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National Electric Power Regulatory Authority Islamic Republic of Pakistan

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No. NEPRA/R/ADG(Trf)/TRF-567/SEPCO-2021/487-489
January 12, 2023

Subject: **Decision of the Authority in the matter of Motion for Leave for Review filed by Sukkur Electric Power Company Ltd. (SEPCO) against the Determination of the Authority for its Supply of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 [CASE # NEPRA/TRF-567/SEPCO-2021]**

Dear Sir,

Please find enclosed herewith subject Decision of the Authority (06 Pages) in the matter Motion for Leave for Review filed by Sukkur Electric Power Company Ltd. (SEPCO) against the Determination of the Authority for its Supply of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 in Case No. NEPRA/TRF-567/SEPCO-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.



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

1. Sukkur Electric Power Company Limited (SEPCO), hereinafter called "the Petitioner" being a distribution licensee of NEPRA filed Motion for Leave for Review vide letter dated June 10, 2022, against determination of the Authority dated June 02, 2022 for its Supply of Power Tariff under the Multi Year Tariff Regime for the FY 2020-21 to FY 2024-25.
2. The Petitioner has raised the following points in its review motion;
 - i. T&D Losses (The issue being relevant with Distribution business has been discussed in Distribution of power MLR)
 - ii. Provision for Bad debts
 - iii. Taxation

3. **Proceeding**

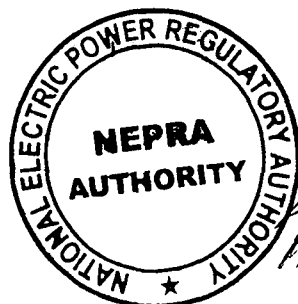
- 3.1. The Motion for Leave for Review was admitted by the Authority on July 14, 2022. In order to provide a fair opportunity to the Petitioner to present its case, the Authority decided to conduct a hearing in the matter which was scheduled on August 24, 2022 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner. However, the Petitioner requested to reschedule the same for September 13, 2022. Subsequently the same was again Re-scheduled upon request of the Petitioner for September 27, 2022. Revised notices of hearing were sent to the Petitioner.
- 3.2. The hearing was held on September 27, 2022, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.

4. **Transmission and Distribution Losses**

- 4.1. The Petitioner has raised the issue of T&D losses in Supply of Power Tariff review motion, however, the issue being relevant with Distribution of power function has been deliberated in the said Review motion.

5. **Provision for Bad Debts:**

- 5.1. The Petitioner in its Review petition submitted that the Authority in its determination has not considered the request to allow provision for bad debts as per the following detail;





Description	Rs. in Million				
	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Provision for Bad Debt	Requested	Requested	Requested	Requested	Requested
	1,687	2,332	3,302	3,963	4,953

- 5.2. The Petitioner further mentioned that actual provision for bad debt as per Un-Audited Financial Statement is as under;

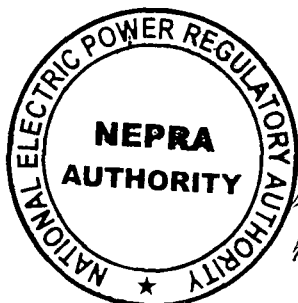
Description	Mln. Rs.	
	FY 2020-21	FY 2019-20
Provision for Bad Debt	Provisional	Un-Audited
	1,990	1,884

- 5.3. The Petitioner stated that provision for bad debts is estimated considering the receivables of the Company as per aging formula approved by BoD & agreed with external auditors. It also submitted that administration obligations don't allow to take severe action against the defaulters and the disconnections creates law and order situation in the shape of road blockage and attacks on SEPCO staff, Grid Stations & Offices
- 5.4. The Petitioner also stated that Socio-economic condition of the consumers of SEPCO's area of service is very poor. The capability for payment of utility bills is weak. The Petitioner provided its overall recovery position as under;

Period	Billing [Rs. In M]	Collection [Rs. In M]	%age of Collection
FY 2020-21	50,267	32,434	65%
FY 2019-20	42,121	23,947	57%
FY 2018-19	47,570	30,887	65%
FY 2017-18	41,478	24,798	60%

- 5.5. In view thereof, the Petitioner has requested that Provision for Bad debts may be allowed as requested.
- 5.6. The Authority in the MYT decision of SEPCO dated 02.06.2022, on the issue of Provision for bad debts has decided as under;

Here it is pertinent to mention that the Authority in its Redetermination decision dated September 18, 2017, pertaining to tariff petitions of DISCOs for the FY 2015-16, allowed an amount of Rs. 2,009 million to the Petitioner as Write-Offs on provisional basis subject to fulfilment of the given criteria. The Authority also decided that in case the Petitioner fails to actually write off the allowed amounts, as per the given criteria, and required evidence is not provided, the provisionally allowed amount shall be adjusted back subsequently. The tariff for the FY 2015-16 was notified by the Federal Government w.e.f. March 22, 2018, therefore, DISCOs were required to complete the process of Write-Offs till March 21, 2019.





The Petitioner did not make any write offs as per the given criteria. The Authority accordingly adjusted back the amount of write-offs allowed to the Petitioner in its tariff determination for the FY 2019-20 as part of PYA.

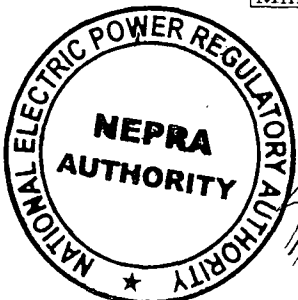
The Authority has also noted that recovery position of the Petitioner has not shown any major improvement over the years. Further, the impact of any under recoveries of the Petitioner owing to its own inefficiencies cannot be passed on to the paying consumers. In view of the above discussion and the fact that the Petitioner has failed to write-offs the provisionally allowed amount as per the specified criteria, the instant request of the Petitioner to allow provision for bad debts, without any actual write-offs as per the criteria, does not merit consideration and hence disallowed.

- 5.7. The Authority in the MYT decision of the Petitioner has already deliberated this issue in detail. The Authority noted that recovery position of the Petitioner has not shown any major improvement over the years as submitted by the Petitioner itself. The impact of under recoveries of the Petitioner owing to its own inefficiencies cannot be passed on to the paying consumers. If for the purpose of arguments only, the amount of provision for bad debts is allowed to the Petitioner, it will increase the tariff of the Petitioner, which may result in further under recoveries. The Petitioner has not also raised any new grounds in the Review Motion in support of its claim. In view of the above discussion and the fact that the Petitioner has failed to write-offs the already provisionally allowed amounts as per the specified criteria, the instant request of the Petitioner to allow provision for bad debts, without any actual write-offs as per the criteria, does not merit consideration and hence disallowed.

6. Taxation

- 6.1. The Petitioner in its review Petition submitted the following detail of Actual tax Assessment vis a vis paid for the last five years as desired by the Authority;

Description	Years					TOTAL
	2016-17	2017-18	2018-19	2019-20	2020-21	
A- Sales Tax						
(i) GST						
Assessment	4,970	5,440	5,670	6,417	6,825	29,322
Realization	5,455	2,683	2,972	3,256	3,797	18,162
Return File	4,970	5,440	5,670	6,417	6,825	29,322
ii) Extra Tax						
Assessment	232	270	277	306	275	1,361
Realization	208	222	260	306	278	1,273
Return File	232	270	277	306	275	1,361
iii) Further Tax						
Assessment	168	182	286	212	206	1,053
Realization	133	139	214	194	204	884
Return File	168	182	286	212	206	1,053
iv) Retailer Tax						
Assessment	45	45	55	72	83	299
Realization	42	43	51	70	81	286
Return File	45	45	55	72	83	299
B- Income Tax						
i) Income Tax 235						
Assessment	571	712	843	1,033	1,130	4,290
Realization	619	708	824	1,024	1,122	4,298
Paid on Realization	619	708	824	1,024	1,122	4,298
ii) Income Tax 235 A						
Assessment	0	2	12	4	2	4
Realization	2	2	1	3	2	9
Paid on Realization	2	2	1	3	2	9
Advance Income Tax						
Minimum Tax Paid on DM	-	97	-	104	127	329



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- 6.2. In the light of above, the Petitioner has requested that provision of taxation may be allowed.
- 6.3. The Authority regarding tax issue in the MYT decision of SPECO dated 02.06.2022, has decided as under;

Regarding Taxation, the Authority while going through the financial statements of the DISCOs including the Petitioner, has observed that significant amount of tax refund is appearing from FBR. In view thereof, the Authority has decided to allow actual tax paid by the Petitioner net off of the amount of Tax Refund outstanding from FBR, if any, once the Petitioner provides detail of actual tax assessments vis a vis tax paid for the last five years. Accordingly, the Petitioner is directed to provide details of actual tax assessments, tax allowed and the amount of tax paid for the last five years.

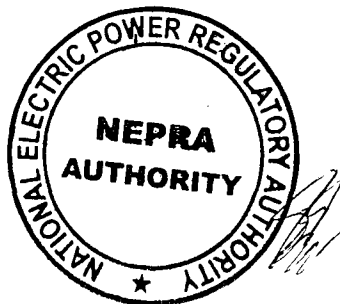
- 6.4. The Petitioner has submitted its tax details in terms of assessment and amount paid, whereby income tax realized from FY 2061-17 till FY 2020-21 has been paid by the Petitioner, although amount of tax assessment remained lower. As per the provisional accounts of the Petitioner for the FY 2019-20, still an amount of Rs.1.238 billion is appearing as advance income tax under current assets, for which no justification has been provided. In view thereof, the Petitioner is directed to provide complete reconciliation of the amount of tax assessment, tax paid, tax allowed by the Authority and the amount appearing as advance income tax in its financial statements. The Authority would consider this issue once the aforementioned details are provided by the Petitioner based on its Audited accounts for the periods.

7. RORB Calculation

- 7.1. The Petitioner during the hearing submitted that as per the MYT determination, 70% cut has been imposed on return on CWIP (*based on Maharashtra Electricity Regulatory Commission practices*) which is inconsistent with previous practices of the Authority and not covered in its any regulations. Disallowing the Debt Portion of CWIP is unrealistic and not matching with Capital Structure of the Company. The Petitioner has provided following workings in this regard;

Description	Unit	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
RORB Determined 30%	[Min Rs.]	999	1,311	2,262	4,572
RORB Proposed 100%	[Min Rs.]	3,040	3,569	3,947	10,556
Withheld (70%)	[Min Rs.]	(2,041)	(2,258)	(1,685)	(5,984)

- 7.2. The Petitioner also submitted that excess deduction was made on account of deferred credits, which resulted in lower RORB. The Petitioner has provided following workings in this regard;



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Description	2018-19	2019-20	2020-21
Deferred Credit			
NEPRA Determined	13,674	13,087	12,979
Actual	5,047	5,293	5,909
Exceee Adjustment	8,627	7,794	7,070
Cash Shortfall			
Deposit	3,038	3,275	3,273
Meter Security	1,080	1,174	1,271
	4,118	4,449	4,544

- 7.3. The Authority has deliberated in detail the rationale / justification for allowing RoE up to 30% of the CWIP balance in the Petitioner's decision dated 02.06.2022.
- 7.4. The main reason behind allowing RoE on 30% of CWIP balance was to avoid duplication of cost to the consumers. The Authority noted that CWIP includes Interest during Construction (IDC), which is capitalized and becomes part of total fixed assets at the time of transfer of CWIP to fixed assets. Therefore, WACC if allowed on 100% CWIP, would mean IDC, is being paid by the consumers and upon transfer of CWIP to fixed asset (including IDC), allowing Return and Depreciation on the total amount of fixed asset would mean duplication of cost.
- 7.5. DISCOs in their submissions and during the hearings have pleaded that amount of IDC is relatively very small as compared to what the Authority has assumed by deducting 70% amount of CWIP, as the actual gearing ratio of DISCOs is much different from the allowed capital structure. DISCOs also submitted that the amount of actual IDC would be disclosed separately in the financial statements either under the note to the fixed asset or as a separate item. Therefore, the Authority may deduct the amount of IDC from RAB, while allowing RoRB and depreciation on RAB.
- 7.6. As explained earlier, the main objective of allowing ROE on 30% of CWIP, was to avoid duplication of costs. Since DISCOs have submitted to separately disclose the amount of IDC in their accounts, therefore, the Authority, keeping in view the submissions of DISCOs, has decided to consider the request of the Petitioner to allow WACC on the total amount of CWIP, after excluding therefrom the amount of IDC, disclosed in the Financial Statements. Thus, would address the issue of duplication of cost. Here it must be noted that by deducting the amount of IDC, as disclosed in the financial statements, shall in no way be construed as acceptance of actual debt: equity structure of the Petitioner, instead of the one allowed by the Authority.
- 7.7. It is also important to highlight that allowing RoE on 30% amount of CWIP instead of its total amount, provides an inbuilt incentive to DISCOs to go for early/ timely completion of their assets. Therefore, decision of the Authority to allow WACC on total amount of CWIP shall not result in delay in transfer of CWIP to fixed assets. The DISCOs shall ensure for completion of assets in a timely manner.



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- 7.8. The above decision of the Authority to allow WACC on 100% of CWIP would result in revision in the allowed RoRB of the Petitioner for the FY 2020-21. The same would now be used as reference for adjustment/ indexation of the RoRB component for the future years including FY 2021-22 and FY 2022-23, as per the indexation/ adjustment mechanism prescribed in the MYT determination. The year wise total impact of the revised RoRB is as under;

Description	Rs. Mln			
	FY-21	FY-22	FY-23	Total
Already Allowed RORB	999	1,311	2,261	4,571
Revised RORB	1,543	2,303	4,439	8,285
DOP	1,541	2,300	4,432	8,272
SOP	3	4	7	14

8. In view of the above discussion the Petitioner is hereby allowed above mentioned year wise revised amount of RORB, and the same would be made part of PYA in the petitioner's next indexation/ adjustment request for the FY 2023-24, to be filed in February 2023.
9. The decision of the Authority is intimated to the Federal Government for notification in the official gazette under Section 31(7) of the NEPRA Act.

AUTHORITY

Mathar Niaz Rana (nsc)
Member

Rafique Ahmed Shaikh
Member

Engr. Maqsood Anwar Khan
Member

Tauseef H. Farooqi
Chairman

