



National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-333/SEPCO-2015/6398-6400
May 11, 2016

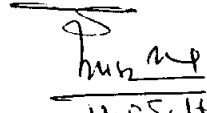
Subject: Decision of the Authority in the matter of Motion for Leave for Review filed by Sukkur Electric Power Company Ltd. (SEPCO) against Determination of the Authority for the Financial Year 2015-2016 Dated February 29, 2016 [Case # NEPRA/TRF-333/SEPCO-2015]

Dear Sir,

Please find enclosed herewith the subject Decision of the Authority (12 Pages) in the matter of Motion for Leave for Review filed by Sukkur Electric Power Company Ltd.

2. The Decision is being intimated to the Federal Government pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997).

Enclosure: As above


11.05.16
(Syed Safer Hussain)

Secretary
Ministry of Water & Power
'A' Block, Pak Secretariat
Islamabad

CC:

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



**DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE FOR
REVIEW FILED BY SUKKUR ELECTRIC POWER COMPANY LIMITED (SEPCO)
AGAINST DETERMINATION OF THE AUTHORITY FOR THE FY 2015-16 DATED
FEBRUARY 29, 2016**

1. Background

- 1.1 Sukkur Electric Power Company Limited (SEPCO), hereinafter called "the Petitioner", being a Distribution Licensee of NEPRA filed Motion for Leave for Review (MLR) vide letter no. CEO/SEPCO/FD/CPC/2077-78 dated March 10, 2016 against the decision of the Authority in the matter of the Petitioner with respect to the determination of its consumer-end tariff pertaining to the FY 2015-16 dated February 29, 2016.
- 1.2 The Petitioner requested the Authority to reconsider its decision dated 29th February, 2016 in the matter of Petitioner to the extent of the following issues;
- To revise T&D losses target to 32.337% as per the ground realities;
 - To allow O&M cost of Rs. 7,710 Million as requested earlier in the annual Petition;
 - To allow provision for Bad Debts as requested earlier in the annual Tariff Petition.;
 - To allow PHPL Finance Cost as requested earlier in the annual Tariff Petition.

2. Proceedings

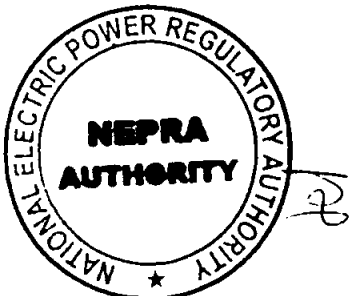
- 2.1 The Review motion was admitted by the Authority on 30th March, 2016. In order to provide a fair opportunity to the Petitioner to present its case, a hearing in the matter was held on 7th April, 2016 at NEPRA Tower Islamabad. Accordingly, notices of admission & hearing were sent to the Petitioner. During hearing, the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

3. Transmission and Distribution Losses

- 3.1 The Petitioner in its MLR has requested T&D losses of 32.337% for the FY 2015-16, as per the following details;

Technical Losses (T&D) as per Survey	= 19.337%
Admin Losses	= 13.000%
TOTAL	= 32.337%

- 3.2 The Petitioner argued that the Authority has fixed T&D losses target as 27.5% for the Year 2015-16, on the basis of the study report carried out by M/s Power Planner International. The Petitioner mentioned that as per the report, its average T&D Losses



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are 19.337% whereas its actual T&D losses for the year 2014-15 remained as 38.18%. The Authority has determined the level of T&D losses as 27.5% for the FY 2015-16, thus a reduction target of 10.68% from the actual level of losses has been set in the matter of Petitioner.

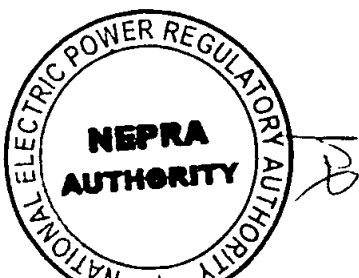
3.3 The Petitioner has requested the Authority to consider its review request on the basis of ground realities, geographical and socio economic conditions of its consumers and submitted the following grounds for reconsideration;

- Ratio of higher rural base in comparison with other DISCOs.
- The Socio Economic Conditions of its consumers specially in right bank of Indus River.
- Law and order situation of the distribution area of the Petitioner.
- The murder and kidnapping cases ratio under its jurisdiction in comparison with other parts of the country.
- Fewer industrial (B3, B4) connections having Zero Loss units,
- Number of residential domestic 3/Phase connections are below five thousand connections.
- Non-cooperation of Provincial Government specially Police Department with respect to theft cases, which are reported in thousands yet few FIRs are being registered.
- Illegal connections in rural areas.
- Stern disciplinary action is initiated against SEPCO Officers & Officials on account of non-achievement of Line Losses target.
- Replacement of LT Bare conductor with Aerial Bundle Cable.
- Regularization of illegal kunda connections on meter service rental bases. The proposal has already been submitted to Ministry for briefing to National Assembly's Standing Committee during its 18th Meeting held on 08.03.2016.
- Mobile Meter Reading to ensure correct billing.
- Constitution of Vigilance Committees comprising Manager (S&I), (M&T) and special Task Force to detect pilferage.
- Installation of Smart Energy Meters / AMR by giving priority to Govt. Connections.
- Services of Pakistan Rangers.

3.4 In the end, the Petitioner stated that keeping in view the above measures it would only be able to reduce pilferage up-to 6%, which presently is about 19%.

3.5 The Authority is of the view that the Petitioner's stance with respect to the fixation of its T&D losses target as 27.5% for the Year 2015-16 has been fixed on the study report

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carried out by M/s Power Planner International, is incorrect. At para 9.6 of the Authority's determination dated 29 February, 2016, the Authority has clearly stated that it cannot adjudicate on the report unless it is completed. The same is reproduced as here under;

".....The Authority cannot adjudicate on the submitted report unless it gets the complete report. Here it is pertinent to mention that the study carried out by the Petitioner can only be accepted by the Authority once it is satisfied with the quality of the study, therefore, till such time the Authority has decided to maintain its previous assessment of technical level of T&D losses of 14.5% for the FY 2015-16."

3.6 The Authority observed that the Petitioner's allowed T&D losses target of 27.5% for FY 2015-16 comprised of 14.5% of Technical level of losses and 13% margin for law and order situation. The Authority has observed that the Petitioner's pleadings are very confusing as at the outset it did not contest the Authority's assessment for the law and order situation yet at the same time it argues that the Authority's assessment is based on the technical study i.e. the assessment of 27.5% includes 19.33% as technical losses, meaning thereby it includes 8.17% as margin of law and order. In view of aforementioned and for the purpose of clarity, the Authority has construed that the Petitioner has not contested the allowed margin for the law & order i.e. 13%, however, has requested to reconsider the allowed level of T&D losses as per the study. In that case, the Authority has already deliberated on the study report of T&D losses under para 9 of its aforementioned determination of February 29, 2016, therefore, the request of the Petitioner to revise its T&D losses target cannot be entertained as no new evidence / rationale has been provided in this regard.

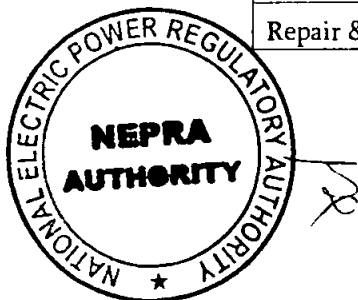
4. O&M cost

4.1 The Petitioner in the MLR has stated that it requested an amount of Rs.7,710 million as O&M cost for the FY 2015-16, against which the Authority allowed only Rs.4,912 million. The Petitioner further stated that the allowed cost is less by Rs.1,614 million i.e. 25% from the actual expenditure of FY 2014-15 of Rs.6,526 million.

4.2 The Petitioner provided the following detail of its O&M cost;

Mln. Rs.

Head of Account	FY 14	FY 15	FY 16		Inc/Dec by Authority from FY 15	
	Audited		Request ed	Allowed	Amou nt	%age
Salaries & Wages of Employees	3,934	4,817	5,634	3,453	-1,364	-28%
Repair & Maintenance	1,167	1,090	1,330	935	-155	-14%





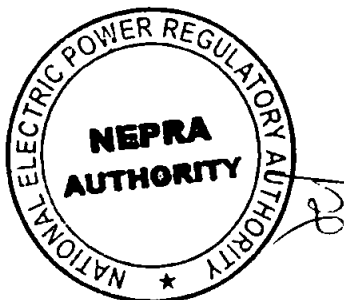
Travelling Expenses	247	269	300	226	-43	-16%
Transportation Expenses	147	132	201	136	4	3%
Other Charges	142	218	245	162	-56	-26%
Total	5,638	6,526	7,710	4,912	-1,614	-25%

4.3 The head wise details of the O&M expenses requested by the Petitioner are as hereunder;

5. Salaries and Other Benefits;

5.1 The Petitioner has submitted that the Authority was requested Rs. 5,634 million under this head, against the actual expenditure of Rs. 4,817 million. However, the Authority allowed Rs. 3,453 million i.e. 28% decreased from the actual expenditure for the FY 2014-15. The Petitioner provided the following details in this regard;

		Mln. Rs.
	Salaries & Wages;	Proposed Budget
i	Annual Basic Salary of FY 2015-16	1,720.369
ii.	6 % Annual Increment	103.222
	Sub-Total	1,823.591
	Add: effect of Increase in FY 2015-16-	
A-	Regular Employees:	
i	7.5% Adhoc Relief Allowance announced in Finance bill	136.769
ii.	Other Pay and Allowances	1,428.889
	Sub-Total (a):	1,565.659
B-	Daily Wages Employees:	
i	Daily Wages Labor	37.437
	Sub-Total (b):	37.437
	Sub-Total-(a+b)	1,603.095
	Sub-Total-(A)	3,426.686
	Estimated Annual Basic Salary of FY 2015-16	1,823.591





Employee Benefits:

i.	Pension Fund FY 2015-16 Rs.1,268.95(M)	1,268.953
ii.	7.5% increase in Pension by GoP	95.171
	Sub Total	1,364.124
iii.	Free Electricity Rs.82.764 (M) @ 10%	91.040
iv.	Free Medical Rs.123.936 (M) @ 10%	136.330
v.	Leave Encashment Rs.102.830 (M) @ 35 %	138.821
vi.	Other Benefits	476.751
	Sub-Total-(B)	2,207.066
	Total (A+B)	5,633.752

* Includes Annual Increment.

5.2 The Petitioner has mentioned that the employees benefit rates are derived from the actuarial valuation report for the FY 2014-15, showing the projection for the FY 2015-16 which are applied based on the sanctioned posts. The Petitioner contended that the Authority while doing its assessment considered the following factor;

- i- Increase of 7.5% basic salaries as announced by GoP.
- ii- Adhoc Relief Allowance 2012 & 2013 Marge in basic.
- iii- Increase in Pensions by 7.5% for retired employees.
- iv- Annual increments to the extent of 6%.
- v- Increase in 25% in Medical Allowance.

5.3 The Petitioner further stated that the Authority while assessing the above head of account under para 12.2.1 of determination based its working on the actual figures as reported in the draft financial statements of the Petitioner. Since the Petitioner has provided the audited expenditure for the FY 2014-15, therefore the Authority is requested to reconsider the request of the company based on the above narrated facts and Pay and allowances may be allowed as requested. In addition to aforementioned, the Petitioner informed the Authority that its Board of Director has approved the bonus equivalent to the one month running basic pay to all company employees in the light of Ministry of Water & Power meeting with CBA duly circulated by MD, PEPCO vide letter No.MD (PEPCO/GMHR/HRD/428 dated 09-11-2015, thus, an amount of Rs.123 (M) may be allowed.

5.4 The Authority has observed that Petitioner's actual expenditure under head of Salaries, Wages and other employee benefits for the FY 2014-15, is Rs.4,821 million as detailed below;





Salaries & Wages	Rs.2,854 million
Provision Pension Benefits	Rs.1,967 million
Total	Rs.4,821 million

- 5.5 The Authority against the actual expenditure of Rs.2,854 million regarding Salaries & Wages, after excluding for the impact of bonus of Rs.49 million, has assessed salaries & wages of the Petitioner for the FY 2015-16 as Rs.2,978 million which is around 6% higher than the actual expenditure after incorporating the requisite increase as per GoP's recent notifications . (Para 12.2.12 of the determination dated February 29, 2016). In addition to bonus, the Authority also deducted Rs. 75 million on account of non-provision of replacement hiring certificate. In view of aforementioned discussion, the Authority allowed an amount of Rs.2,903 million under the head of Salaries & wages.
- 5.6 Further, the Petitioner despite repeated directions of the Authority, did not create separate post-retirement benefits fund and accounts, therefore, the Authority, for the FY 2015-16, as per its earlier decision in the matter, allowed only actual pension payments made by the Petitioner and allowing therein the requisite increases i.e. Rs.550 million instead of the amount of provision of Rs.1,967 million as requested by the Petitioner. (Para 12.2.9 to 12.2.11 of the determination dated February 29, 2016).
- 5.7 Accordingly, a total amount of Rs.3,453 million was allowed to the Petitioner under the head of Salaries & wages and Other Benefits for the FY 2015-16. The Authority does not see any rationale / evidence submitted by the Petitioner in support of its claim which would substantiate the basis for the Authority to revise the already assessed Salaries & wages and Other Benefits cost, therefore the request of the Petitioner is declined.
6. **Repair & Maintenance:**
- 6.1 The Petitioner submitted that its estimated Repair and maintenance expenses are Rs.1,330 million for the FY 2015-16, were on the basis of its actual expenditure of Rs.1,090 million pertaining to the last year. The Petitioner submitted the following basis for its requested amount;

Head of Account	FY 2013-14	FY 2014-15	FY2015-16		Mln. Rs.	
			Requested	Allowed*	Increase from Expenditure	
					Amount	%age
R&M-Building and Civil works	153	156	204		49	31.43%
R&M- Grid/Stn. T/L	191	247	163		(84)	34.07%
R&M-Distribution Material	166	512	751	935	240	46.96%





R&M- General Plant	628	24	42		17	71.70%
R&M- Other Physical Property	28	152	170		19	12.20%
Total	1,167	1,090	1,330	935	240	22.05%

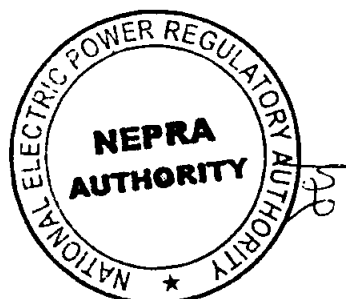
*The Authority has allowed an amount Rs.935 (M) in the Repair & maintenance allowance on lump sum basis.

6.2 The Petitioner has provided the following reasons for the increase in R&M expenditures;

- The repair and maintenance expenditures pertain to the maintenance of 132 & 66 KV grid stations & allied transmission, distributions lines and distribution transformers. The distribution lines are spread 32% in urban and 68% in rural areas.
- There are 34,612 Nos. of various types of transformers installed in the Company, which are over loaded and require regular maintenance. The ratio of burnt transformers is increasing due to over loaded and burnt by the mob for increase in tariff rates and other ethnic problems.
- The Company is electrifying vast no. of villages each year as per the policy of the GoP which also increases the repair & maintenance cost. Most of the offices and residential buildings have expired their life and need regular maintenance.
- The actual expenditure for the FY 2014-15 is Rs 1,167 million, has no relevance with the past trend as assessed by the Authority. Furthermore, the no. of village electrification, HT/LT lines and transformers (KVA) added to the system also resulted increase in cost of R&M during the current year.
- The increase in H.T line is 10% and L.T line 7%.

6.3 In view of the above, the Petitioner has requested to re-consider and allow R&M cost Rs.1,330.33 Million as already requested in petition that is 11.90% increase from previous year and may not compare with other DISCO due to changed demographic situation and its program to improve its system for smooth power flow and reduction in line losses.

6.4 The Authority after careful consideration of the Petitioner's pleadings considers that while allowing the cost of Rs.935 million pertaining to the FY 2015-16, has already considered all the factors which the Petitioner has again pleaded in its MLR. In view thereof, the Authority see no new grounds or basis which would form the basis for the Authority to revise its earlier decision in this regard.



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7. Travelling Expenses:

7.1 The Petitioner submitted that it requested an amount of Rs. 300 million under the head of Traveling / Daily allowance for the FY 2015-16. Its actual expenditure under this head remained as Rs. 269 million for the FY 2014-15.

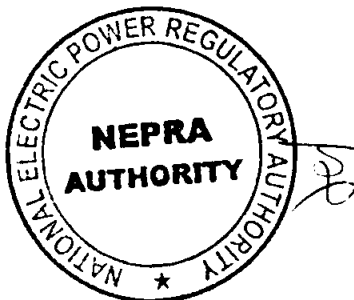
Rs. in Million

Head of Account	FY 2013-14	FY 2014-15	FY 2015-16		Increase from Expenditure	
	Actual Expenditure		Requested	Allowed	Amount	%age
TA/DA	247	269	300	226	31	11.67%

7.2 However, the Authority has allowed only Rs.226 million against the actual expenditure of Rs.269 million which is 11.67% increase to last year.

7.3 The Petitioner presented the following two working to justify its request;

Description	Unit	Amount
Total Staff Employees	Nos.	8,662
75% No. of Employees are entitled for TA/DA	Nos.	6,497
Actual Expenditure FY 2014-15	Rs. In M	269
Actual Expenditure 75% No. of Employees per month	Rs.	3450
Projected Cost of TA/DA per employee	Rs.	3848
Estimated Expenditure for the FY 2015-16	Rs. In M	300
Description	Ordinary Rate	
BPS-1-4	310	
BPS-5-11	390	
BPS-12-16	700	
BPS-17-18	1250	
Average Rate of Ordinary Daily Allowance	662.5	
Nos. of employees entitled for Daily Allowance	6,497	
TA/DA for Per Day Rs.662.50 x 6497=Rs.4,303,931	4,303,931	
Suppose 10 days in a Month Rs.4,303,931 x Nos.10 days.	43,039,313	
Estimated Expenditure for One Year Rs.43,039,313x12 Months.	516,471,750	





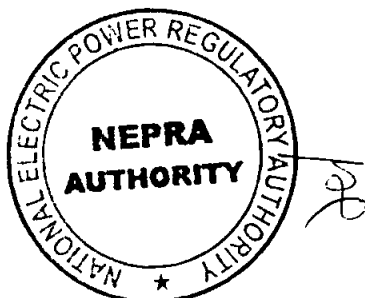
- 7.4 The Petitioner argued that it is already 42% lower in its demand of TA/DA. The Petitioner argued that since it has launched a special campaign for 100% recovery of its current billing as well as arrears from the consumer, it requires extra travelling. In view thereof, the Authority is requested to allow the TA/DA costs as requested.
- 7.5 The Authority after careful review of the Petitioner's submitted calculation, is of the view that the provided analysis does not reflect its actual expenditure and is based on the assumptions which are not realistic. Therefore, it translates into a figure which is far away from its reported expenditure under his head. In view thereof, the Authority considers that the Petitioner has failed to provide any new evidence or basis which would formulate the basis for the Authority to reconsider its earlier decision in this regard. Hence, the Petitioner's reconsideration request in this regard is declined.
- 7.6 On the reconsideration request pertaining to Vehicle Running Expenses & Other Expenses, the Authority has observed that the Petitioner has repeated more or less the same arguments as were pleaded in its original petition. Thus, providing no new arguments or details which would constitute the basis for the Authority to reconsider its earlier decision in this regard.
8. To allow Rs.1,124 million as provision for bad debts based on 2% of the sale revenue, merits consideration
- 8.1 The Petitioner on the issue submitted that keeping in view of prevailing socio-economic condition of the service area, the Authority was requested to allow 2% of sale revenue as provision for bad debts since the overall recovery position of its consumer end tariff was low. The Petitioner provided year wise billing and collection figures which are reproduced as below;

Mln. Rs.

YEAR	BILLING	PAYMENT
2010-11	24,020	11,782
2011-12	29,497	15,007
2012-13	33,022	17,711
2013-14	33,933	19,885
2014-15	36,706	21,222
Increase	12,686	9,440

- 8.2 The Petitioner further submitted that its receivables from consumers are Rs.104,447 million as on 30th June, 2015 which includes Rs. 60,672 million from private consumers and Rs. 43,775 million from Government. Therefore, the Authority is again requested to allow 2% of sale revenue as provision for bad debts. The age wise receivables were also provided by the Petitioner;

Mln. Rs.





Ageing of Accounts Receivables	Private	Govt:	Total
Up to 1 year	2,104	592	2,696
Up to 2 year	3,448	4,434	7,882
More than 3 years	55,120	38,749	93,869
Total Receivable as on June 30, 2015	60,672	43,775	104,447

8.3 The Authority has discussed the issue in detail and with reasonable clarity under para 17 of its determination dated February 29, 2016. The Petitioner has failed to provide any new evidence or reason, which formulates the basis for the Authority to reconsider its earlier decision in this regard; therefore, the request of the Petitioner to revise its Operation & Maintenance cost is declined.

9. To allow finance cost of Rs.5,955 million for the FY 2015-16 for the allowed loan by GoP

9.1 The Authority was requested in the Tariff Petition for the FY 2015-16 to allow the financial charges on account of Loans following borrowing by GoP on behalf of XWDISCOs including the SEPCO share of Rs.16 billion at mark-up of 3 month KIBOR+2% spread in order to cater for the ongoing circular debts situation in the country. The Authority has again declined the same and maintained its earlier decision of FY 2012-13 in this regard. The detail of the allocation of circular debt is indicated as below;

S.no:	DISCO's Name	Original allocation	Revised allocation	Variance
1	LESCO	22,032,649,189	56,682,346,206	(34,649,697,017)
2	FESCO	15,016,683,509	31,583,209,562	(16,566,526,053)
3	MEPCO	34,827,976,746	41,479,695,017	(6,651,718,271)
4	QESCO	40,892,437,832	16,812,650,522	24,079,787,310
5	GEPCO	8,799,667,933	23,804,782,786	(15,005,114,853)
6	IESCO	10,377,115,860	27,678,393,991	(17,301,278,131)
7	PESCO	75,645,353,290	42,627,049,105	33,018,304,185
8	HESCO	33,317,598,880	19,212,293,619	14,105,305,261
9	SEPCO	29,564,608,784	10,593,671,216	18,970,937,568
TOTAL:		270,474,092,023	270,474,092,023	-





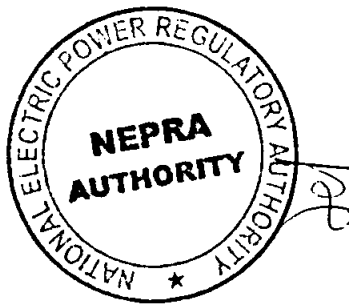
9.2 As the said loan was booked on the direction of Ministry of Water & Power to offset the power sector liabilities; therefore, Authority is again requested to allow the loan in the consumer end tariff for the FY 2015-16.

9.3 The Authority has already adjudicated on the issue in detail and with reasonable clarity under para 19 of its determination dated February 29, 2016 and also in its previous determination. Since the Petitioner has failed to provide any new evidence or reason to substantiate its aforementioned claim, which could formulate the basis for the Authority to reconsider its earlier decision in this regard; therefore, the request of the Petitioner is declined.

10. Order

10.1 Having heard the Petitioner in support of its review petition, the Authority observed that in terms of rule 16(6) of NEPRA Tariff Rules, 1998 read with regulation 3(2) of the NEPRA (Review Procedure) Regulations, 2009, a motion seeking review of any order of the Authority is competent only upon discovery of new and important matter of evidence or on account of some mistake or error apparent on the face of record. The perusal of a determination sought to be reviewed clearly indicates that all material facts and representation made were examined in detail and there is no occasion to amend the impugned determination. Further that no error inviting indulgence as admissible in law has been pleaded out. Therefore, the Authority is convinced that the review would not result in the withdrawal or modification of its determination.

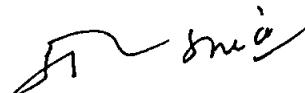
10.2 From what has been discussed above, the Authority is of the considered view that the grounds agitated in the motion for leave for review are not sufficient enough justifying the modification of the impugned determination, hence the motion for leave for review is declined.

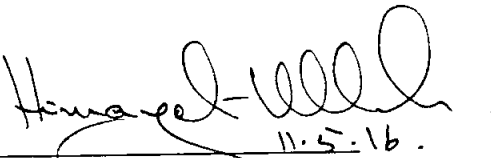





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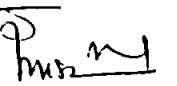

Syed Masood ul-Hassan Naqvi
Member


Maj (R) Haroon Rashid
Member


Himayat Ullah Khan
Vice Chairman
11.5.16.


Brig (R) Tariq Saddozai
Chairman




11.05.16