021-22 respectively, by stating that depreciation of Rs. 437 million and Rs. 449 million for retired assets was also included in the accumulated depreciation for FY 2020-21 and FY 2021-22, however, these figures are not verifiable from the financial statements of the Petitioner. The Petitioner has informed that figures of retired assets are properly reflected in the Audited Financial statements for the FY 2023-24 and onwards, however, this practice was not being done in the FY 2021 & FY 2022.

14. Therefore, in the absence of any documentary evidence, the Authority is constrained to maintain its earlier decision in the matter. Thus, request of the Petitioner to allow an adjustment of Rs.886 million as PYA is hereby declined. The Petitioner, however, is directed to provide an audit certificate from its Auditors in this regard or restate its financial statements for the relevant period for consideration of the Authority, so that necessary adjustment, if any, could be made.

AUTHORITY

Mathar ~~Niaz Rana (nsc)~~
Member

Rafique Ahmed Shaikh
Member

Engr. Maqsood Anwar Khan
Member

Amina Ahmed
Member

Waseem Mukhtar
Chairman

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY
NEPRA
AUTHORITY