



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-575/HESCO-2022/432-434  
January 12, 2023

Subject: **Decision of the Authority in the matter of Motion for Leave for Review filed by Hyderabad Electric Supply Company Ltd. (HESCO) against Determination of the Authority for its Distribution of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 [Case # NEPRA/TRF-575/HESCO-2022]**

Dear Sir,

Please find enclosed herewith subject Decision of the Authority (08 Pages) in the matter of Motion for Leave for Review filed by Hyderabad Electric Supply Company Ltd. against Determination of the Authority for its Distribution of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 in Case No. NEPRA/TRF-575/HESCO-2022 for information.

Enclosure: As above

  
( Engr. Mazhar Iqbal Ranjha )

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

CC:

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



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

1. Hyderabad Electric Supply Company Limited (HESCO), hereinafter called "the Petitioner" being a distribution licensee of NEPRA filed Motion for Leave for Review vide letter dated June 15, 2022, against determination of the Authority dated June 02, 2022 for its Distribution of Power Tariff under the Multi Year Tariff Regime for the FY 2020-21 to FY 2024-25.
2. The Petitioner has raised the following points in its review motion;
  - i. That allowed T&D losses are much lower than that requested to the Authority for the FY 2020-21 to 2024-25 and that ground realities of HESCO have not been duly taken into consideration while allowing for the T&D losses.
  - ii. Allowed Distribution Margin on account of Vehicle Expenses for the FY 2022-23 is insufficient in view of unprecedented increase in fuel prices.
  - iii. Allowed Distribution Margin on account of Repair and Maintenance Expenses for the FY 2022-23 is insufficient to meet the R&M requirements of HESCO.
  - iv. PEPCO Management Fee already incurred by HESCO including fee incurred during the FY 2018-19 and 2019-20 may be allowed and fee claimed and allowed by the Authority from FY 2011-12 and onwards may not be disallowed.

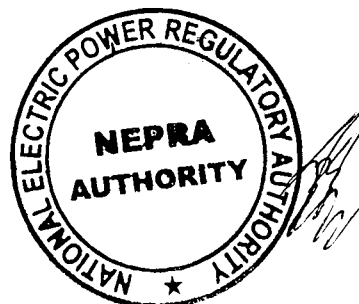
**3. Proceedings**

- 3.1. The Motion for Leave for Review was admitted by the Authority on July 14, 2022. In order to provide a fair opportunity to the Petitioner to present its case, the Authority decided to conduct a hearing in the matter which was scheduled on August 25, 2022 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner. However, the Petitioner requested to reschedule the same for September 01, 2022. Subsequently the same was again Re-scheduled upon request of the Petitioner for September 19, 2022. Revised notices of hearing were sent to the Petitioner.
- 3.2. The hearing was held on September 19, 2022, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

**4. Transmission & Distribution Losses**

- 4.1. The Authority vide its determination dated 2-6-2022 has allowed following level of T&D Losses to HESCO against requested T&D losses for MYT control period of five (05) years.

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Description	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Requested	28.00%	27.14%	25.97%	24.78%	23.56%
Allowed	19.43%	19.07%	18.57%	18.06%	17.55%

- 4.2. The Petitioner in its MLR has requested NEPRA to revise the T&D losses targets viz-a-viz Margin for Law & Order. Petitioner in its petition has requested that the margin for Law & Order may be increased from 1.4% to 5% for the FY 2020-21 with a gradual decrease of 0.1% over the each preceding years of MYT control period.
- 4.3. The submissions of the Petitioner in summarized form state that that it is unable to meet T&D losses targets due to worst Law & order situation hampering free movement of its employees, Kunda connections, damage of ABC cables by stealers for hook connection, non-cooperation of law enforcement agencies, massive theft & non-payment culture, resistance by defaulters in case of disconnection of supply, majority of feeders (56%) are feeding to rural areas, etc. Further, HESCO has stated that it is trying its best to curtail T&D losses by increasing its surveillance through night checking by S&I, M&T and special task force, by replacing sluggish meters and securing high rise/plazas.
- 4.4. It is noted that most of issues raised by HESCO vide its instant MLR are governance/administration related such as Kunda connections, damage of ABC cables by stealers for hook connection, non-cooperation of law enforcement agencies, massive theft & non-payment culture, resistance by defaulters in case of disconnection of supply, majority of feeders (56%) are feeding to rural areas and doesn't classify as Law & Order issues.
- 4.5. Moreover, the Authority while giving the Law & Order margin of 1.4% and gradually decreasing it to 0.1% each preceding year has already considered aforementioned reasons and factors and decided not to pass on the inefficiencies of HESCO to consumers. In view thereof, the request of HESCO for revision in law and order margin would not be considered by the Authority and accordingly the already determined Law and Order margin in the matter of MYT determination dated: 02.06.2022 for HESCO has been maintained by the Authority.
- 4.6. With respect to request of HESCO to revise transmission and distribution loss targets, the Authority noted that HESCO has failed to provide any rationale or additional evidence along with its MLR and reiterated the same grounds which has already been considered by the Authority at the time of determination of HESCO for MYT control period of 5 years. Therefore, the Authority has decided not to revise the transmission and distribution loss targets and accordingly maintains its earlier determined losses as allowed in its MYT determination dated: 02.06.2022.





5. Insufficient Vehicle Expenses

- 5.1. Regarding Vehicle expenses allowed as part of the Distribution Margin, the Petitioner submitted that Distribution Margin allowed on account of Vehicle Expense for the FY 2021-22 and 2022-23 are insufficient to meet the requirements of HESCO due to the fact that increase in fuel prices do not increase as per the CPI rate.
- 5.2. In support of its claim the Petitioner submitted that Petrol prices have increased from Rs.150 to Rs.210 per liter during the month of May-2022 showing the increase of 40% as against the increase of 12.58% allowed by NEPRA. Therefore, for the months of May and June 2022, an increase of 40% may be allowed. Additional financial impact in this regard has been calculated as Rs.11.33 million, to bring the overall allowed cost to the tune of Rs.181.33 million. The Petitioner further stated that during the FY 2022-23, a further increase in petrol price of Rs.23 per liter is expected bringing the total increase in petrol price to 55.33% as against the allowed increase of 8.82%. Therefore, estimated additional financial impact of Rs.97 million may be allowed over and above the already allowed Vehicle Expenses of Rs.185 million for the FY 2022-23.
- 5.3. The Petitioner during the hearing also stated that Petroleum prices increased significantly, therefore, requested to reconsider the increase allowed by the Authority for the FY 2021-22 & FY 2022-23 as tabulated below;

Description	FY 2020-21	FY 2021-22	FY 2022-23
Requested	151	225	370
NEPRA Allowed	151	170	185
Excess/(Less)	0	-55	-185
Allowed %age	100.00%	75.56%	50.00%

- 5.4. The Authority observed that while determining the Multi Year Tariff (MYT) to the Petitioner, allowed the cost for Transportation expenses as per request of the Petitioner for the FY 2020-21, as part of its O&M costs. For future adjustment/ indexation of the costs allowed under the O&M, the Authority in the MYT determination of the Petitioner prescribed the following mechanism;

44. O&M Costs

- 44.1. Regarding O&M costs, the reference costs would be adjusted every Year with CPI-X factor. However, the X factor would be applicable from the 3<sup>rd</sup> year of the MYT control period. The Adjustment mechanism would be as under;

Adjustment Mechanism - Operation & Maintenance Exp.	
Operation & Maintenance Exp.	= Ref. O&M cost x [ 1+(CPI )X factor]

- 5.5. On the Petitioner submission that because of significant raise in POL prices, the transportation expenses be indexed at a rate higher than average CPI, the Authority



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noted that the allowed O&M expenses include number of different costs heads. All these cost heads do not directly correspond with changes in overall NCPI, as there are some heads like communication, bill collection charges, rents, rates & taxes etc., which do not increase with the same proportion of overall NCPI, however, at the same time there are certain heads, which increase at a rate higher than overall NCPI.

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

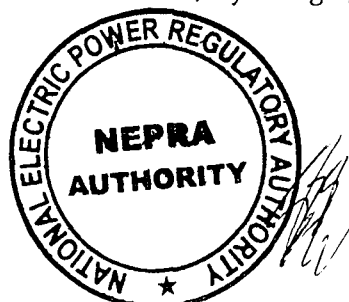
I. **National Consumer Price Index (N-CPI)**

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

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

- 5.7. From the above table, it is clear that certain heads like electricity, communication, equipment maintenance etc., have not increased by the overall NCPI of 21.32% instead have increased by 13.48%, 1.96% and 18.76% respectively.

- 5.8. In view thereof, the Authority decided to index the total allowed O&M cost with average CPI-X factor, instead of adjusting each individual head of O&M cost separately. Here it is also to be understood that spirit of MYT is to bring efficiency in the operations of the Petitioner, by bridging the gap between different cost heads



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through effective management of such costs. The Petitioner will now be ensuring reduction in O&M costs through more efficient and less costly operation & maintenance, as compared to increases allowed in the Tariff, the benefits of such improvement will be retained by the Petitioner, during the tariff control period.

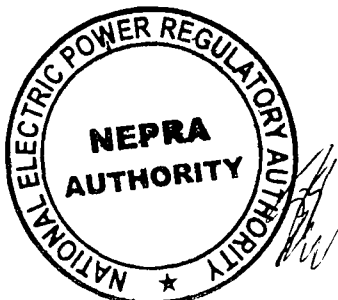
- 5.9. It is also a fact that similar adjustment mechanism is applicable for other entities in the Power sector under the Multi Year Tariffs i.e. Generation, Transmission, Distribution and Supply functions. Any change in the adjustment mechanism of the Petitioner, to account for its request would open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

**6. Insufficient Repair and Maintenance expenses**

- 6.1. The Petitioner in the MLR submitted that in its MYT petition it requested R&M expenses @2.5% of prospective net fixed assets at the end of the year during the MYT control period i.e. 2020-21 to FY 2024-25 as under;

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
R&M Requested	1,059	1,403	1,285	1,374	1,464

- 6.2. The Petitioner also mentioned that in past, the actual R&M expenses remained on lower side due to non-availability of material. However, for the FY 2022-23 procurement plan has been approved by the BOD, HESCO, envisaging massive R&M related expenditure as per the requirements of HESCO. Therefore, the requested figures of R&M amounting to Rs.1,290.7 million may be allowed as against Rs.799 million allowed for the FY 2022-23.
- 6.3. The Authority observed that the Petitioner in its petition requested a total amount of Rs.1,082 million under the head of R&M for the FY 2020-21 as reference and for future years submitted that R&M expenses have been calculated at 2.5% of net fixed assets at the end of the year.
- 6.4. The Authority while making assessment of the Petitioner's R&M expenses in the MYT determination, not only considered the previous trend of the Petitioner's R&M cost but also took into account the fact that the Petitioner has been allowed a huge CAPEX of around Rs.76 during the MYT control period and decided as under in para 35.11 to 35.16 of the determination dated 02.06.2022;



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"Regarding Repair and Maintenance expenses, the Petitioner has submitted that amount of repair and maintenance allowed by NEPRA in the past has been insufficient to cover the expenditure required to maintain the distribution infrastructure. Past trend of actual expenditure is thus not reflective of the actual requirements of the DISCO

The Authority noted that for the FY 2019-20, the Petitioner requested an amount of Rs.893 million, whereas its actual expenditure remained at around Rs.599 million for both function i.e. Supply and Distribution, thus the request of the Petitioner has been on the higher side.

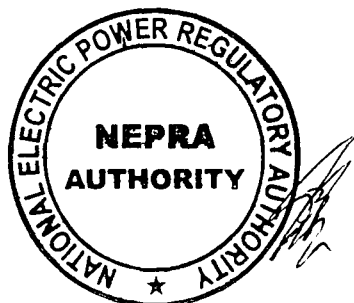
The Petitioner further for the purpose of instant adjustment has requested R&M cost @ 2.5% of net fixed assets at the end of the year.

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 last two years as per its audited accounts, observed that the same works out as 1.45% and 1.76% of the Net fixed assets for the FY 2018-19 and FY 2019-20 respectively. Moreover, the Petitioner has not provided any rationale or working to substantiate its request of setting R&M as 2.5% of Net fixed assets except that it has to maintain vast & old distribution system.

No doubt that the adherence to service standards and improvement of customer services is only possible through continuous repair and maintenance of distribution network, however, at the same time the Petitioner has also requested for huge CAPEX of over Rs.76 billion for making additional investment in Fixed Assets, resulting in new, expensive and efficient equipment, leading to overall reduction in R&M cost and increasing the total Assets base. Thus, the Petitioner idea if adopted would result in undue benefit to the Petitioner in the long run. Thus, the request of the Petitioner to link R&M cost with the certain % of Fixed Assets is not justified.

In view of the foregoing and keeping in view the current approved tariff methodology, the Authority has decided to allow an amount of Rs.653 million under R&M head, for the FY 2020-21, after incorporating the inflationary impact on the R&M cost as per the audited accounts of the Petitioner for the FY 2019-20, for both the Distribution and Supply Functions. The same is hereby allowed to the Petitioner for the FY 2020-21 for both its distribution and Supply Functions.....

The assessed repair and maintenance cost for the FY 2020-21 i.e. Rs.639 million, shall be considered as the reference cost for working out future repair and maintenance expenses for its distribution function, in the remaining control period as per the adjustment mechanism prescribed in the instant determination.



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- 6.5. An analysis of the Petitioner's actual R&M cost during the last five years showed that it was only able to spend a maximum of Rs.715 million in the FY 2017-18, which subsequently declined in the FY 2018-19 and FY 2019-20 as mentioned hereunder;

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
R&M Requested	673	687	715	449	599

- 6.6. Similarly, for the FY 2020-21, as per the provisional account submitted by the Petitioner, its R&M expenses have again remained very low i.e. around Rs.315 million, as against the requested amount of Rs.1,059 million. Thus, the request of the Petitioner is exaggerated and, without any logical justification.

- 6.7. In light of the above discussion, the Authority has decided to maintain its earlier decision in the matter and not to accept the request of the Petitioner to allow any increase in the already allowed amount of R&M expenses and to calculate the same as a % of net fixed assets at the end of the year.

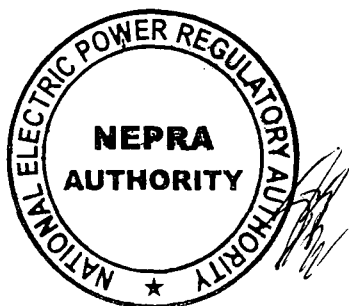
7. PEPCO Management Fee

- 7.1. The Petitioner on the issue of PEPCO Management fee submitted that PEPCO management fee is paid by CPPA-G from the funds remitted by HESCO and the debit advice is sent for ultimate booking of expense in books of accounts of HESCO. The Authority continued to allow the expenses on account of PEPCO management fee up to FY 2017-18. However, the Authority disallowed the expenses claimed on this account in the determination for the FY 2018-19 and FY 2019-20.

- 7.2. The Petitioner further mentioned that directions of Authority were complied with and details of actual booking on account of PEPCO management fee in the books of accounts of HESCO from FY 2011-12 and onwards were provided. However, the Authority directed to provide the details of PEPCO management fee claimed in tariff by HESCO till June 30, 2021 with its subsequent tariff adjustment/indexation request.

- 7.3. The Petitioner accordingly requested to allow the actual costs incurred by HESCO in this regard from FY 2018-19 and onwards and not to disallow the costs on this account from FY 2011-12 and onwards.

- 7.4. The Authority observed that in the tariff determination of the Petitioner for the FY 2018-19 & FY 2019- 20 it was noted that each DISCO is an independent entity having its own board of Directors, thus, allowing any cost on the pretext of PEPCO Management fee was not logical. It was also noted that the Ministry of Energy (MoE), itself in the Peshawar High Court submitted that PEPCO shall be dissolved after June 2011. In view thereof, the cost of PEPCO fee was not allowed to the Petitioner and it



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was directed to provide details of PEPCO Management Fees, if any, claimed previously so that same could be adjusted in the subsequent tariff determinations.

- 7.5. In view thereof and the fact that no new ground / rationale has been provided by the Petitioner, the Authority has decided to maintain its earlier decision in the matter. However, if the Petitioner still wants to pay the PEPCO Management, the same should be paid by the Petitioner through its own profit/ return, rather making it part of Tariff.
8. From what has been discussed above, the Authority is of the considered view that the grounds agitated in the motion for leave for review are not sufficient enough justifying the modification of the impugned determination, hence the motion for leave for review is declined.

AUTHORITY

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Mathar Niaz Rana (nsc)  
Member

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Rafique Ahmed Shaikh  
Member

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Engr. Maqsood Anwar Khan  
Member

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Tauseef H. Farooqi  
Chairman

