



# National Electric Power Regulatory Authority Islamic Republic of Pakistan

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**Registrar**

No. NEPRA/R/DG(Trf)/TRF-564 & TRF-565 /PESCO-2021/ 48/3-19

April 03, 2024

**SUBJECT: DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE FOR REVIEW FILED BY PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO) AGAINST DETERMINATION OF THE AUTHORITY FOR ANNUAL ADJUSTMENT/INDEXATION OF DISTRIBUTION MARGIN FOR DISTRIBUTION & SUPPLY FUNCTIONS FOR THE FY 2023-24 & PRIOR YEAR ADJUSTMENTS UNDER MULTI-YEAR TARIFF REGIME [CASE # NEPRA/TRF-564 & TRF-565/PESCO-2021]**

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (total 28 Pages) in the matter of Motion for Leave for Review filed by Peshawar Electric Supply Company (PESCO) against Determination of the authority for Annual Adjustment/Indexation of Distribution Margin for Distribution & Supply functions for the FY 2023-24 & prior year adjustments under Multi-Year tariff regime in Case No. NEPRA/TRF-564 & TRF-565 /PESCO-2021.

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

Enclosure: As above

(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.
3. Secretary, Energy and Power Department, Government of Khyber Pakhtunkhwa, 1<sup>st</sup> Floor, A-Block, Abdul Wali Khan Multiplex, Civil Secretariat, Peshawar
4. Chief Executive Officer, NTDC, 414 WAPDA House, Shaharah-e-Quaid-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, Peshawar Electric Supply Company (PESCO), WAPDA House, Shami Road, Sakhi Chashma, Peshawar

**DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE FOR REVIEW FILED BY PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO) AGAINST DETERMINATION OF THE AUTHORITY FOR ANNUAL ADJUSTMENT / INDEXATION OF DISTRIBUTION MARGIN FOR DISTRIBUTION & SUPPLY FUNCTIONS FOR THE FY 2023-24 & PRIOR YEAR ADJUSTMENTS UNDER MULTIYEAR TARIFF REGIME**

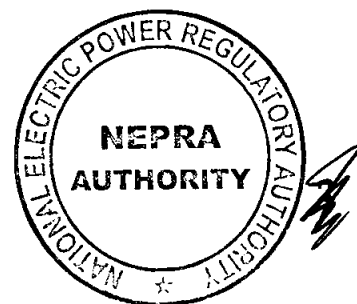
1. The Authority determined Peshawar Electric Supply Company Limited (PESCO) annual indexation/ adjustment for its distribution and supply of power functions for the FY 2023-24 vide decisions dated 14.07.2023 ("Impugned Decision"). The tariff so determined was notified by the Federal Government vide SRO dated 26.07.2023. PESCO (*hereinafter also referred to as "the Petitioner" or "Company"*), against the aforementioned decision of the Authority, filed Motion for Leave for Review (MLR) dated 27.07.2023, received in NEPRA on 01.08.2023.
2. PESCO submitted that main objective of the Review Motion is to request the Authority to review the Impugned Decision to make it cost reflective & to ensure a reasonable tariff to the Company. The input data, deferred credits, salaries & wages, repair & maintenance costs, vehicle running expenses, other operating expenses, prior year adjustments and other matters used for determination of distribution margin and prior year adjustment be reassessed enabling PESCO to generate enough revenue to perform its obligatory duties as prescribed by the Authority.
3. The Petitioner requested the following amounts in its MLR;

Description	Unit	Determined for FY 2023-24	Adjustment Request	Revised Request
Pay & Allowances	Rs. Mln	18,820	2,321	21,141
Post-Retirement Benefits	Rs. Mln	9,361	1,186	10,547
Repair & Maintenance	Rs. Mln	1,235	445	1,680
Travelling Allowance	Rs. Mln	368	-	368
Vehicle Maintenance	Rs. Mln	265	95	360
Other Expenses	Rs. Mln	1,366	153	1,519
Total O& M Costs	Rs. Mln	31,415	4,200	35,615
Depreciation	Rs. Mln	4,343	33	4,376
RORB	Rs. Mln	14,292	829	15,121
Other Income	Rs. Mln	-	590	-
PYA	Rs. Mln	4,476	9,419	13,895
Revenue Requirement	Rs. Mln	50,936	13,891	64,827

4. PESCO has raised the following issues in the MLR;
  - i. Pay & Allowance and Post-Retirement Benefits
  - ii. O&M Expenses
  - iii. Depreciation
  - iv. RORB & Calculation of Deferred Credits.
  - v. Other Income
  - vi. Prior Year Adjustment (PYA)
  - vii. Any other grounds

**Proceedings:**

5. The MLR was admitted by the Authority. Since the prayer of the MLR, impacts the consumer



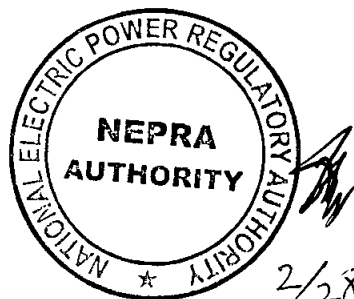
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end tariff, therefore, the Authority decided to conduct a hearing in the matter, to provide a fair opportunity to the Petitioner to present its case. The hearing was initially scheduled on 05.10.2023, at NEPRA Tower & through Zoom. Notices of hearing were issued to the relevant stakeholders. Subsequently PESCO vide letter dated 03.10.2023, requested to reschedule the hearing owing to their BoD meeting. The Authority while acceding to the request of the Petitioner rescheduled the hearing on 18.10.2023. The hearing was again postponed on the request of PESCO and was finally held on 14.11.2023. Revised notices were issued to the relevant stakeholders. During hearing, the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

6. The following issues were framed for discussion during the hearing and for presenting written as well as oral evidence and arguments;
- Whether the requested Pay & Allowance and Post-Retirement Benefits are justified?
  - Whether the request of the petitioner to allow financial implication of NTDC pensioners is justified or otherwise?
  - Whether the requested O&M expenses (R&M, Travelling, Vehicle Running and Other Expenses) is justified or otherwise?
  - Whether the request of the petitioner to link Efficiency Factor-X with actual expenditure is justified or otherwise?
  - Whether the requested Depreciation expense is justified or otherwise?
  - Whether the requested RORB and calculation of deferred credit is justified or otherwise?
  - Whether the requested Other Income and PYA is justified or otherwise?
  - Whether the request of PESCO, regarding creation of special tariff category for supplies to Upper Chitral as per MoU between Power Division, KPK and Chitral against the tariff equivalent to basket price tariff, is justified or otherwise?
  - Any other issue that may come up during or after the hearing?
7. Whether the requested Pay & Allowances and Post-Retirement Benefits are justified?

Pay & Allowances

- 7.1. The Petitioner regarding Pay & Allowances submitted that the Authority in the Impugned Decision, allowed increase in the Pay & Allowances as announced in the Federal Budget FY 2023, i.e. Ad-Hoc Relief of 32.5% (30% BPS 17-22) & (35% BPS 1-16) along with Annual Increment of 5% for 07 months based on the revised expenditure allowed for FY 2022-23 as a reference. However, the financial impact of increment is on average equal to 5% of the basic pay for the whole year and was accordingly allowed in previous determinations as well. The Petitioner further submitted that determination of Ad-Hoc Relief for FY 2023-24 @ 32.5% by assuming 50% officers and 50% staff, may be required to be reconsidered as the breakup of the staff and officers is different as mentioned below;



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Decision of the Authority in the matter of motion for leave for review filed by PESCO against determination of the Authority dated 14.07.2023 for annual adjustment / indexation of Distribution Margin

Category	No. of Employees	Basic Pay: FY22-23 (Min Rs.) approx.	Percentual w.r.t No. of Employees (%)
Staff (BPS 1-16)	12,781	7,469	96%
Officer (BPS 17-21)	473	438	4%
<b>Total</b>	<b>13,254</b>	<b>7,907</b>	<b>100%</b>

7.2. It has further been mentioned by the Petitioner that in para 6.12 of the Impugned Decision, it is held that the amount allowed under the heads of Salaries, Wages & Other benefits for the FY 2022-23 shall be considered as upper cap and it is liable to downward adjustment, which is unfair and requires to be reconsidered because no such mechanism exists in the MYT Determination dated 2<sup>nd</sup> June, 2022. Accordingly it was prayed that the same may be trued up on the basis of audited financial statements and increase allowed by GoP. It was further prayed that since various adjustment as per above explanation w.r.t Annual Increment and Adhoc Relief Allowance etc., would be required, hence upper cap should be removed. It was also prayed that the Authority has allowed increases in the Basic Pay, Ad-Hoc Relief Allowance and DRA, however, no increase has been allowed in the remaining heads of Pay & Allowances like, House Rent Allowance, Cash Medical Allowance, Conveyance allowance, Wages of Contractual Employees, Daily Wages and Others Benefits etc. The Petitioner also mentioned that various allowances are dependent on the station of posting like House Rent Allowance @30% & 45% is admissible in small /big cities, similarly acquisition is allowed in big cities etc. thus, the variation is bound to be expected and either it should be trued up on the basis of audited accounts of FY 2023-24 or an increase of 10% may be allowed.

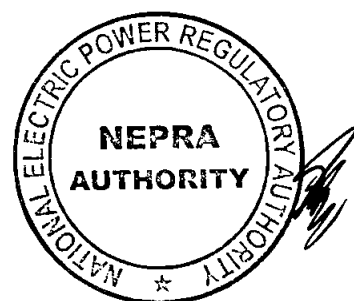
7.3. The Petitioner accordingly requested an additional amount of Rs.2,321 million for Pay & Allowances for the FY 2023-24 as under;

Description	2022-23	2023-24	Variance	2023-24	2023-24
	Determined	Determined	%Age	Proposed Adj.	Revised/ Proposed
<b>Pay &amp; Allowance</b>					
Basic Pay	7,907	8,138	3%	165	8,303
Ad-Hoc Relief Allowance	1,186	1,206	2%		1,206
Ad-Hoc Relief Allowance FY 2023-24		2,614	-	218	2,832
Disparity Reduction Allowance	999	999	0%	1,352	2,351
House Rent Allowance	263	263	0%	26	290
Cash Medical Allowance	482	482	0%	48	530
Conveyance allowance	382	382	0%	38	420
Wages of Contractual Employees	1,399	1,399	0%	140	1,539
Daily Wages	61	61	0%	6	68
Others Benefits	3,276	3,276	0%	328	3,603
<b>Total Pay &amp; Allowances</b>	<b>15,956</b>	<b>18,820</b>	<b>18.0%</b>	<b>2,321</b>	<b>21,141</b>

7.4. The Petitioner also submitted that the Authority in the Impugned Decision, held that no further adjustment on account of MIRAD hiring and GENCO employees transferred to the Petitioner would be allowed. PESCO stated that in its Adjustment/ indexation application for FY 2023-24, it had requested that since the process of new hiring is not yet completed, hence, the Authority may defer the Mid-Year Review till next year, i.e. FY 2024-25. Therefore, it is again submitted that the Authority may reconsider its decision and defer the matter till next Indexation request for FY 2024-25.

Post-Retirement Benefits

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- 7.5. On the issue of Post-retirement benefits the Petitioner submitted that the Authority has allowed Post Retirement benefits, to the tune of Rs.9,361 million for FY 2023 -24 on the basis of the baseline amount of Rs.7,953 million as allowed for the FY 2022-23, with an increase of just 17.5%, which will be insufficient to cover the actual expenditure. The Authority though acknowledged in the MYT determination to allow the actual payments and indexation on the basis of the increases / in line with GOP pension increase, however, the impact of new retirees during FY 2022-23 have not been included in the baseline figure, hence both the determined amounts for FY 2022-23: Rs.7,953 million and for FY 2023-24: Rs.9,361 million are on lower side and needs to be reconsidered and actual payments may be allowed. It also stated that during FY 2022-23, PESCO has paid Post Retirement benefits, in cash, amounting to Rs.8,873 million as per draft accounts of FY 2022-23, and the Authority determined amount of Rs.7,953 million against PESCO's request of Rs.9, 188 million, which is insufficient and will aggravate the already fragile financial position of the Company.
- 7.6. The Petitioner further stated that it has put in place a full fledged Pension Management System (PMS) and is being implemented throughout PESCO with a database of around 19,900 plus pensioners. Accordingly, as per PMS data, an analysis, regarding the actual payments made, new pensioners added along with their commutation paid & the total pension expenditure, is presented in the table below:

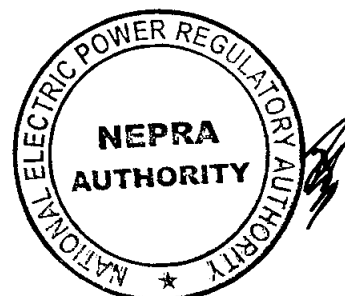
Description	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Nos of Pensioners	13,335	14,184	15,518	16,220
increase In Nos	-	849	1,334	702
% Increase (YoY)		6%	9%	5%
Total Pension (Rs. Mln)	5,552	6,564	6,570	8,556
% Increase (YoY)		18%	9%	20%

- 7.7. PESCO also submitted that as evident from the above table, the Pension payments made and the number of Pensioners has increased during FY 2022-23 and will further increase during FY 2023-24 due to new retirees. In view thereof, the Authority is requested to review its decision and allow actual cash payments of the Post-Retirement benefits as per below table:

Table-4: Proposed Adjustments				Rs. in Mln
Description	2020-21	2021-22	2022-23	2023-24
Post-Retirement Benefits	6,658	7,324	8,873	10,547
% Increase (yoy)		10%	21%	19%

- 7.8. The Authority has carefully considered the submissions of the Petitioner made in the MLR and during the hearing. The Authority observed that decision for indexation/ adjustments for the FY 2022-23 were issued on 02.06.2022, when increases in Salaries, wages & Other Benefits announced in the Federal Budget for the FY 2022-23, were not available. Therefore, while allowing the salaries, wages & other benefits for the FY 2022-23, a projected increase in salaries, wages & other benefits was allowed. The Federal Government subsequently allowed various increases in salaries, wages & other Benefits for the FY 2022-23, vide notification dated 01.07.2022.

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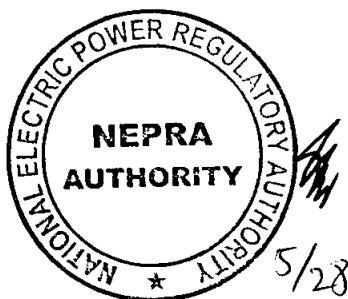
- 7.9. In view thereof, revised detail of salaries, wages & other benefits, after including therein the allowed increase as per the Federal Government notification dated 01.07.2022, were obtained from the Petitioner for the FY 2022-23. The same was reported as Rs.15,956 million by the Petitioner, against the already allowed amount of Rs.14,853 million for the FY 2022-23. Accordingly, while assessing salaries, wages & other benefits for the FY 2023-24, the Authority vide Impugned Decision, considered the revised cost of Rs.15,956 million for the FY 2022-23, as provided by the Petitioner, as a reference for the FY 2023-24. Since, the cost for the FY 2022-23 was provided by the Petitioner itself, therefore, the Authority also held that the amount allowed under the heads of Salaries, Wages & Other benefits for the FY 2022-23 shall be considered as upper cap and it is liable to downward adjustment, based on audited accounts of the Petitioner for the FY 2022-23.
- 7.10. In order to have a fair appraisal of the Petitioner's submission, a comparison of the amounts allowed to the Petitioner *vis a vis* actual costs incurred, as per the Audited accounts of the Petitioner, under the MYT from FY 2020-21 till FY 2022-23, for both Pay & Allowances and Pension benefits, have been tabulated as under;

Year	Allowed (Rs.)			Actual (Rs.)			Difference
	Pay & Allowances	Pension	Total	Pay & Allowances	Pension paid	Total	
2020-21	11,148,000,000	6,658,000,000	17,806,000,000	10,780,056,991	6,657,863,688	17,437,920,679	368,079,321
2021-22	13,509,000,000	7,324,000,000	20,833,000,000	12,611,859,225	6,778,818,161	19,390,677,386	1,442,322,614
2022-23	15,956,000,000	7,953,000,000	23,909,000,000	12,639,971,304	9,095,219,161	21,735,190,465	2,173,809,535
	40,613,000,000	21,935,000,000	62,548,000,000	36,031,887,520	22,531,901,010	58,563,788,530	3,984,211,470

- 7.11. As evident from the table above, the Petitioner has been allowed a total amount of Rs.3,984 million, over & above its actual expenditure till FY 2022-23, for both the Pay & allowances and pension benefits. The Petitioner in its instant MLR, has requested an additional amount of Rs.3,507 million. The Authority noted that the Petitioner already has an amount of Rs.3,984 million over & above its actual costs till FY 2022-23, therefore, the requirement of additional amount of Rs.3,507 million for the FY 2023-24, needs to be met from the extra amount already available with the Petitioner. In case, the actual expenditure of the Petitioner, combined for both heads, remains higher than the allowed amount, the Authority may consider to allow such additional amount of Pay & Allowances and Pension Benefits till FY 2023-24, as PYA based on audited accounts of the Petitioner. Similarly, in case the actual expenditure of the Petitioner of Pay & Allowances and Pension Benefits, during the current MYT till the FY 2023-24 remains lower than the allowed costs till the FY 2023-24, the Petitioner shall deposit the excess amount in the Pension Fund. In case the Petitioner fails to deposit the excess amount in the Fund, the same shall be adjusted as part of PYA in the subsequent adjustment/indexation decision of the Petitioner. Thus, the request of the Petitioner to allow any additional amount in this regard is not justified and hence declined.

8. Whether the request of the Petitioner to allow financial implication of NTDC pensioners is justified or otherwise?

- 8.1. The Petitioner on the issue submitted that the Authority in the Impugned Decision has not considered the pension payments to the pensioners transferred from NTDC, which has annual impact Rs. 28 million. It was also submitted that NTDC has forwarded so far 88 Nos. PPO files pertaining to EX- GSC retired employees of the formations transferred to PESCO in view of



the Tariff Determination of FY 2014-15 for XW-DISCOs by the Authority. Although, PESCO has repeatedly requested NTDC to take up the matter with NEPRA for a policy decision in this regard, however NTDC is referring the decision of WAPDA with reference to XW-DISCOs pensioners and not accepting the said claims w.e.f July 2014, resulting in cash flow problems for PESCO with outstanding arrears of Rs.183 million up-to June 2022 and the same are accumulating on monthly basis with annual financial implication of around Rs.28 million, which will further increase during FY 2023-24. The Petitioner provided the following financial impact of NTDC Pensioners;

Company	Year	No of Pensioners	Annual (Rs. in Mn)
NTDC Pensioners	2014-15 & 2021-22	88	183
	2022-23 (Prov.)		28
Total			211

8.2. It has further been submitted by the Petitioner that the Authority with reference to NTDC pensioners in PESCO MLR decision for FY 2022-23, has directed to submit the matter in the next indexation/adjustment request, accordingly, the same has been included/claimed as part of PYA with the request to allow the same to PESCO. However, the same has again been deferred on the directions to submit a separate case before the Authority. The Authority is accordingly requested to re-consider the same as PESCO is already facing financial hardships in the shape of huge cash shortfall due to unrealistic T&D loss target and PESCO may not be able to finance the said cost due to non-payment by NTDC and it will create problems for old age pensioners. Accordingly, the Petitioner requested that an interim arrangement may be decided till the final decision w.r.t the financing of the said cost and proposed that either to advice NTDC to make the payments till final decision or may allow the financial impact provisionally to PESCO, as it is not possible for PESCO to absorb the said cash shortfall.

8.3. The Authority in the Impugned Decision, on the issue of NTDC pensioners decided as under;

6.21. Here it is pertinent to mention that the amount so worked out also includes the impact of 49 GENCO pensioners transferred to the Petitioner, as the reference cost of the FY 2022-23, used for projecting the post retirement cost for the FY 2023-24, has been enhanced by Rs.13.3 million to account for the impact of GENCO Pensioners. Further, the impact of GENCO pensioners for the FY 2021-22 and FY 2022-23 i.e. Rs.23.3 million, as provided by the Petitioner, has also been allowed as part of PYA for the FY 2023-24.

6.22. Regarding NTDC Pensioners, the Petitioner is directed to submit a separate case before the Authority detailing all the facts and reasons along-with financial impact of NTDC Pensioners, as the Authority vide letter dated 17.11.2022, directed all DISCOs and WAPDA to ensure payments to the GENCO pensioners provisionally, in light of the ECC decision dated 23.09.2021.

8.4. As mentioned above under the issue of Pay & Allowances and Pension Benefits, the Petitioner has an additional amount of Rs.3,984 million, over & above its actual expenditure till FY 2022-23, for both the Pay & allowances and pension benefits. The Petitioner in its MLR for the FY 2023-24, has requested an additional amount of Rs.3,507 million for pension benefits, thus, it would still be having an amount of Rs.477 million in excess. In view thereof, the Petitioner is directed to meet its requested amount of Rs.211 million out of the already available amount and ensure payment to all NTDC Pensioners. Thus, the request of the Petitioner to allow any



additional amount in this regard is not justified and hence declined. The Petitioner is further directed to inform NTDC about these Pensioners so that NTDC does not claim the financial impact of such pensioners in its tariff petition separately.

9. Whether the requested O&M expenses (R&M, Travelling, Vehicle Running and Other Expenses) is justified or otherwise?
10. Whether the request of the petitioner to link Efficiency Factor-X with actual expenditure is justified or otherwise?

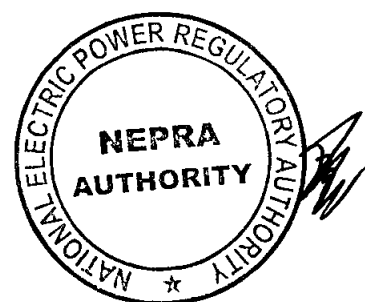
R&M, Travelling, Vehicle Running & Other Expenses

- 10.1. The Petitioner submitted that in its Indexation application for FY 2023-24, it requested to allow Rs.3,466 million under the heads of R&M, Travelling, Vehicle Running & Other Expenses. However, the Authority allowed Rs.3,234 million, which will be insufficient to meet the financial requirement of the company. PESCO is already facing financial hardship and the determination of other expenses by excluding various legitimate costs may hamper PESCO's ability to provide uninterrupted services to the consumers as it will further aggravate the weak financial position of the company. The Petitioner submitted the following detailed reasoning for each head;

Repair and Maintenance

- 10.2. PESCO requested an allocation of Rs.1,396 million for Repair & Maintenance on the basis of determined expenditure of Rs.1,055 million for the FY 2022-23 in view of inflation and the change in policy. However, the Authority allowed only Rs.1,235 million. The actual expenditure for Repair & Maintenance in FY 2020-21 was Rs.1,177 million, indicating a significant increase compared to FY 2019-20, mainly due to a revised repair policy approved by the BoD in 2019. The policy requires financing all transformer repairs regardless of AT&C losses, further revised to 80%, resulting in higher costs. Therefore, the baseline of indexation requires reconsideration in view of the actual expenditure of FY 2020-21 & change of baseline conditions.
- 10.3. It has further been stated that in the FY 2022-23, the power infrastructure incurred substantial losses due to devastating floods, leading to significant damages to the power grid stations and distribution network. However, efforts were made for rehabilitation and restoration of the damaged infrastructure and power supply was successfully reinstated using alternative resources amid the flood damages to grid stations, transmission lines, and poles, however, extensive reconstruction operations were carried out with huge financial impact. Furthermore, the increased cost of materials such as copper, iron, and aluminum for electrical equipment is required be considered. Fluctuations in international prices and currency devaluation have led to abnormal increases in raw material prices. The Authority is urged to acknowledge these market realities and adjust the Repair & Maintenance expenses accordingly.

Math. J





**Table-6: Proposed Adjustments**

Description	Rs. in Mln		
	2021-22	2022-23	2023-24
Repair & Maintenance Expense	972	1,350	1,680
% Increase (YoY)		39%	24%

**Vehicle Running Expenses:**

- 10.4. Regarding vehicle expenses, the Petitioner submitted that the Authority's determination of vehicle running expenses for FY 2023-24 of Rs.265 million, with only a marginal 17% increase from the determined amount of Rs.226 million for FY 2022-23, appears contrary to prevailing market rates. During hearing of PESCO for the FY 2023-24 indexation request, the Authority acknowledged increased POL prices and requested increase for smooth consumer services may be allowed in liters with market trends, however, apparently the same has been ignored in the decision.
- 10.5. The Petitioner further submitted that in the MYT Tariff determination, the Authority based inflationary increase of General Category (CPI) instead of the Transport Category, despite a substantial 24.07% increase in transport prices in December 2021. Furthermore, data from the PSO website indicates a 36.05% increase in POL prices during FY 2021-22, yet the allowed increase over FY 2020-21 was only 12%, and a mere 9% is allowed for FY 2022-23. This limited increase has proved insufficient to meet the expenses required for sustainable and smooth operations during FY 2022-23 and accordingly the said shortfall is being carried forward during FY 2023-24. An analysis of the increase in POL prices for the last four years is tabulated below:

Description	FY2019-20	FY2020-21	FY2021-22	FY2022-23
Average Price of Petrol (Annual)	106.89	106.43	150.57	247.82
% Increase (yoy)		-0.43%	41.46%	64.59%
Average Price of Diesel (Annual)	117.50	108.98	149.36	255.51
% Increase (yoy)		-7.25%	37.06%	71.06%
Average POL Price (Petrol + Diesel)	112.20	107.70	149.97	251.67
% Increase (yoy)		-4.01%	39.25%	67.81%

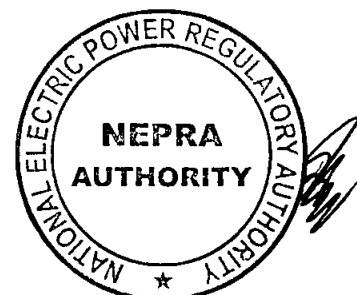
- 10.6. In view thereof, the Petitioner has requested the Authority to consider the prevailing market trends and enhance the vehicle running expenses accordingly as below;

**Table-8: Proposed Adjustments**

Description	Rs. in Mln		
	2021-22	2022-23	2023-24
Vehicle Running Expense	208	290	360
% Increase (YoY)		39%	24%

- 10.7. The Petitioner has also mentioned that proportion of expenditures relating to petroleum, oil, and lubricants (POL) is relatively higher (7%) in the O&M (excluding Pay, Allowances & Pension) category of PESCO in comparison to other expenses such as communication (1%), rent, rates, and taxes (4%), as per Financial Statement of FY 2021-22. Hence, the inflationary increase for vehicle running expenses needs to be based on the NCPI for the Transport category to better reflect the actual market conditions in order to maintain smooth consumer services, therefore, this matter necessitates reconsideration.

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**Other O&M Expenses:**

- 10.8. Regarding O&M expenses, the Petitioner submitted that the Authority in the Impugned Decision, determined other expenses for the FY 2023-24, amounting to Rs.1,366 million. However, it is asserted that this amount is insufficient to provide uninterrupted services. It may be noted that cost of materials has experienced abnormal increases due to fluctuations in international prices and rupee devaluation, leading to a rise in various commodities' prices. Accordingly, the Authority is requested to consider the prevailing ground realities and allow adjustment of Rs.1,398 million. Furthermore, during the FY 2020-21, bill Collection Charges were increased due to the payment of arrears amounting to Rs.89 million, as well as the current cost to Telenor Microfinance Bank for online collections (approx. annual impact of Rs.35 million), which was pending due to verification/reconciliation. Although, the Authority has not considered this cost, it is earnestly requested to reconsider and allow the same to the extent of the annual impact of Rs.35 million in the base tariff for FY 2022-23, along with indexation in the subsequent period. Similarly, concerning rent expenses, out of the total arrears of Rs. 100 million, the annual impact of Rs.30 million may be allowed to PESCO in the base tariff for the purpose of indexation of FY 2023-24. The Authority may consider aforesaid submission and enhance the Other O&M expenses accordingly.

**Table-9: Proposed Adjustments**

Description	Rs. in Mn		
	2021-22	2022-23	2023-24
Other O&M Expense	1,034	1,220	1,519
% Increase (YoY)		18%	24%

**Efficiency Factor-X**

- 10.9. On the point of efficiency factor, PESCO stated that in its Indexation application for FY 2023-24, it requested that efficiency factor-X may be allowed on actual basis, however, the same has not been considered in the Authority decision. It is asserted that expenditure needs to be allowed on an actual basis, because, where the actual expenditure in a specific category falls below the indexed amount, the benefit should be passed on to consumers, hence, the application of a 30% adjustment factor requires reassessment. Considering PESCO's weak financial condition and resource shortfall together with the unrealistic target of losses of 20.16% & 19.81% for FY 2022-23 & FY 2023-24, contrary to the market realities as envisaged in the National Electric Policy, it would be more appropriate to link the adjustment factor with actual expenditure.
- 10.10. The Authority has considered the submissions of the Petitioner made in the MLR and during the hearing. The Authority observed that in the MYT determination of PESCO dated 02.06.2023, in the matter of adjustment of O&M costs was decided as under;

**52. O&M Costs**

- 52.1. Regarding other O&M cost, the reference cost 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)]



Math. 9

9/28

10.11. Similarly on the issue of X-Factor, the MYT determination of PESCO dated 02.06.2023, states as under;

Regarding adjustment of O&M costs with the efficiency factor X, the Authority noted that the Petitioner although has proposed to index its O&M costs with CPI subject to adjustment of X-factor, however, nothing has been proposed in terms of value of X-factor. Therefore, in the absence of any recommendation from the Petitioner, the Authority in line with its earlier MYT decisions in the matter of XWDISCOs, has decided to keep the efficiency factor "X", as 30% of increase in CPI for the relevant year of the MYT control period. The Authority has further decided to implement the efficiency factor from the 3<sup>rd</sup> year of the control period, in order to provide the Petitioner with an opportunity to improve its operational performance, before sharing such gains with the consumers.

10.12. Thus, at the very outset, the request of the Petitioner to allow higher inflationary increase for transportation and actualize its O&M costs for the previous years and to accordingly revise base rates, are out of scope of the MYT adjustment/ indexation mechanism. The Authority has further observed that the Petitioner, although, claimed that its expenditure under R&M has risen over the years owing to change in policy by the Management, however, as per the Audited accounts of the Petitioner, its actual cost under R&M has gone down as given below.

R&M			
Year	Allowed (Rs.)	Actual (Rs.)	% Change
2020-21		1,177	
2021-22	972	1,038	-13%
2022-23	1,055	1,018	-2%

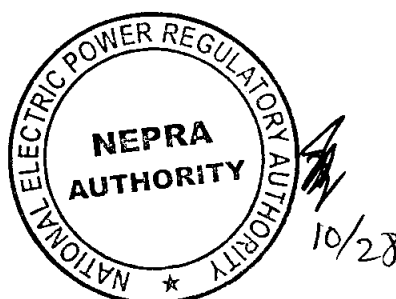
10.13. Therefore, the submissions of the Petitioner are not correct, considering the fact that its actual audited expenditure for the FY 2022-23 remained at Rs.1,018 million. Accordingly, the request of the Petitioner to allow cost of Rs.1,350 million for the FY 2022-23 against the allowed amount of Rs.1,055 million is not justified. Similarly, the amount claimed by the Petitioner for the FY 2023-24 i.e. Rs.1,680 million is also exaggerated, keeping in view its actual expenditures of R&M over the years. Hence, the request of the Petitioner is not allowed.

10.14. Regarding request of the Petitioner to allow higher inflationary increase for vehicle running expenses, it is submitted that actual expenditure of the Petitioner, as per its audited accounts, for the FY 2020-21 and FY 2021-22 under the head of transportation, remained lower than the amount allowed by the Authority as mentioned below;

Transportation		
Year	Allowed (Rs.)	Actual (Rs.)
2020-21	185	183
2021-22	208	203

10.15. Therefore, the plea of the Petitioner that the Authority's allowed general CPI increase, is insufficient *vis a vis* the actual inflationary increases in the Transport category (24.07% in December 2021 and 36.05% during FY 2021-22), is not justified.

10.16. It may also be noted that the allowed O&M expenses include number of different costs heads, including R&M, Transportation, Travelling, Misc. expenses etc. 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.

10.17. For ready reference the % change in of 24.47% in NCPI of Dec. 2022 over Dec. 2021 along-with % change in individual groups, comprising of the overall NCPI basket has been reproduced hereunder;

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

The National Consumer Price Index for December 2022 is increased to 0.49% over November 2022 and increased to 24.47% over corresponding month of the last year i.e. December 2021.

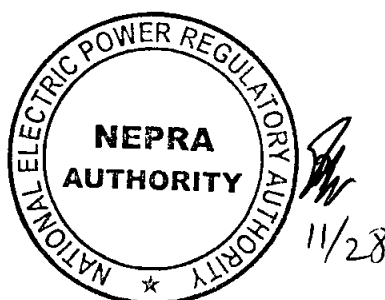
**Table 1: Consumer Price Index (National) by Group of Commodities and Services (Base 2015=100)**

No	Group	Group Weight (%)	Indices			% Change Dec 2022 Over		Impact (In % points)	
			Dec 22	Nov 22	Dec 21	Nov 22	Dec 21	Nov 22	Dec 21
	<b>General</b>	<b>100.00</b>	<b>196.85</b>	<b>196.85</b>	<b>168.18</b>	<b>6.49</b>	<b>34.47</b>	<b>0.49</b>	<b>24.47</b>
1	Food & Non-alcoholic Bev.	34.58	220.82	221.14	182.96	-0.14	36.90	-0.06	12.85
	Non-perishable Food items	25.00	219.92	214.82	166.99	2.38	32.49	0.77	10.59
	Perishable Food items	4.99	226.12	228.87	145.91	-12.58	55.93	-0.83	2.68
2	Alcoholic Bev. & Tobacco	1.02	199.40	198.44	146.48	0.52	36.19	0.51	0.34
3	Clothing & Footwear	8.00	183.62	182.32	156.81	0.71	17.10	0.06	1.46
4	Housing, Water, Electricity, Gas & Fuels	23.63	187.51	187.42	156.63	0.02	4.96	0.00	1.63
5	Furnishing & Household Equipment Maintenance	4.10	196.45	191.84	152.91	2.40	29.23	0.10	1.15
6	Health	2.79	189.63	146.03	161.46	1.84	17.45	0.06	0.60
7	Transport	5.91	243.28	345.27	172.34	-0.81	41.18	-0.06	2.65
8	Communication	2.21	111.86	111.86	110.11	0.06	1.66	0.00	0.03
9	Recreation & Culture	1.58	185.02	186.80	133.60	10.80	38.49	0.18	0.62
10	Education	3.79	163.89	163.44	147.78	0.27	10.82	0.01	0.39
11	Restaurants & Hotels	8.92	199.03	196.51	156.27	1.29	27.37	0.00	1.87
12	Miscellaneous	4.87	204.95	198.91	162.99	3.00	25.77	0.16	1.29

10.18. From the above table, it is clear that certain heads like electricity, communication, equipment maintenance etc., have not increased by the overall NCPI of 24.47%, instead have increased by 6.95% and 1.68% respectively.

10.19. In view thereof, the Authority in the MYT determination of the Petitioner 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 through effective management, of such costs. The Petitioner needs to ensure reduction in O&M costs through more efficient and less costly operation & maintenance, as compared to increases allowed in the Tariff. Hence, the request of the Petitioner is not justified.

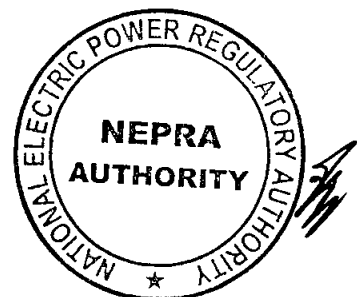
10.20. Regarding point of the Petitioner to adjust actual expenditure in any head only, if the same is less than the indexed amount, instead of CPI-X, it needs to be understood that spirit of MYT is to bring efficiency in the operations and to encourage efforts towards making expenses efficient. The MYT provides the Petitioner with an opportunity to make its operations more efficient than the targets allowed by the Authority and accordingly retain such efficiency gains as an incentive. With the allowed adjustment mechanism of O&M expenses with CPI-X, the Petitioner will be ensuring reduction in its costs, through more efficient and less costly O&M, as compared to increases allowed in the Tariff, the benefits of which would be retained by the Petitioner, during the tariff control period. Here it is pertinent to mention that similar adjustment mechanism is applicable for other entities in the Power sector under the Multi Year Tariffs. Any specific change in the adjustment mechanism only for the Petitioner, to



account for its request would open Pandora's Box, resulting in multiple openers in the MYT, which is neither desired nor a prudent utility practice. In light of above discussion, the Authority has decided not to accept the request of the Petitioner to allow any increase in the already allowed amounts or modify the adjustment/ indexation mechanism.

11. **Whether the requested Depreciation expense is justified or otherwise?**

- 11.1. The Petitioner on the issue of depreciation submitted that according to the para 6.32 of the Impugned Determination, it is stated that for truing up of Depreciation expenses for the FY 2020-21 & FY 2021-22, expenditure as per the Audited financial statements has been considered, which is contrary to the fact, because, PESCO's audited expenditure for FY 2020-21 & FY 2021-22 under the head of Depreciation is Rs.3,296 & Rs.3,709 million, whereas the Authority in its decision has allowed Depreciation to the tune of Rs.3,240 million & Rs.3,680, respectively, resulting in short fall of Rs.85 million (FY2020-21:Rs.56Mln & FY 2021-22: Rs.29Mln), which is unjustified. Further, the Authority's decision to true-up depreciation downward only for the previous year based on allowed investment, without considering unavoidable factors, like natural calamities, may lead to negative consequences for service quality and inefficiencies in the long term. Additionally, if investment is below the allowed limit during particular year, it may lead to increased investment in following years to recoup the gap. This approach may be unfair as economic conditions and natural calamities can impact investment, hence, a fair policy needs to be established instead of unnecessarily penalizing the Petitioner, so as to enable it to provide reliable and efficient electricity services to consumers.
- 11.2. The Petitioner accordingly requested that investment may be trued up in both shapes i.e. upward and downward, to provide a level playing field. Similarly, based on the investment allowed for FY 2022-23 & FY 2023-24 and net book value of the assets as per audited financial statements, the depreciation needs to be Rs.4,376 million for FY 2023-24 whereas Rs.4,343 million has been allowed, which needs to be reconsidered together with the actual depreciation of Rs.4,025 million for FY 2022-23. The scope and the amount of the investment allowed are not matching due to abnormal increase in inflation. Accordingly, it is not possible for PESCO to carry out the scope as per the approved investment plan and may not be able to achieve the targets. Accordingly, it may be decided whether scope of work is required to be completed or the amount is capped and in case the amount is capped then the target for losses etc., also needs to be reconsidered on the basis of the works physically completed compared to the scope of investment.
- 11.3. The Authority noted that in the MYT determination of PESCO dated 02.06.2022, following has been decided in terms of depreciation expenses;



54. **Depreciation Expenses**

- 54.1. The reference Depreciation charges would be adjusted every Year as per the following formula;

$$\text{DEP (Rev)} = \text{DEP (Ref)} \times \frac{\text{GFAIO (Rev)}}{\text{GFAIO (Ref)}}$$

Where: DEP (Rev) = Revised Depreciation Expense for the Current Year

DEP (Ref) = Reference Depreciation Expense for the Reference Year

GFAIO (Rev) = Revised Gross Fixed Assets in Operation for the Current Year

GFAIO (Ref) = Reference Gross Fixed Assets in Operation for the Reference Year

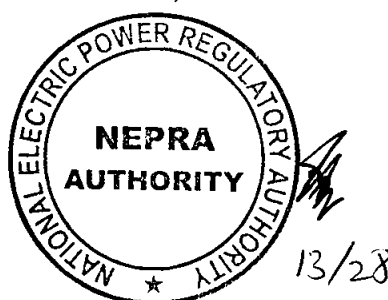
- 54.2. In addition the allowed Depreciation for previous year will be trued up downward only, keeping in view the amount of investment allowed for the respective year. In case, the Petitioner ends up making higher investments than the allowed, the same would be the Petitioner's own commercial decision and would not be considered while truing up the depreciation expenses, 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.

11.4. Thus, the depreciation expense is required to be adjusted downward only, keeping in view the amount of investment allowed for the respective year and in case of any additional investment, the same would be Petitioner's commercial decision and would not be considered while truing up the depreciation expenses. Accordingly, while deciding the adjustment / indexation request of the Petitioner for the FY 2023-24, the criteria as prescribed in the determination has been considered and the depreciation expenses have been restricted only to the extent of allowed investment. Therefore, the request of the Petitioner to allow depreciation of additional investments made by the Petitioner is not in line with the MYT determination. Here it is pertinent to mention that as per the approved Investment plan of the Petitioner, the amount allowed under each head of investment shall not be used under any other head. In case of any deviation under each head of the investment for more than 5% in the approved investment plan due to any regulatory decisions/interventions/approved plans, DISCOs are required to submit additional investment requirements for prior approval of the Authority. Therefore, the Petitioner as provided in the determination was required to submit its request for any additional investment for prior approval of the Authority.

11.5. In view of the above discussion, the Authority has decided not to accept the request of the Petitioner to allow any increase in depreciation expenses.

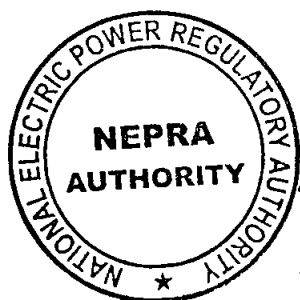
12. **Whether the requested RORB and calculation of deferred credit is justified or otherwise?**

12.1. Regarding RoRB, the Petitioner has submitted that the Authority in the Impugned Decision computed RORB based on adjustment of overinvestment and excess adjustment of deferred credit after taking into account the cash balances under deposit works and consumer security, which needs to be reconsidered. The deduction of Rs.3,956 million and Rs.3,735 million on account of overinvestment for FY 2020-21 & FY 2021-22 is unfair and needs to be reconsidered because, the adjustment has been made without considering the economic condition of the country where the cost of material has increased abnormally, the raw material (such as copper, iron, aluminum etc.) used for electrical equipment (Transformers,



cables etc.) are mostly imported and due to the fluctuation in international prices as well as the rupee devaluation, the prices of equipment have increased abnormally. By applying such restriction on the expenditure will reduce the scope of investments required for the sustainability of the system and to reduce the T&D losses. Further, the Authority's decision to true up RAB downward only for the previous year based on allowed investment, without considering unavoidable factors, like natural calamities, may lead to negative consequences for service quality and inefficiencies in the long term. Additionally, if investment is below the allowed limit during particular year, it may lead to increased investment in the following years to recoup the gap. This approach may be unfair as economic conditions and natural calamities can impact investment, hence, a fair policy needs to be established instead of unnecessarily penalizing the petitioner, so as to enable it to provide reliable and efficient electricity services to consumers. Therefore, the investment may be trued up in both shapes that is upward and downward also to provide a level playing field.

- 12.2. The Petitioner further submitted that scope and the amount of the investment allowed are not matching due to abnormal increase in inflation. Therefore, it is not possible for PESCO to carry out the scope as per the investment plan and may not be able to achieve the targets. Accordingly, it may be decided whether scope of work is required to be completed or the amount is capped, if yes, then the target for losses etc. also needs to be reconsidered. It is pertinent to mention here that the issue of excessive deduction of Deferred Credits from Regulatory Asset Base (RAB) due to insufficient cash balances was discussed during the MLR hearing for FY 2020-21 to FY 2022-23, however, the Authority in its decision stated that PESCO Financial statement for FY 2019-20 shows insufficient balances as on 30<sup>th</sup> June, 2020 against their pending liability of receipt against deposit works and consumer security deposits, thus, indicating that the amount received against the aforementioned heads has been utilized somewhere else. It is pertinent to mention here that the Cash Balance under Deposit head has no correlation with Revenue Requirement and the Distribution Margin. Such interpretation is based on the incorrect assumptions which is creating financial hardships for PESCO, although the detail calculations along with documentary evidence was provided to NEPRA's Tariff team, however still PESCO submissions has not been considered. Moreover, this treatment/calculation has no legal backing, because NEPRA Act, 1997 and the regulations thereunder doesn't support this treatment. PESCO is not utilizing the consumer receipts for any other purpose and since FY 2015-16, PESCO has managed to reduce the shortfall under Deposit head (whether inherited or recovered by FBR) to Zero, hence the deduction of RORB has no legal grounds, because NEPRA Act, 1997 and the regulations thereunder doesn't support the above treatment rather the required treatment as per NEPRA Guidelines for determination of Consumer End tariff (Methodology and Process) 2015 ("Guideline 2015"). According to Clause 19(3) (a) of the Guideline 2015, the determination of Rate Base of the company includes Deferred Credit along with other components of Regulatory Asset Base (RAB). Based on above references of Guidelines, 2015, it is evident that the treatment adopted in the MYT Determination and later in the Review Decision with regards to insufficient cash balances is not covered under the Rules and hence, needs to be reconsidered. The revised calculation of RORB by considering the basis used during Tariff Determination of PESCO is as under:



*Decision of the Authority in the matter of motion for leave for review filed by PESCO against determination of the Authority dated 14.07.2023 for annual adjustment / indexation of Distribution Margin*

Table-12: RORB Calculation

DESCRIPTION	UOM	AUDITED	AUDITED	PROVISIONAL	PROJECTED
		FY'2020-21	FY'2021-22	FY'2022-23	FY'2023-24
Gross Fixed Assets in Operation-B/F	[Min Rs]	87,395	94,444	107,485	116,201
Addition in Fixed Assets	[Min Rs]	7,049	13,041	8,716	10,249
Gross Fixed Assets in Operation-C/B	[Min Rs]	94,444	107,485	116,201	126,450
Less: Accumulated Depreciation	[Min Rs]	35,431	39,112	43,137	47,513
Net Fixed Assets in Operation	[Min Rs]	59,013	68,373	73,064	78,938
Add: Capital Work in Progress - C/B	[Min Rs]	26,649	33,544	46,800	55,029
Less: Cap. WIP-Deposit Portion	[Min Rs]	8,273	14,643	14,643	14,643
Investment in Fixed Assets	[Min Rs]	77,389	87,274	105,221	119,324
Less: Deferred Credits	[Min Rs]	35,052	39,222	39,822	41,671
Regulatory Assets Base	[Min Rs]	42,337	48,052	65,399	77,653
Average Regulatory Assets Base	[Min Rs]	38,469	45,195	56,726	71,526
Rate of Return	[Wage]	10.76%	12.03%	17.07%	21.14%
Return on Rate Base	[Min Rs]	4,138	5,437	9,685	15,121
RORB Allowed	[Min Rs]	3,779	4,713	7,514	14,292
Under/(Over)	[Min Rs]	-359	-724	-2,171	-829

12.3. The Authority noted that in the MYT determination of PESCO dated 02.06.2022, following has been decided in terms of RoRB;

53. RORB

53.1. The reference RoRB would 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 following mechanism;

Adjustment Mechanism - RoRB	
RORB(Rev)	$\text{RORB(Ref)} \times \text{RAB(Rev)} / \text{RAB(Ref)}$

53.2. In addition the allowed RAB for previous year will be trued up downward only, keeping in view the amount of investment allowed for the respective year. In case, the Petitioner ends up making higher investments than the allowed, 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.

12.4. Thus, while calculating RoRB, the RAB is required to be adjusted downward only, keeping in view the amount of investment allowed for the respective year and in case of any additional investment, the same would be Petitioner's commercial decision and would not be considered while truing up the RoRB. Accordingly, while deciding the adjustment / indexation request of the Petitioner for the FY 2023-24, the criteria as prescribed in the determination has been considered and the RoRB was worked out by restricting RAB to the extent of allowed investment. Therefore, the request of the Petitioner to allow RoRB for additional investments made by the Petitioner is not in line with the MYT determination. Here it is pertinent to mention that as per the approved Investment plan of the Petitioner, in case of any deviation under each head of the investment for more than 5% in the approved investment plan due to any regulatory decisions/interventions/approved plans, DISCO are required to submit additional investment requirements for prior approval of the Authority. Therefore, the Petitioner as provided in the determination was required to submit its request for any additional investment for prior approval of the Authority.





- 12.5. In view thereof, the Authority has decided not to accept the request of the Petitioner to allow any increase in the RoRB.
- 12.6. Regarding excessive deduction of Deferred Credit from Regulatory Asset Base (RAB) due to insufficient cash balances, the Authority while deciding the MYT petition of PESCO vide decision dated 02.06.2022 comprehensively addressed this issue. The Petitioner again raised the same issue in its Review Motion against the MYT determination. The Authority vide MLR decision dated 23.01.2023, again discussed / deliberated this issue comprehensively by addressing the points raised by the Petitioner under para 29 and para 30 of the decision. The Authority in the decision dated 23.01.2023, for excess deduction of Rs.6,368 million on account of deferred credit for the FY 2020-21, observed that while working out RAB, the amount of receipts against deposit works and Security deposit are netted off against the available balance of Cash/ Bank for the relevant heads, short term investments, if any, and Stores & Spares. The extra shortfall, if any, is deducted from the RAB, to ensure that the consumers are not burden with the unfair and unjust use of resources by the Petitioner. The same criteria was adopted while working out the RoRB for the FY 2021-22 and FY 2022-23. Subsequently, the Authority while allowing the indexation/ adjustment for the FY 2023-24, trued up the RoRB of the Petitioner for the FY 2021-22 as per the mechanism provided in the MYT. Thus, the request of the Petitioner is not allowed.

13. Whether the requested Other Income and PYA is justified or otherwise?

Recovery of Quarterly Adjustments

- 13.1. The Petitioner submitted that, the Authority in its decision dated 14.07.2023 has allowed Quarterly adjustments of negative amount of Rs.(13,111) Million for the period from 2<sup>nd</sup> quarter of FY 2019-20 to 1<sup>st</sup> quarter of FY 2022-23 on the basis of Quarterly adjustments as notified by Government of Pakistan. However, different discrepancies have been noted in the calculation, which needs to be rectified. The impact of over adjustment is tabulated hereunder:

Table-13: Quarterly Tariff Adjustments Min Rs.

Sr. No.	Description	Allowed Amount	Net Unit to be Sold (MkWh)	QTA (Rs./kWh)	Recovered	Under/(Over) Recovery Computed	Under/(Over) Recovery as per Decision	Proposed Adjustments
1	2nd & 3rd Qtr. FY 2019-20	29,187	11,222	3.1516	35,366	(6,179)	(7,562)	1,383
2	4th Qtr. FY 2019-20	10,876	11,918	1.1690	13,932	(3,056)	(3,946)	840
3	1st & 2nd Qtr. FY 2020-21	14,986	11,918	1.2853	15,318	(332)	(1,256)	924
4	3rd Qtr. FY 2020-21	2,343	11,918	0.2010	2,396	(53)	(197)	144
5	4th Qtr. FY 2020-21	(2,223)	2,577	(0.8573)	(2,210)	(12)	(16)	4
6	1st Qtr. FY 2021-22	2,612	3,675	0.8956	3,291	(679)	(685)	6
7	2nd Qtr. FY 2021-22	1,457	3,661	0.4995	1,829	(372)	(377)	5
8	3rd Qtr. FY 2021-22	2,616	2,717	0.8970	2,437	179	169	10
9	4th Qtr. FY 2021-22	12,244	3,364	3.6100	11,473	772	654	118
10	1st Qtr. FY 2022-23	2,057	1,550	1.2500	1,938	119	105	14
	<b>TOTAL</b>					<b>(9,664)</b>	<b>(13,111)</b>	<b>3,447</b>

- 13.2. The Authority has carefully analyzed the submissions of the Petitioner. The Authority noted that the Petitioner in its annual adjustment/ indexation request for the FY 2023-24, requested to adjust an amount of Rs.15,283 million on account of over recovery of quarterly adjustments for the period from FY 2019-20 (2<sup>nd</sup> quarter onward) till FY 2021-22. The Authority while



deciding the issue had directed the Petitioner to provide information for such units on which quarterly adjustments were not recovered and based on the information provided by the Petitioner, and taking into consideration the allowed level of T&D losses for the relevant period, the Authority worked out the under/ over recovery of the quarterly adjustments of the Petitioner. The same were worked out as Rs.13,111 million as over recovery by the Petitioner, instead of over recovery of Rs.15,283 million, claimed by the Petitioner. Here it is also pertinent to mention that the workings carried out by the Authority were also shared with the Petitioner. The Petitioner has not pointed out any specific issue in the workings of the Authority rather has only mentioned that different discrepancies have been noted in the calculations.

- 13.3. In view of the above discussion, the Authority does not see any justification to modify its earlier decision, hence the request of the Petitioner in this regard is declined.

**Other income:**

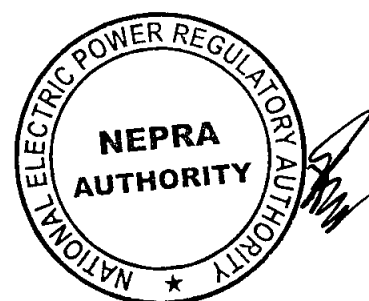
- 13.4. On the issue of Other income, the Petitioner submitted that the Authority in the Impugned Decision has taken other income for FY 2020-21 & FY 2021-22 without considering the adjustment of Wheeling Charges, Rental & Service Income and Amortization of Deferred Credit, resultantly excess deduction of Rs. 1,307 million, (FY 2020-21 Rs.937 Mln & FY 2021-22 Rs.370 Mln) has been made under prior year adjustment. The Petitioner submitted the following revised calculations in this regard;

Table-15: Other Income (As per Actual) Mn Rs.

DESCRIPTION	ACTUAL	ACTUAL
	FY 2020-21	FY 2021-22
Other Income- excluding LPS, Wheeling Charges, Exchange Gains, etc.	1,998	2,280
Add: Rental & Service Income	59	49
Add: Amortization of Deferred Credits	1,852	2,071
<b>Net Other Income</b>	<b>3,909</b>	<b>4,400</b>
Other Income allowed	3,467	4,180
Under / (Over)	-442	-220

- 13.5. The Petitioner's submissions have been reviewed and it has been noted that while adjusting other income of the Petitioner under the head of PYA for the FY 2023-24, the entire wheeling charges, appearing in the financial statements of the Petitioner for the FY 2020-21 & FY 2021-22, were adjusted as part of actual other income. The same needs to be modified. Accordingly, other income of the Petitioner has now been reworked to the extent of wheeling charges (*less the amount actually received by the Petitioner from TESCO on account of wheeling charges*). This has resulted in positive adjustment of Rs.945 million for the Petitioner (FY 2020-21 Rs.730 million and Rs.215 million for FY 2021-22). The same is allowed to the Petitioner as part of PYA. Detailed working of Other Income is as under;

*Mu. J*



Decision of the Authority in the matter of motion for leave for review filed by PESCO against determination of the Authority dated 14.07.2023 for annual adjustment / indexation of Distribution Margin

Other Income	FY 2020-21	FY 2021-22
Allowed	3,467	4,180
Actual used in PYA Working	4,847	4,770
Adjustment made in allowed PYA	- 1,380	- 590

Actual Other income as per Audited Accounts	7,744	7,735
Amortization of defferd credit	2,071	1,852
Less LPS	2,897	2,965
Less TESCO Wheeling Charges	2,801	2,490
Net Other Income	4,117	4,132
Wheeling charges paid by TESCO		423
Other Income to be used for true up	4,117	4,555

Adjustment to be allowed	- 650	- 375
Adjustment already made	- 1,380	- 590
Net Adjustment to be allowed	730	215

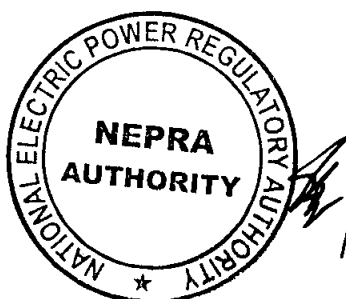
**Sales Mix variance**

13.6. On the issue of actual Sales Mix, the Petitioner stated that Sales mix for the FY 2020-21 and FY 2021-22 at the base tariff notified vide SRO 190(1)/2021, dated February 12, 2021 (effective from 12.02.2021 onward) and SRO 1424(1)/2021, dated November 05, 2021 has been assessed as Rs. 4,809 Million and Rs. (3,959) Million respectively, however, the authority has allowed only Rs. (3,959) Million and Rs. 3,562 million for FY 2020-21 & FY 2021-22, respectively, on provisional basis. The Authority is requested to allow the impact of sales mix of Rs.850 Million in the Prior Year adjustment. Moreover, apparently the impact of incremental sales for the period Nov 2020 to Jan 2021 has not been accounted for in the said figures as per PESCO calculations, hence the same is claimed separately, however it is also requested to share the detail working of Sales Mix Variance with PESCO to enable it to comment and verify the same. Further, it is quantity variance and the basis of calculation is the variance in the quantity multiplied by NEPRA determined rate, accordingly, the required data has been provided, however, the data of PITC may be shared with PESCO for purpose of analysis and the required reconciliation.

13.7. The Authority noted that vide Impugned Decision, under the head of PYA, it had allowed the Sales Mix variance to the Petitioner for the FY 2020-21 and FY 2021-22, as under;

*Regarding Sales mix variance, the Authority noted that although DISCOs have submitted their workings for sales mix for the FY 2020-21 and FY 2021-22, however, scrutiny of the data shows different anomalies in the provided data. The Authority has therefore, carried out its own working in the matter and the amount so worked out is being allowed to the Petitioner on provisional basis, with the direction to the Petitioner to provide the reconciled date of sales mix with its reported revenue as per audited financial statement of the respective year. In case any variation is observed at a later stage in the submitted data, the same would be adjusted as part of PYA subsequently.*

13.8. The working so carried out by the Authority were also shared with the Petitioner, however, the Petitioner has not submitted any counter working in the matter. It is also pertinent to



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mention that in its annual adjustment / indexation request, the Petitioner reported its sales as 9,607 GWhs including 285 GWhs for ISP & Winter incentive package. However, as per the documents attached with the instant MLR, the Petitioner has reported sales as 9,275 GWhs. Thus, there is also an anomaly in the data provided by the Petitioner.

- 13.9. Considering above, the Authority does not see any justification to change its earlier decision in this regard and the Petitioner is directed to provide its analysis on the workings of the Authority, in case of any discrepancies.

**Uniform seasonal pricing structure subsidy (USPS)**

- 13.10. The Petitioner submitted that adjustment of Rs.707.5 million regarding less recovery of revenue due to Uniform Seasonal Pricing Structure Subsidy (USPS) was requested in the Indexation application as PYA for FY 2023-24, however, the authority has not allowed it in its decision. It also submitted that the Federal Government has announced Uniform Seasonal Pricing Structure relief package vide S.R.O. 1379(I)/2019 dated 12-11-2019 for the period November 2019 to February 2020 on units consumed above the consumption made during the same period/ month last year. Accordingly, PESCO charged subsidized rates to the specified consumers and submitted USPS subsidy claims of Rs.707.50 million to subsidy cell, Ministry of Energy (MoE) (Power Division) during the period Jan 2020 to Mar. 2020. The USPS subsidy claims were returned by the MoE with the remarks that the said S.R.O does not speak of USPS subsidy by the Federal Government and the matter may be taken up with CPPA-G for settlement. PESCO is facing revenue shortfall of Rs. 707.50 million on the basis of subsidized rates charged to the consumers and the recovery of the revenue shortfall is still pending and it is requested to include the same in PESCO prior year adjustment for FY 2019-20.
- 13.11. The Petitioner has accordingly requested to consider the same, as the respective incremental units 138 MKwh of USPS have been used by the Authority for calculation of regulatory costs & recoveries and accordingly the revenue shortfall faced by PESCO for Rs.707.50 million may be allowed, otherwise the impact of incremental units needs to be excluded from the quarterly / annual adjustments as is being done in the recent Industrial Support Package notified vide SRO 1292(1)/2020 dated 03/12/2020 effective from November 2020.
- 13.12. The Authority noted that the Petitioner raised this issue of seasonal pricing structure subsidy various times in its earlier petitions. The Authority in the MYT determination of the Petitioner dated 02.06.2022 decided as under;
- The Authority observed that the said package was announced by the Federal Government, whereby the applicable tariff was reduced by the Federal Government for certain category of consumers. Therefore, the Petitioner shall take-up this matter with the Federal Government for provision of subsidy in the matter, as nothing is pending on the part of the Authority.*
- 13.13. Similarly, the Authority also decided this issue on same lines, in the MLR decision of the Petitioner dated 23.01.2023 and annual adjustment/ indexation decision dated 14.07.2023. Thus, the matter has already been decided by the Authority several times, whereby the Petitioner has been directed to take-up this matter with the Federal Government, as nothing



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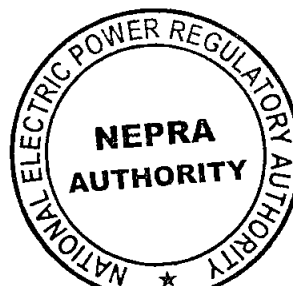
is pending on the part of NEPRA. The request of the Petitioner is therefore again not acceded to. The Petitioner is further directed not to raise such issues again and again, which have already been decided by the Authority.

**Impact of positive FCA regarding lifeline consumers for the period FY 2017-18 to FY 2020-21 & FY 2021-22 to FY 2022-23 (up-to dec-22)**

- 13.14. The Petitioner on the issue submitted that the Authority was approached vide letter dated 14.05.2022, for the determination of impact of positive FCA on Lifeline consumers, as discussed at para 19.7 of the MYT determination for Supply Function Tariff for FY 2020-21 to FY 2024-25, dated 02.06.2022, however, the matter was deferred. The instant matter was also taken up in the Motion for Leave for Review, however, instead of allowing the adjustment to PESCO, like correction made under PYA, Post Retirement Benefit & RORB in the Review Decision, the matter has been deferred till next indexation/adjustment along with the direction to reconcile the data with PITC. The relevant part of decision is reproduced hereunder;

*"Thus, request of the Petitioner would be considered in the next adjustment request of the Petitioner for the FY 2022-23, to be filed in February 2023. However, a preliminary' analysis of the data provided by the Petitioner shows difference between the number of units used by PESCO for calculation of impact of lifeline consumers and the units used by NEPRA in its calculations. Here it is pertinent to mention that NEPRA while working out the impact of life line consumers used the data provided by PITC for each DISCO. Therefore, the Petitioner is directed to reconcile its data with PITC and submit the same along-with its next tariff adjustment indexation request....."*

- 13.15. That the impact of positive FCA on the supplies to the Lifeline consumers computed on the basis of CPPA-G Power Purchase Invoiced Units instead of unit billed to the consumers by calculating the units to be sold by applying the determined T&D losses as per Transfer Pricing Mechanism, hence, the direction issued vide the Review Decision dated 23/01/2023, requires rectification or further explanation in this regard and the data of PITC as already requested through e-mail may be shared to give the necessary detail / explanation. However, still PESCO is of the view that the said impact of FCA on lifeline consumers has no correlation with the consumer end data of PITC. It also submitted that earlier, during regulatory proceeding these charges were allowed as part of periodic adjustments, however, since the issuance of Quarterly Adjustments determinations, the Authority on the issue of Periodic Quarterly Adjustments in Tariff for FY 2017-18 to FY 2020-21, has neither allowed the impact of lifeline consumers in the quarterly tariff determinations, nor the same has been allowed in Annual Tariff Determinations of PESCO as part of Prior Year Adjustments (PYA) thereby, resulting in the shortfall of Rs.1,023 million for the period FY 2017-18 to FY 2020-21.
- 13.16. Moreover, the impact of lifeline consumers for FY 2020-21 to FY 2022-23 (Up-to Dec-22) Rs.486 million is based on the incorrect assumption of using actual units of lifeline consumers in the units to be sold figure which is contrary to the regulatory targets / decision and it should be based on the reference determined mix of lifeline consumers. Further, the adjustment of said amount against the subsidy receivables is against the GoP policy, which states that the



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negative impact of FCA may be adjusted against the GoP subsidy, hence the same needs rectification as the said amount pertains to the consumers rather than receivables from GoP. The Petitioner accordingly requested to allow the impact of positive FCA, amounting to Rs.1,023 million in the matter of life line consumers as part of prior Year Adjustment.

- 13.17. The Authority observed that in the MLR decision of the Petitioner dated 23.01.2023, it directed the Petitioner to reconcile its data for the period from FY 2017-18 to FY 2020-21, with PITC and submit the same along-with its next tariff adjustment/ indexation request. However, no such reconciliation was provided by the Petitioner along-with its adjustment request for the FY 2023-24. The Petitioner was also directed through email to provide detail of its actual sales data for life line, up-to 300 domestic non-ToU and agriculture consumers from FY 2017-18 till FY 2019-20, but the same was also not provided.
- 13.18. The Authority in the absence of required information, while deciding the adjustment request of the Petitioner for the FY 2023-24, vide decision 14.07.2023, decided that till the time the Petitioner complies with the directions of the Authority and provides the required information, the Authority is constrained not to consider the request of the Petitioner.
- 13.19. Although, the Petitioner has submitted its working in the matter, however, the same is again based on the data of the Petitioner and have not been reconciled with PITC for the period from FY 2017-18 to FY 2021-22. Therefore, the request of the Petitioner cannot be considered unless it complies with the directions of the Authority and highlights the discrepancies in the Authority's workings, if any. Regarding the plea of the petitioner to allow life line units on regulated mix instead of actual sales is not understandable as it will result either in under recovery or over recovery of the cost, which is not be the objective. Power Purchase cost is a pass through item and shall be recovered as per the cost actually incurred, based on the allowed bench marks of the Authority in terms of T&D losses and Recovery etc. Therefore, the request of the Petitioner is not justified.

**Impact of Incremental Units of Industrial Support Package (ISP) for FY 2020-21 and Winter Incentive Package (WIP) for FY 2021-22**

- 13.20. The Petitioner on the issue submitted that as per Para-7.23 of the Impugned Decision, the impact of incremental sales for ISP and WIP for FY 2021-22 and onward is being accounted for in the Quarterly Tariff Adjustment decided by the Authority and no further adjustment is required. However, it is pertinent to mention that claim of ISP incremental units is pertaining to period prior to period mentioned above and the same was not considered in the Authority decision of QTA for 1<sup>st</sup> QTR of FY 2021-22. The adjustment on account of Incremental consumption in respect of PESCO as per the transfer pricing mechanism notified vide SRO dated 12-02-2021, the Support Package as notified vide SRO dated 03-12-2020, and the Winter Incentive Package as notified vide SRO dated 05-11-2021, the Authority has not considered/ allowed the impact of Incremental Units of ISP for FY 2020-21 (Nov-20 to Jun-21) and Incremental units of WIP for the 2<sup>nd</sup> Quarter (Jan-Feb) of FY 2021-22 on Capacity Charges, Variable O&M and Use of System Charges. The said impact of incremental units of ISP and WIP is resulting in the shortfall of Rs.1,414 Million for the period of FY 2020-21



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(Nov-20 to Jun-21) and Rs.434 Million for the 2<sup>nd</sup> Quarter (Nov-21 & Dec-21) of FY 2021-22 respectively.

- 13.21. Furthermore, an amount of Rs.16 Million for the 3<sup>rd</sup> Quarter (Jan-22 & Feb-22) is calculated as the arrear claim of WIP on account of difference in the units of incremental units between PESCO's MIS report and the units considered by NEPRA. The requisite sheets of MIS report are attached and the detailed monthly working is attached.

Table-17: Impact of Incremental Units Rs. in Million

Description	FY 2020-21	FY 2021-22		Total
	Claim of ISP Incremental Units	Claim of WIP (2nd Qtr)	Claim of WIP (3rd Qtr)	
Impact of Variable O&M	190	32	2	224
Impact of CPP	3,469	869	31	4,369
UoSC Adjustment	196	39	1	236
Recovery on Incremental Units	(2,441)	(505)	(17)	(2,964)
<b>Required Adjustment for the Quarter</b>	<b>1,414</b>	<b>434</b>	<b>16</b>	<b>1,865</b>

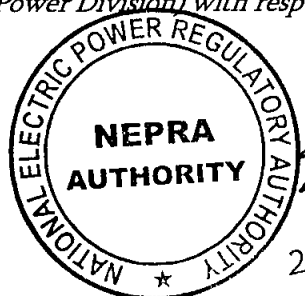
- 13.22. The Authority observed that impact of ISP units for the FY 2020-21, has already been accounted for while working out the sales mix variance of the Petitioner for the FY 2020-21 and was accordingly reflected in the decision of the Authority dated 14.07.2023. Subsequently, the Authority's working was also shared with the Petitioner. The Authority vide decision dated 14.07.2023 also directed the Petitioner as under;

*"Regarding Sales mix variance, the Authority noted that although DISCOs have submitted their workings for sales mix for the FY 2020-21 and FY 2021-22, however, scrutiny of the data shows different anomalies in the provided data. The Authority has therefore, carried out its own working in the matter and the amount so worked out is being allowed to the Petitioner on provisional basis, with the direction to the Petitioner to provide the reconciled data of sales mix with its reported revenue as per audited financial statement of the respective year. In case any variation is observed at a later stage in the submitted data, the same would be adjusted as part of PYA subsequently."*

- 13.23. The Petitioner has neither submitted the required reconciliation nor provided any counter workings to rebut the calculations of the Authority. In view thereof, and the fact that the Authority has already considered the impact of ISP units for the FY 2020-21, the request of the Petitioner has not been allowed.

- 13.24. Regarding Sales Mix for the FY 2021-22, the impact of Incremental consumption units has already been taken into account while working out the quarterly adjustments for the Period July 2021 onward. The relevant extract from the quarterly adjustment decisions of the Authority are as under;

*"The Authority observed that vide its decision dated December 01, 2020, while approving the Motion filed by the Ministry of Energy (Power Division) with respect to recommendations of*



*Support Package for Additional Consumption and Abolishment of Time of Use Tariff Scheme for Industrial Consumers of XWDISCOs, whereby a rate of Rs.12.96/kWh was allowed for B 1, B2, B3 and B4 consumers w.e.f. 1<sup>st</sup> November 2021 to 31<sup>st</sup> October 2023, it was decided that;*

*"...in future in order to streamline its approach with the proposal, the Authority has decided to modify its calculations methodology for subsequent periodic adjustments. No Quarterly adjustments would be passed on to B1, B2, B3 and B4 industrial consumers to the extent of incremental sales till continuation of the instant package, as the capacity charges would be actualized from the previous level of corresponding months sales"*

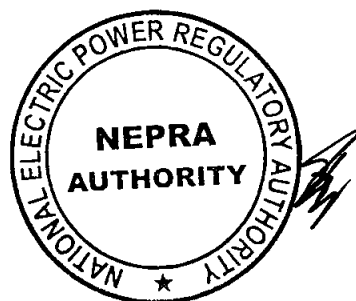
*"...In view of the above submissions of CPPA-G and the decision of the Authority dated 01.12.2020, the Authority has decided to work out the quarterly adjustment based on net units, i.e. units purchased for incremental sales have not been included while working out the quarterly adjustments. Accordingly, the cost recovered on incremental units over and above the Fuel cost i.e. (Rs.12.96 less Reference Fuel Cost for each month) has been adjusted from the quarterly adjustments worked out based on net units. Similarly the Prior Year Adjustment (PYA) as well as sales mix would also be worked out based on net units i.e. excluding units purchased for incremental sales. Thus, no further adjustment would be allowed for units purchased for incremental sales."*

- 13.25. Thus, as per the above decisions of the Authority, the impact of incremental units are already being accounted for while working out the quarterly adjustments, therefore, no further adjustment is required on this account. The request of the Petitioner is therefore not allowed.

**Reversal of over adjusted Interim Distribution Margin for FY 2018-19:**

- 13.26. The Petitioner on the issue submitted that in its Indexation application it requested to allow over adjustment of Rs.3,817 million on account of Interim Distribution Margin for the FY 2018-19, however, the Authority has not considered the same. The Petitioner mentioned that as per the MYT determination, the PYA adjustment of Rs.6,259 million includes a negative adjustment of Rs.364 million on account of 'Interim DM FY 2018-19'. However, adjustment for Distribution Margin for FY 2018-19 has already been accounted for by the Authority in its determination for FY 2018-19 & 2019-20, hence, over adjustment has been made in Tariff determination for FY 2018-19 & 2019-20 by adjusting the full amount of Rs.(3,817) million under PYA, which needs to be reversed.
- 13.27. The Authority on the issue of interim distribution margin for the FY 2018-19, has decided as under vide decision dated 14.12.2020.

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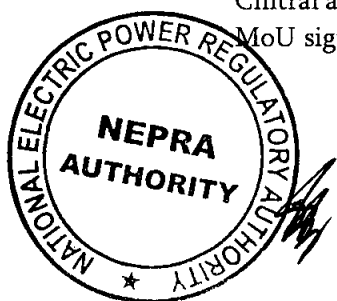


Here it is also pertinent to mention that the Authority through its interim decision dated September 27, 2019, in the matter of requests filed by Ministry of Energy (MoE) regarding Annual adjustment / indexation of Distribution Margin of DISCOs, allowed an amount of Rs.3,817 million as Interim adjustment to the Petitioner, strictly on provisional/ interim basis, subject to its adjustment once the annual adjustments of the Petitioner is finalized by the Authority. The said decision was notified by the Federal Government w.e.f. October 01, 2019 and would continue till September 30, 2020, whereby, the Petitioner has been allowed to recover the said amount through monthly billing as a separate tariff component. In view of thereof and the considering the fact that the Petitioner's tariff petitions for the FY 2018-19 and FY 2019-20 are being finalized, the amount of Rs.3,817 million allowed on interim basis, has been adjusted back through PYA. Any under recovery of the allowed Interim DM would be adjusted subsequently as PYA.

- 13.28. Subsequently, the amount of under/over recovery of the allowed interim D.M was accounted for, while working out the PYA in the tariff determination of the Petitioner for the FY 2022-23. Therefore, the submissions of the Petitioner that negative adjustment of Rs.364 million on account of interim DM FY 2018-19 needs to be reversed, is not correct, as it is on account of over recovery made by the Petitioner, over & above the allowed amount of Rs.3,817 million. Since, all the required adjustments have already been accounted for in the tariff and nothing is pending in this regard, therefore, the request of the Petitioner is declined. Here it is pertinent to mention that the issue was also raised by the Petitioner in its annual indexation request for the FY 2023-24 and the Authority decided the matter on same lines vide decision dated 14.07.2023.

Impact of pending FCA for the FY 2019-20

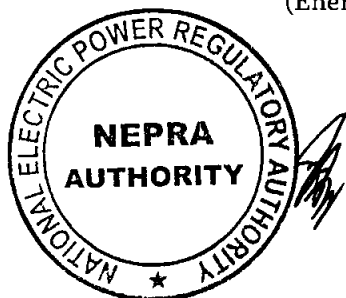
- 13.29. The Petitioner submitted that an adjustment of Rs.2,436 million was requested in the indexation application on account of pending FCA of FY 2019-20, but, the same has not been allowed in the decision dated 14.07.2023. It has further been stated by the Petitioner that FCA for the period November 2019 to June 2020, as determined vide NEPRA decision dated 07.08.2022, has been withheld/not passed on to the consumers, as per ECC decision. Accordingly, an adjustment of Rs.2,436 million may be allowed as part of Prior Year adjustment.
- 13.30. The Authority observed that FCAs for the subject period were decided and notified by the Authority the FCAs for its application on consumers. However, the same was not applied by PESCO from Nov. 2019 to June 2020, due to ECC decision, therefore, nothing is pending on part of NEPRA.
14. Whether the request of PESCO, regarding creation of special tariff category for supplies to Upper Chitral as per MoU between Power Division, KPK and Chitral against the tariff equivalent to basket price tariff, is justified or otherwise?
- 14.1. The Petitioner on the issue has requested NEPRA to allow a new category for consumers of Chitral and to determine the proposed rate of basket price as a special arrangement in view of MoU signed between Governor Khyber Pakhtunkhwa, Federal Minister for Power Division



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and the representatives of Chitral. It is submitted that Electricity to the residents of the Upper Chitral was fed from the 33 kV Rashun Power house owned and operated by PEDO. During the flood on 25<sup>th</sup> July, 2015, the Rashun Power house was completely damaged and as interim arrangement the electricity was provided to the area of the upper Chitral by PEDO through solar panels and Diesel generators. The area of upper Chitral is not under the service territory of PESCO and the distribution network in the area is under the control of PEDO which consists of three Nos 33 kV feeders, namely, Bonni, Mastuj and Rashun. The number of consumers are almost 17,000 and the billing/ collection is being carried out by PEDO to the residents.

- 14.2. It also mentioned that due to agitation from local community, political and social reasons and to avoid unrest among the community, the electricity to the consumers of PEDO at the upper Chitral, was restored from Golan Gol hydropower project of WAPDA, through the existing 132 kV GSS Jutlisht of PESCO at one point supply connection (11KV) of PEDO. PESCO upgraded the existing 33 kV Grid station of Jutlisht to 132 kV Grid Station. The connection between the Jutlisht Grid Station and the PEDO network was established on January 24<sup>th</sup>, 2018 network, enabling PEDO to supply electricity to all three 33 kV feeders, allowing it to distribute electricity through its network and handling the billing and collection process. Since, the distribution network is owned and operated by PEDO including installation of meters and billing/ collection are being carried out by PEDO from where supplies has been made outward to all the three 33 KV feeders, accordingly, Bulk Supply Connection was provided.
- 14.3. The Petitioner further submitted that billing dispute concerning PEDO consumers in Upper Chitral has been a contentious issue between PESCO and PEDO since the energization of the Golan Gol hydropower project. Despite PESCO's efforts, including holding high-level meetings and providing written notifications to PEDO, no meaningful resolution has been reached so far. In relation to this matter, the following important proceedings are worth mentioning here:
- ✓ During February 2018, PESCO formally requested the Secretary (Energy & Power) Khyber Pakhtunkhwa to provide the necessary connection documents for accurate billing of consumers. In response, PEDO submitted the signed A&A form to PESCO, establishing the service connection agreement.
  - ✓ The CEO, PEDO, during a meeting held on February 15, 2018 at PESCO headquarter, committed to either adopt the C-2 (Bulk supply) tariff or approach NEPRA for the determination of a new tariff specifically for the consumers in Chitral, however, no significant progress was achieved.
  - ✓ Consequently, PESCO also apprised the Ministry of Energy (Power) Division about the situation and also repeatedly requested PEDO to engage in mutual discussions to resolve the matter.
  - ✓ Thereafter, multiple meetings took place between PESCO management, the Secretary (Energy) KP, and PEDO management, but without any fruitful result in the matter.



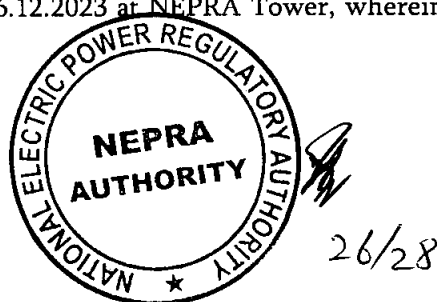
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However, despite subsequent meetings, including those chaired by the Additional Secretary-I (PD) and GM (R&CO) PPMC, no satisfactory resolution was achieved regarding the issue of the single point supply and the settlement of outstanding amounts owed to PESCO.

- ✓ A joint meeting was convened on January 29, 2023, attended by the Governor of Khyber Pakhtunkhwa and the Federal Minister for Power Division at Peshawar. During the meeting, extensive discussions took place, resulting in the signing of a Memorandum of Understanding (MoU). The MoU outlined a mutually agreed mechanism to address the electricity issue in the PEDO Administered Area of Chitral. The action plan of the MoU, reproduced here under, requires:

*"PEDO will apply to PESCO for registration. PESCO will apply the basket price as determined by NEPRA for PESCO"*

- 14.4. The Petitioner also stated that electricity to the residents of Upper Chitral is being provided through three 33KV feeders of PEDO from PESCO 132KV Grid at Jutilusht connected through 11 KV line. PEDO is the owner of the distribution network in upper Chitral and PESCO is charging bulk supply tariff on such supplies whereas the consumers are being billed by the PEDO, separately. PESCO supply was being utilized without accounting for the units since Jan, 2018 in the billing system till March 2023, which has huge financial implications. However, the same has now been accounted for under the tariff category C-2(b) and accordingly billed with a financial impact of Rs.3.124 billion (from January 2018 to January 2023) duly segregated and charged on Pro-rata basis. Further, the mechanism for clearance of the said arrears is yet to be decided. Moreover, the one-point supply to PEDO i.e. bulk supply tariff at 11 KV is being provisionally charged, since February 2023 under the category of C-2b of the currently notified tariff vide SRO.1173(1)/2022 dated July 25, 2022 for the purpose of billing till the determination of proposed Basket Rate as per the MoU.
- 14.5. It also stated that the Authority determined the tariff rate under C-2 category for PESCO and notified by GOP vide SRO.1173 (1)/2022. Since, most of the consumers of Upper Chitral are residential consumers and accordingly as per MoU basket price (i.e. Power Purchase Price) as determined by NEPRA for PESCO may be applied to the consumers of Upper Chitral. The determined power purchase price for PESCO in the MYT Determination as Rs.19.9095/kWh. That it would be a special arrangement and considering the fact that only Bulk Supply C-2 category is available in Schedule of Tariff of PESCO, hence, for implementation of MoU, a new category for consumes of Chitral may be required with the proposed rate of basket price. The Petitioner also mentioned that the said units are already part of PESCO revenue and there is no change in the required Revenue Requirement as requested in the Indexation request for FY 2023-24.
- 14.6. The Authority discussed the issue regarding supply of electricity to Upper Chitral and creation of special tariff category for supplies to Upper Chitral as per the MoU between Power Division, KPK and Chitral, during hearing of the instant MLR. The Authority directed PEDO and PESCO to brief the Authority on the aforementioned issue, separately. Accordingly, a meeting on the issue was held on 06.12.2023 at NEPRA Tower, wherein representatives of PESCO,



PEDO and Chitral participated. PESCO requested for establishment of a special tariff category for supplies to Upper Chitral in light of the MoU, with the proposed rate equivalent to basket price. The Authority observed that since PESCO is supplying electricity to Chitral area through PEDO at C- Bulk Supply Tariff, therefore, any reduction in rate for PEDO, would result in under recovery of the allowed Revenue Requirement of PESCO, resulting in additional burden on remaining consumers. Further, as per request of PESCO to allow special tariff category for Chitral Area, the difference between the proposed special tariff category and applicable tariff, needs to be picked up by the Federal Government as subsidy.

14.7. The Authority noted that as per NEPRA Act, 1997, the Consumer category means;

<sup>2</sup>[(iva) “consumer category” means such category of consumers as may be prescribed;]

(xxii) “prescribed” means prescribed by rules made under this Act;

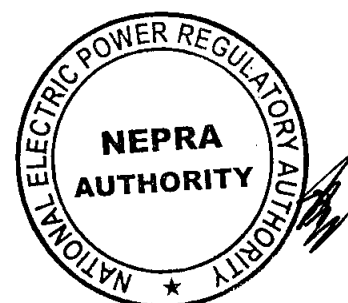
14.8. The Authority vide letter dated 18.12.2023, forwarded the matter to the MoE, for comments and/ or for further necessary action in the matter, as establishing a new tariff category for supply of electricity to Upper Chitral, and provision of subsidy to the consumers of upper Chitral, are related to the Federal Government. No response has yet been received from the MoE. The Petitioner is directed to take up this matter with the Federal Government, as it involves subsidy and creation of a new tariff category.

15. Based on the aforementioned discussions, the Petitioner is allowed an amount of Rs.945 million on account of Other Income, as mentioned below for FY 2020-21 & FY 2021-22 other income true up account. The amount so allowed would be made part of PYA in the Petitioner's next adjustment/indexation request for the FY 2024-25.

Other Income	FY 2020-21	FY 2021-22
Allowed	3,467	4,180
Actual used in PYA Working	4,847	4,770
Adjustment made in allowed PYA	- 1,380	- 590

Actual Other income as per Audited Accounts	7,744	7,735
Amortization of defferd credit	2,071	1,852
Less LPS	2,897	2,965
Less TESCO Wheeling Charges	2,801	2,490
Net Other Income	4,117	4,132
Wheeling charges paid by TESCO		423
Other Income to be used for true up	4,117	4,555

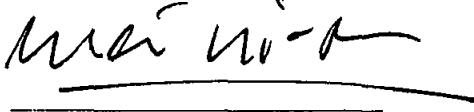
Adjustment to be allowed	- 650	- 375
Adjustment already made	- 1,380	- 590
Net Adjustment to be allowed	730	215



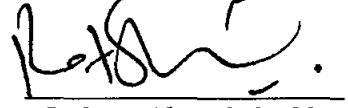
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16. The decision of the Authority is intimated to the Federal Government for notification in the official Gazette under Section 31 of the NEPRA Act, 1997.

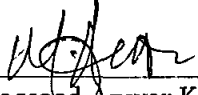
**AUTHORITY**



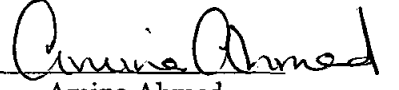
Mathar Niaz Rana (nsc)  
Member



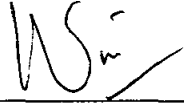
Rafique Ahmed Shaikh  
Member



Engr. Maqsood Anwar Khan  
Member



Amina Ahmed  
Member



Waseem Mukhtar  
Chairman

