Registrar

National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-624/MEPCO-Distribution/2025/ 264-71 January 07, 2026

SUBJECT: **DETERMINATION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY MULTAN ELECTRIC POWER COMPANY LIMITED (MEPCO) FOR DETERMINATION OF DISTRIBUTION TARIFF UNDER MYT REGIME FOR THE FY 2025-26 TO FY 2029-30**

Please find enclosed herewith the subject Determination of the Authority (total 49 pages).

2. The Determination of the Authority, is hereby intimated to the Federal Government for filing of uniform tariff application in terms of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997. The instant determination of the Authority along-with order part, be also notified in terms of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, while notifying the uniform tariff application decision of the Authority.

Enclosure: As above

Waseem Anwar

(Wasim Anwar Bhinder)

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

Copy to:

1. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
2. Mr. Shehriyar Abbasi, Deputy Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
3. Secretary, Energy Department., Government of the Punjab, 8th Floor, EFU House, Main Gulberg, Jail Road, Lahore
4. Managing Director, National Grid Company (NGC) of Pakistan, 414 WAPDA House, Shaharah-e-auid-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, Multan Electric Power Co. Ltd., MEPCO Headquarter, Khanewal Road, Multan
7. Chief Executive Officer, Independent System and Market Operator (ISMO) of pakistan, Pitras Bukhari Road, Sector H-8/1, Islamabad

National Electric Power Regulatory Authority
(NEPRA)

PETITION NO: NEPRA/TRF-624/MEPCO-Distribution/2025

DETERMINATION OF DISTRIBUTION TARIFF PETITION

FOR

MULTAN ELECTRIC POWER COMPANY LIMITED (MEPCO)

FOR THE FY 2025-26 – FY 2029-30

UNDER

NEPRA TARIFF (STANDARDS AND PROCEDURE) RULES - 1998

Islamabad
JANUARY 07, 2026

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Abbreviations

CpGenCap	The summation of the capacity cost in respect of all CpGencos for a billing period minus the amount of liquidated damages received during the months
ADB	Asian Development Bank
AMI	Advance Metering Infrastructure
AMR	Automatic Meter Reading
BoD	Board of Director
BTS	Base Transceiver Station
CAPM	Capital Asset Pricing Model
CDP	Common Delivery Point
COSS	Cost of Service Study
CPPA (G)	Central Power Purchasing Agency Guarantee Limited
CTBCM	Competitive Trading Bilateral Contract Market
CWIP	Closing Work in Progress
DIIP	Distribution Company Integrated Investment Plan
DISCO	Distribution Company
DM	Distribution Margin
DOP	Distribution of Power
ELR	Energy Loss Reduction
ERC	Energy Regulatory Commission
ERP	Enterprise resource planning
FCA	Fuel Charges Adjustment
FY	Financial Year
GIS	Geographical Information System
GOP	Government of Pakistan
GWh	Giga Watt Hours
HHU	Hand Held Unit
HT/LT	High Tension/Low Tension
HSD	High Speed Diesel
IGTDP	Integrated Generation Transmission and Distribution Plan
IESCO	Islamabad Electric Supply Company Limited
KIBOR	Karachi Inter Bank Offer Rates
KSE	Karachi Stock Exchange
KV	Kilo Volt
kW	Kilo Watt
kWh	Kilo Watt Hour
LPC	Late Payment Charges
MDI	Maximum Demand Indicator
MMBTU	One million British Thermal Units
MoWP	Ministry of Water and Power
MVA	Mega Volt Amp

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MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
NOC	Network Operation Centre
NTDC	National Transmission & Despatch Company
O&M	Operation and Maintenance
OGRA	Oil and Gas Regulatory Authority
PEPCO	Pakistan Electric Power Company
MEPCO	Multan Electric Power Company Limited
PDEIP	Power Distribution Enhancement Investment Program
PDP	Power Distribution Program
PPA	Power Purchase Agreement
PPAA	Power Procurement Agency Agreement
PPP	Power Purchase Price
PYA	Prior Year Adjustment
R&M	Repair and Maintenance
RAB	Regulatory Asset Base
RE	Rural Electrification
RFO	Residual Fuel Oil
RLNG	Re-gasified Liquefied Natural Gas
RoE	Return on Equity
RORB	Return on Rate Base
ROR	Rate of Return
SBP	State Bank of Pakistan
SOT	Schedule of Tariff
STG	Secondary Transmission Grid
SYT	Single Year Tariff
T&D	Transmission and Distribution
TFC	Term Finance Certificate
TOU	Time of Use
TOR	Term of Reference
TPM	Transfer Price Mechanism
USCF	The fixed charge part of the Use of System Charges in Rs./kW/Month
UOSC	Use of System Charges
WACC	Weighted average cost of capital
WAPDA	Water and Power Development Authority
XWDISCO	Ex-WAPDA Distribution Company

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DETERMINATION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY MULTAN ELECTRIC POWER COMPANY LIMITED (MEPCO) FOR DETERMINATION OF DISTRIBUTION TARIFF UNDER MYT REGIME FOR THE FY 2025-26 TO FY 2029-30

CASE NO. NEPRA/ TRF-624/MEPCO-Distribution/2025

PETITIONER

MEPCO Headquarters, Khanewal Road, Multan.

INTERVENER
NIL

COMMENTATOR
NIL

REPRESENTATION

Chief Executive Officer along-with its Technical & Financial Team

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1. <u>Background</u>

1.1. The Authority awarded a Multi-Year Tariff (MYT) to Multan Electric Power Company (MEPCO), for a period of five years, commencing from 1st July 2021 till 30th June 2025. Upon expiry of the said MYT on 30.06.2025, MEPCO (hereinafter also called as "the Petitioner"), being a Distribution Licensee as well as Supplier of Last Resort, filed separate tariff petitions for the determination of its Distribution and Supply tariff under the MYT Regime for a further period of five years i.e. from FY 2025-26 to FY 2029-30, in terms of Rule 3 (1) of Tariff Standards & Procedure Rules-1998 (hereinafter referred as "Rules").

1.2. MEPCO was required to file its new MYT petitions for the Distribution and Supply functions by January 2025, in line with the NEPRA Guidelines for determination of Consumer End tariff (Methodology and Process) 2015, after incorporating therein the approved level of investments and target of T&D losses. However, the petitions were filed with considerable delay, and were based on the requested numbers of investment and T&D losses. MEPCO also requested the grant of interim tariff for the FY 2025-26, in order to allow for timely rebasing of consumer-end tariff effective from July 1, 2025, as considerable time would be required to finalize the MYT petitions. The Authority acceded to the request of MEPCO and granted an "Interim tariff", vide its decision dated 23.06.2025 for FY 2025-26, subject to adjustment and/ or refund, on the basis of the final determination of the Authority in the matter of MYT petitions of the Petitioner.

1.3. The Petitioner, inter alia, requested the following distribution margin for its distribution of power function for the five years control period;

Distribution of Power	Unit	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Margin						
Pay & allowances	Rs. Mln	20,899	24,077	27,902	32,516	38,256
Post-retirement Benefits	Rs. Mln	27,536	28,845	32,026	41,901	31,999
ERP	Rs. Mln	17	21	23	24	26
Managemengt Fee	Rs. Mln	157	174	193	215	239
Repair and Maintenance	Rs. Mln	2,387	2,651	2,944	3,270	3,632
Travelling expenses	Rs. Mln	1,689	2,053	2,454	2,961	3,605
Vehicle expenses	Rs. Mln	1,116	1,239	1,453	1,728	2,078
Billing office expenses	Rs. Mln	1,572	1,745	1,937	2,150	2,387
Other expense	Rs. Mln	130	144	160	178	197
Total O&M Costs	**Rs. Mln**	**55,501**	**60,949**	**69,093**	**84,943**	**82,418**
Depreciation	Rs. Mln	8,944	10,397	11,839	13,157	14,362
Return on Rate Base	Rs. Mln	16,281	19,737	22,920	25,029	26,630
Gross Distribution Margin	**Rs. Mln**	**80,725**	**91,082**	**103,851**	**123,129**	**123,411**
Less: Other Income	Rs. Mln	(8,731)	(9,213)	(9,701)	(10,193)	(10,641)
Net Distribution Margin	**Rs. Mln**	**71,994**	**81,869**	**94,150**	**112,936**	**112,770**
Prior Year Adjustment	Rs. Mln	20,494				
Total Revenue Requirement	**Rs. Mln**	**92,488**	**81,869**	**94,150**	**112,936**	**112,770**
Projected Sales	GWh	17,184	17,333	17,491	17,658	17,834
Requested Tariff	**Rs./kWh**	**5.38**	**4.72**	**5.38**	**6.40**	**6.32**

2. <u>Proceedings</u>

2.1. In terms of Rule 4 of the Rules, the petition was admitted by the Authority. Since the impact of any such costs claimed in the petition has to be made part of the consumer end tariff, therefore, the Authority, in order to provide an opportunity of hearing to all the concerned parties and to meet the ends of natural justice, decided to conduct a hearing in the matter.

2.2. The hearing in the matter was scheduled on November 04, 2025, for which a notice of admission / hearing along-with the title and brief description of the petition, was published

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in the newspapers on 25.10.2025, and also uploaded on NEPRA website. Individual notices were also issued to stakeholders/ interested parties.

3. Issues of Hearing

3.1. For the purpose of the hearing, and based on the pleadings, the following issues were framed for consideration during the hearing, and for presenting written as well as oral evidence and arguments;

i. Whether the request of Petitioner to allow MYT for a period of five years is justified, considering the fact that distribution license is valid till April 2022?

ii. Whether the projected energy purchases and sales are justified?

iii. Whether the requested/projected O&M cost (including new/replacement hiring) is justified and what are the basis for such projections?

iv. Whether there should be any bifurcation of O&M on the basis of controllable and uncontrollable costs?

v. Whether the requested/projected amount under heads of Other Income, Deprecations and RORB based on WACC of 14.06% is justified?

vi. What will be adjustment mechanism for future indexation of different components of revenue requirement during the MYT? Whether there should any efficiency factor (X Factor) and Z-Factor?

vii. Whether the requested PYA is justified?

viii. Whether there will be any claw back mechanism or not?

ix. Any other issue that may come up during or after the hearing?

4. Filing Of Objections/ Comments

4.1. Comments/replies and filing of Intervention Request (IRs), if any, were invited from interested person/ party within 7 days of the publication of the notice of admission, in terms of Rule 6, 7 and 8 of the Rules. In response no intervention request/ comments were received.

4.2. During the hearing, the Petitioner was represented by its Chief Executive Officer along-with its technical and financial teams.

4.3. On the basis of pleadings, evidence/record produced, and the arguments raised during the hearing, the issue-wise findings of the Authority are given as under;

5. Whether the projected energy purchases and sales are justified?

5.1. The Petitioner, in its petition, submitted that Power Market Survey (PMS) projects a modest YoY growth in energy sales and demand; however, actual data for the base year FY 2023-24 and current year FY 2024-25 reflects a decline. It was submitted that MEPCO's PMS forecast 2024-34 is based on a compound annual growth rate (CAGR) of 0.99% (for ten years) while NTDC IGCEP 2024-34 is based on a (CAGR) of 2.8%. MEPCO's monthly demand (MW) for FY 2024-25 upto March 2025 remained lower than that of the previous year, FY 2023-24, reflecting an average decline of 5%. Likewise, a decline of 6.2% in progressive sales of MEPCO up to March 2025, as compared to that of FY 2023-24 is observed. This decline is largely attributable to rapid solarization through distributed solar generation (DG), whereby

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consumers increasingly rely on self-generation, resulting in reduced MEPCO's grid-based sales and shifting peak demand to evening hours. While forecasts assumed growth based on expected policy developments such as reduced regulated tariffs, integration of CPPs with the grid, and changes in net metering arrangements, which were anticipated to encourage self-consumption rather surplus energy exports to grid. As a result of above factors, recent data shows a slight recovery in sales (0.7%) and demand (8%) in March 2025, suggesting a potential upward trend as consumers move toward self-consumption rather than exporting electricity to MEPCO network.

Projected Increase in No. of Consumers					
Consumer Category	2025-26	2026-27	2027-28	2028-29	2029-30
Residential	553,311	591,346	631,995	675,439	721,869
Commercial	27,624	28,744	29,909	31,122	32,384
Industrial	1,428	1,461	1,494	1,527	1,563
Bulk supply	34	37	39	42	45
Agriculture	7,108	7,549	8,017	8,514	9,042
Others	145	155	166	177	190
Total	589,650	629,291	671,620	716,822	765,092

Projected Load of New Consumers					
Consumer Category	2025-26	2026-27	2027-28	2028-29	2029-30
Residential	1149.13	1245.51	1350.06	1463.47	1586.52
Commercial	117.16	125.09	133.56	142.6	152.26
Industrial	92.5	99.34	98.26	101.27	104.38
Bulk supply	9.34	9.8	10.28	10.79	11.31
Agriculture	132.44	141.34	150.85	160.99	171.82
Others	0.83	0.86	0.9	0.93	0.97
Total	1,501	1,618	1,744	1,880	2,027

Demand Growth Projection				
F.Y.	Energy Sales		Peak Demand 11-KV	Peak Demand 132-KV
	(GWh)	(G.R)	(MW)	(MW)
2025-26	17,184	0.85	4,292	4,336
2026-27	17,333	0.86	4,336	4,380
2027-28	17,491	0.92	4,378	4,422
2028-29	17,658	0.95	4,423	4,467
2029-30	17,834	1	4,466	4,511

Power Purchase Price (PPP) Break-up (Rs. In Million)					
Description	2025-26	2026-27	2027-28	2028-29	2029-30
Energy Transfer Charge	178,893	178,706	179,158	179,923	180,907
Capacity Transfer Charge	342,676	342,319	343,195	344,677	346,572
Use of System Charges (UoSC)	27,676	27,647	27,718	27,839	27,992
Market Operator Fee (MoF)	138	138	139	139	140
Power Purchase Price	**549,383**	**548,811**	**550,211**	**552,578**	**555,611**

5.2. The Petitioner during the hearing reiterated its earlier submissions.

5.3. The Authority noted that PPP is the major component of consumer-end tariff, which accounts for around 90% of total consumer-end tariff. The Authority has determined the power purchases (GWhs) along-with its cost for each of the DISCOs through a separate

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decision, therefore, for the purpose of instant decision, the power purchases (GWhs) of the Petitioner as per the separate PPP decision, have been taken into account.

6. <u>Whether the requested MYT for a control period of five years is justified?</u>

6.1. The Petitioner submitted that the petition has been filed in accordance with the Rule 3(1) of Part II and Rule 4(7) of the Rules 1998 and NEPRA Performance Standards (Distribution) Rules 2005. As per Rule 17 (3) (1) of the Rules, tariff should allow the licensee, recovery of any and all costs prudently incurred to meet the demonstrated needs of their consumers. The Petitioner also submitted that it has filed its investment Plan and assessment of T&D losses for a period of five years, which are presently under deliberation before the Authority.

6.2. The Authority observed the Petitioner has requested for five-year tariff control period, in line with its five years investment plan. The Authority further noted that the approval of the investment plan and assessment of T&D losses of the Petitioner for a five year period is at an advanced stage, therefore, to align the investment requirements of the Petitioner, with its tariff determination, which is a tool to incur and recover the allowed amount of investments, the Authority has decided to approve the tariff request of the Petitioner under the MYT tariff regime for a control period of five year i.e. from FY 2025-26 till FY 2029-30. The terms and conditions, given by the Authority, in the Distribution and SoLR license, as modified from time to time, of the Petitioner would be applicable during the MYT control period.

7. <u>Whether the requested/projected O&M cost (including new/replacement hiring) is justified and what are the basis for such projections?</u>

8. <u>Whether there should be any bifurcation of O&M on the basis of controllable and uncontrollable costs?</u>

8.1. The Petitioner submitted the following projections along-with justification for each head as under;

Operating & Maintenance Cost Break-Up				(Rs. in Millions)	
Description	2025-26	2026-27	2027-28	2028-29	2029-30
Pay & Allowances	20,899	24,077	27,902	32,516	38,256
Post-Retirement Benefits	27,536	28,845	32,026	41,901	31,999
Repair & Maintenance	2,387	2,651	2,944	3,270	3,632
Travelling Expenses	1,689	2,053	2,454	2,961	3,605
Transportation	1,116	1,239	1,453	1,728	2,078
Other Operating Expenses	1,875	2,084	2,313	2,567	2,848
Total	55,501	60,949	69,093	84,943	82,418

✓ Increase in Pay and Allowances is attributable, inter alia, to annual increments, impact of promotions/up-gradations, and expected annual increase/revise pay scales by the GoP during MYT control period.

<u>Plan for Additional Hiring:</u>

✓ MEPCO reported a staff shortfall of approximately 44.40% as of June-2024 with a working strength of 14,246 employees against a sanctioned strength of 25,656 in different cadres. The following manpower statistics as of June-2024 highlights the shortage of staff in the company:

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Manpower Statistics (As of June-2024)				
Sr. No.	Categories	Sanctioned Strength	Working Strength	Vacant
1	Officers	763	514	249
2	Officials	24,883	13,732	11,151
Total		25,646	14,246	11,400

Note: 2,959 employees have been engaged through Outsourcing/Third Party Hiring.

<u>Proposed Hiring/New Induction:</u>

✓ MEPCO hereby proposes induction of employees against critical vacant positions as per approved yard stick as well as hiring against creation of new offices/formations as tabulated below:

Proposed Hiring/New Induction					
Description	2025-26	2026-27	2027-28	2028-29	2029-30
No. of Employees	1,821	986	885	969	1,035
Projected Annual Cost (Mil. Rs.)	1,315	1,293	1,718	2,262	2,987

<u>Plan for Replacement Hiring:</u>

✓ In order to reduce the acute shortage of manpower to meet the technical and operational targets, it has been proposed that 1,134 vacancies are to be filled by the Company during FY 2025-26. This recruitment will increase the first year O&M Cost by PKR 835 million. The proposed recruitment will take place in following cadres:

Replacement Hiring					
BPS	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
BPS 1 to 5	474	70	60	70	50
BPS 7	115	35	25	30	25
BPS 9	205	110	80	100	75
BPS 11	102	70	50	60	40
BPS 14	77	56	43	37	39
BPS 15	105	57	59	38	42
BPS 17	37	26	31	23	26
BPS 18	8	-	-	-	-
BPS 19	6	-	-	-	-
BPS 20	5	-	-	-	-
Total	1,134	424	348	358	297

<u>Plan for Hiring Against Creation of New Offices/Formations:</u>

✓ MEPCO has proposed manpower hiring during MYT control period against the creation of Proposed New Offices/Formations as tabulated below:

New Induction against Creation of New Offices					
Description	2025-26	2026-27	2027-28	2028-29	2029-30
No. Of Employees	606	562	537	611	738
Projected Annual Cost (Mil. Rs.)	480	944	1,403	1,946	2,698

8.2. Further, the company has included 81 pending cases under in-service death quota as part of proposed hiring / induction.

<u>Pay & Allowances and Employee Benefits:</u>

✓ The Pay & Allowances for FY 2025-26 have been estimated to be Rs. 22,301 million, out of which Rs. 20,899 (M) & Rs. 1,403 (M) have been projected for Wire Business & Power Supply Business respectively. Pay & Allowances and Employee Benefits including Retirement Benefits constitute a major portion of the Company's O&M expenses.

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Pay & Allowance and Employee Benefits					
Description	2025-26	2026-27	2027-28	2028-29	2029-30
Salaries, Wages & Benefits	22,301	25,693	29,775	34,698	40,824
Proj.Cost-Wire Business (Mil. Rs.)	20,899	24,077	27,902	32,516	38,256
Proj.Cost-Supply Business (Mil. Rs.)	1,403	1,616	1,873	2,183	2,568

<u>Staff Retirement Benefits:</u>

- ✓ The Petitioner submitted that MEPCO provides various employee benefit schemes, including a Pension Scheme, Free Electricity Scheme, Free Medical Facility Scheme and Encashment of Accumulated Compensated Absences.
- ✓ Obligations under such schemes are assessed annually by a qualified Actuarial Consultant using the Projected Unit Credit Actuarial Cost Method. Re-measurement of net defined benefit liability is recognized through Other Comprehensive Income (OCI).
- ✓ Provisions for Post-Retirement Benefits (PRB) are recognized in line with the requirements of IAS-19, based on third party actuarial valuations conducted by Independent Actuaries, which require MEPCO to maintain funded Pension Trust Fund at par with total PRB liability. However, MEPCO could not maintain Pension Fund in accordance with PRB Liability due to the reasons that NEPRA allowed PRB only to the extent of actual payments rather than on a provision basis. The petitioner submitted that during FY 2008-09 to FY 2014-15, NEPRA allowed Pay & Allowances inclusive of Post-Retirement Benefits and no separate amount of PRB was not determined by the Authority. The detail of Pay & Allowance (including PRB) determined by NEPRA & actual Pay & Allowances / PRB Provision is given below

Pay & Allowances /PRB Actual & Determined by NEPRA (Rs. In Million)					
F.Y.	Actual			Determined by NEPRA	Less Determined
	Pay & Allowances	PRB Provision	Total		
2008-09	2,512	931	3,443	3,035	(408)
2009-10	2,674	1,759	4,433	3,490	(943)
2010-11	3,687	2,009	5,696	4,014	(1,682)
2011-12	4,467	2,527	6,994	4,616	(2,378)
2012-13	5,399	2,618	8,017	5,405	(2,612)
2013-14	5,575	3,093	8,688	6,322	(2,346)
2014-15	8,630	3,814	12,444	6,649	(5,795)
Total	32,946	16,749	49,695	33,531	(16,164)

- ✓ The comparison of PRB allowed by NEPRA & Actual PRB Provision recorded during FY 2015-16 to FY 2019-20 is as under:

PRB Allowed by NEPRA & Actual PRB Provision (Rs. In Million)			
F.Y.	PRB Determined by NEPRA	Actual PRB Provision	Less Determined
2015-16	2,134	7,327	(5,193)
2016-17	2,461	4,930	(2,469)
2017-18	2,707	6,550	(3,843)
2018-19	4,232	8,679	(4,447)
2019-20	4,656	12,233	(7,577)
Total	16,190	39,719	(23,529)

- ✓ The Petitioner further highlighted that, due to the re-measurement of PRB Liabilities, MEPCO charged PRB through Other Comprehensive Income (OCI) as required under IFRS-19, The details thereof of is are provided below:

Table 6.12: PRB Charged to OCI

F.Y.	PRB Charged to OCI	F.Y.	PRB Charged to OCI
2008-09	3,301	2014-15	1,160
2009-10	5,732	2015-16	8,044
2010-11	9,052	2016-17	11,466
2011-12	-	2017-18	10,918
2012-13	3,084	2018-19	4,593
2013-14	1,735	2019-20	(5,674)
	Total		(53,410)

- ✓ The petitioner submitted that the foregoing explanation demonstrates that MEPCO was not provided any cushion by the Regulator to finance its Pension Fund at par with PRB Liability. In these circumstances, the Company was able to credit an amount of Rs. 2,341 million to the MEPCO Employees Pension Fund up to June, 2020.
- ✓ MEPCO submitted its Multi-Year Tariff (MYT) Petition for Tariff Control Period FY 2020-21 to FY 2024-25. The Authority, for the first time, allowed PRB Provision to MEPCO on the basis of latest available Audited Financial Statements, however with a gap of 02-years i.e. provision for PRB allowed for FY 2024-25 on the basis of Audited Financial Statements for FY 2022-23. Resultantly MEPCO obligation under PRB have increased by Rs. 83,337 (M) i.e. Rs. 80,583 (M) as on June-2020 to Rs. 163,920 (M) on June-2024. The detail of PRB Allowed, Actual Expenditure and the amount transferred to Pension Fund is as under:

PRB Allowed, Actual Expenditure & Transferred to Fund (Rs. In Million)

F.Y.	Actual PRB Provision & OCI	PRB Determined	Actual PRB Paid	Amount Transferred to Pension Fund
2020-21	13,963	8,877	5,504	790
2021-22	26,876	9,765	5,795	2,065
2022-23	38,711	10,604	8,027	3,114
2023-24	37,611	10,106	8,837	5,227
2024-25 (Dec. 2024)	30,438	18,328	5,093	6,067
Total	147,599	57,680	33,256	17,263

Note: MYT was effective from July-2022 & Profit/mark-up impact also incorporated.

- ✓ Accordingly, the Pension Fund stood at Rs. 19,604 million as of Dec. 2024, whereas the PRB liability recorded in the Balance Sheet as of 31st Dec. 2024 amounted to Rs. 167,930 million, reflecting a funding gap between PRB Liabilities and the assets of the pension fund.

<u>Potential Option for Determination of PRB Provision:</u>

- ✓ MEPCO current PRB obligation stands at Rs. 163,920 (M) as on June-2024, and the Company is unable to cater this obligation through separate fund due to insufficient cash flows. On this basis, the petitioner requested that the Authority may consider allowing PRB Provision, inclusive of re-measurement of net defined benefit liability recognized through OCI, on the basis of projected amount calculated by the Third Party (Actuarial Consultant) for respective year.

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✓ Keeping in view the above, Provision for Post-Retirement Benefits including measurement recognized through OCI, has been projected on the basis of Actuarial Valuation Report for MYT control period FY 2025-26 to FY 2029-30, is detailed hereunder:

Post-Retirement Benefits Break-Up (PKR Millions)						
	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Pension	24,863	25,791	28,529	38,592	27,494	145,269
Medical	1,651	1,787	2,015	2,141	2,241	9,835
Free Electricity	1,648	1,824	2,034	2,215	2,428	10,149
Leave encashment	1,223	1,380	1,598	1,765	1,983	7,949
Total	29,384	30,781	34,176	44,714	34,147	173,202
Cost-Wire Business	27,536	28,845	32,026	41,901	31,999	162,307
Cost-Supply Business	1,848	1,936	2,150	2,813	2,148	10,895

✓ NEPRA is requested to allow the amount of retirement benefits for the tariff control period subject to adjustment on actual basis.

<u>Other Operating Expenses:</u>

✓ All Other O&M Expenses have been projected @ CPI-X during the entire MYT Control Period.

✓ The Petitioner during the hearing presented following request;

Description	FY 2025-26 Interim Tariff	FY 2025-26 Projected	FY 2025-26 Projected Per Unit	FY 2026-27 Projected	FY 2027-28 Projected	FY 2028-29 Projected	FY 2029-30 Projected
Repair & Maintenance (DOP)	2,262	2,387	0.14	2,651	2,944	3,270	3,632
Repair & Maintenance (SOP)	-	50	0	56	62	69	76
Total Repair & Maintenance	2,262	2,437	0.14	2,707	3,006	3,339	3,708
Travelling Expense (DOP)	1466	1689	0.1	2053	2454	2961	3605
Travelling Expense (SOP)	332	247	0.01	300	359	433	527
Total Travelling Expense	1,798	1,936	0.11	2,353	2,813	3,394	4,132
Transportation Expense (DOP)	754	1,116	0.06	1,239	1,453	1,728	2,078
Transportation Expense (SOP)	-	45	0	50	58	70	84
Total Transportation Expense	754	1,161	0.07	1,289	1,511	1,798	2,162
Misc. O&M Expenses (DOP)	1,091	1876	0.11	2,084	2,313	2567	2849
Misc. O&M Expenses (SOP)	2,232	4063	0.24	4516	5010	5560	6170
Total Misc. O&M Expenses	3,323	5,939	0.35	6,600	7,323	8,127	9,019
O&M Cost Excl. Employee Cost (DOP)	5,573	7,068	0.41	8,027	9,164	10,526	12,164
O&M Cost Excl. Employee Cost (SOP)	2,564	4,405	0.26	4,922	5,489	6,132	6,857
Total O&M Cost Excl. Employee Cost	8,137	11,473	0.67	12,949	14,653	16,658	19,021
Repair & Maintenance (DOP)	2,262	2,387	0.14	2,651	2,944	3,270	3,632
Repair & Maintenance (SOP)	-	50	0	56	62	69	76
Total Repair & Maintenance	2,262	2,437	0.14	2,707	3,006	3,339	3,708
Traveling Expense (DOP)	1466	1689	0.1	2053	2454	2961	3605
Traveling Expense (SOP)	332	247	0.01	300	359	433	527
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O&M Cost Excl. Employee Cost (SOP)	2,564	4,405	0.26	4,922	5,489	6,132	6,857
Total O&M Cost Excl. Employee Cost	8,137	11,473	0.67	12,949	14,653	16,658	19,021
Total O&M Cost (DOP)	41,329	48,471	2.82	53,390	60,327	73,943	71,372
Total O&M Cost (SOP)	10,578	13,373	0.78	14,741	16,559	19,865	19,633
G.Total O&M Cost	51,907	61,844	3.6	68,131	76,887	93,809	91,006

✓ While justifying its request, MEPCO submitted during the hearing the following basis for projections of different components of margin for distribution and supply functions;

- Salaries & Wages: Annual Increase @ 5% has been projected on account of annual increment, promotion & up-gradation. Adhoc Relief @ 20% projected for FY 2025-26 & @ 15% for each subsequent year of MYT control period.

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- Post Retirement Benefits: PRB Provision has been incorporated on the basis of Actuarial Valuation Report as per Projected Unit Credit (PUC) Method prescribed under IAS-19.

- With respect to , Repair & Maintenance, Travelling Expense, Transportation Expense, Other O & M Expenses, the petitioner submitted that these O&M costs have been projected based on the CPI which has been assumed to be at par with projected KIBOR i.e. @ 12.06% for FY 2025-26 & @ 11.06% for FY 2026-27 through FY 2029-30.

- MEPCO also submitted analysis regarding Pol prices and requested that Vehicle running expense be linked with change in fuel prices instead of CPI.

Ageing of MEPCO Transport Fleet

Ageing of Vehicles	No. of Vehicles	Percentage
30-Years & above Old	250	22%
20-30 Years Old	393	35%
11-20 Years Old	229	21%
0-10 Year Old	251	22%
Total	1,123	100%

Analysis of POL Rates & Transportation Expense Allowed by NEPRA

POL Rates June-2020	Rs. 100.10 Per Litter
POL Rates June-2025	Rs. 258.16 Per Litter
Increase in Rates Amount	Rs. 158.06 Per Litter
Increase in Rates (%)	158%
Transportation Expense Allowed in 2020	Rs. 400 (M)
Transportation Expense Allowed in 2025	Rs. 725 (M)
Increase in Amount	Rs. 325 (M)
Increase (%)	81%
Increase Required @ POL Rate Increase	Rs. 1,032 (M)

✓ The Petitioner submitted that O&M Cost has been bifurcated into Controllable and Un-Controllable components.

<u>Un-Controllable Components:</u>

✓ The Un-Controllable portion comprises Salaries & Wages of employees and Staff Retirement Benefits. MEPCO has adopted the National Pay Scales for its regular employees along with Staff Retirement Benefits of the Federal Government.

✓ The Petitioner submitted that it has introduced lump sum packages for new inductions and its increase is subject to CPI, which will be a pass-through cost.

✓ R&M mainly comprises maintenance of Distribution Network which is quite deteriorated, therefore the same is considered as un-controllable cost. The controllable component may increase in circumstances where a DISCO has been able to fully perform preventive maintenance activities.

✓ The transport fleet of MEPCO consists of old vehicles with high maintenance cost and low mileage per liter. The rates of POL are also regulated by the Govt. Accordingly vehicle cost is considered under the un-controllable component. The POL rates are also not controllable.

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Controllable Components:

- ✓ Costs other than Pay & Allowances, Retirement Benefits, R&M and Transportation (Maintenance.) shall be subject to indexation with CPI every year plus cost associated with Z-factor, if any, to be added as pass-through.

8.3. The Authority observed that in terms of Section 31(3) of NEPRA Act, the following general guidelines shall be applicable to the Authority in the determination, modification or revision of rates, charges and terms and conditions for provision of electric power services;

- ✓ *"(a) tariffs should allow licensees the recovery of any and all cost prudently incurred to meet the demonstrated needs of their customers Tariff."*
- ✓ *(b) tariffs should generally be calculated by including a depreciation charge and a rate of return on the capital investment of each licensee commensurate to that earned by other investments of comparable risk;*
- ✓ *(c) tariffs should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service;*
- ✓ *(d) tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve the efficiencies in the cost of providing the service and the quality of service;"*

8.4. Further, as per the NEPRA determination of Consumer-end-Tariff (Methodology & Process) Guidelines, 2015, the Authority shall choose a base year for the purpose of determining the affected company's revenue requirement under the multi-year tariff regime or annual tariff regime. "Base Year" has been defined as the year on which the annual or multiyear tariff projection is being made, which may be a historical financial year, for which the actual results/audited accounts are available. It may be a combination of actual results and projected results for the same financial year or it may be a pure projection of a future financial year.

8.5. Here it is also pertinent to mention that as per the approved tariff methodology the Power Purchase Price is the only uncontrollable cost which is allowed a pass-through item. The other remaining costs are to be treated as controllable costs.

8.6. Considering the fact that the MYT has been filed for a period of five years i.e. from FY 2025-26 to FY 2029-30, and the cost for the FY 2025-26 i.e. test year, is being assessed as reference cost during the MYT control period, the Authority has decided to consider the costs as per the Audited/ provisional accounts of the Petitioner for the FY 2024-25 as base year.

8.7. The Authority considers that for projections or assessment of OPEX costs, the two commonly used approaches are the Ex-Ante approach and the Ex-Post approach. In a regime where the allowed OPEX is determined Ex-Ante, there will inevitably be deviations between the allowed and actual OPEX in the form of efficiency savings or losses. Thus, resulting in two broad options, one that the utility bears all savings or losses, i.e. no action is taken by the Regulator. The 2nd that the utility shares the savings or losses with consumers. The former provides the utility with a profit incentive to cut costs, but at the same time

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places the utility at greater financial risk in the face of losses. The latter somewhat dilutes efficiency incentives, but also limits the losses/gains for the utility and its customers. However, the widely used approach is that no adjustments to allowed Revenues or OPEX allowances are made in the next period to compensate for a deviation from allowed OPEX in the current period except for certain allowed adjustments in terms of CPI etc.

8.8. In view thereof, the head wise assessment of the Petitioner under each of the requested costs is as discussed hereunder.

Salaries, Wages and Other benefits (excluding post-retirement benefits)

8.9. The Authority noted that head of Salaries, Wages and Other Benefits includes employees Pay & Allowances and Post-retirement benefits and accounts for over 80% of the Petitioner's total O&M costs, excluding t depreciation and RoRB. The Authority understands that employees of XWDISCOs are hired on Government pay scales, thus, any salary increase announced by the Federal Government in Fiscal Budget is also applicable on the employees of XWDISCOs. Therefore, salaries & wages cost of employees can be considered as un-controllable cost for XWDISCOs as long as they remain in public sector.

8.10. Considering the fact that the cost for the FY 2025-26 is being assessed, which would be used as reference during the MYT control period, the Authority has taken into consideration the costs as per the accounts of the Petitioner for the FY 2024-25, and information shared by the Petitioner subsequently in this regard. The Authority is of the view that since the previous MYT of the Petitioner has ended on 30.06.2025, therefore, it would be appropriate to account for the actual cost of the base year while projecting Salaries, Wages and Other benefits for the FY 2025-26, as any gain/loss of the previous MYT control period may not be carried forward in the new MYT.

8.11. The actual total cost as provided by the Petitioner for the FY 2024-25, under Salaries & Wages (excluding post-retirement benefits, discussed separately) is Rs.17,763 million. The said amount has been considered as base cost and increases as approved by the Federal Government on Salaries and Wages in the Federal Budget for the FY 2025-26 i.e. ad-hoc relief allowance of 10% and DR allowance of 30%, along-with impact of annual increment i.e. 5% have been incorporated thereon.

8.12. Accordingly, the cost of Salaries & Wages (excluding post-retirement benefits, discussed separately), for both the Distribution and Supply Functions works out as Rs.20,475 million. The same is hereby allowed to the Petitioner for the FY 2025-26 for both its distribution and Supply Functions as reference cost, to be adjusted in the remaining control period as per the adjustment mechanism prescribed in the instant determination.

8.13. Since the Audited accounts of the Petitioner, do not provide a bifurcation of the Salaries, Wages and other benefits costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of Salaries, Wages and other benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of Salaries, Wages and other benefits (excluding post-retirement benefits) for the FY 2025-26 pertaining to the Distribution function works out as Rs.16,880 million.

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8.14. The assessed Salaries & Wages costs for the FY 2025-26, amounting to Rs. 16,880 million, shall be considered as the reference cost for future adjustment/ indexation of Salaries & Wages expenses, during the remaining tariff control period as per the mechanism specified in the instant determination.

8.15. Considering the fact that employees of XWDISCOs are hired on Government pay scales, and any salary increase announced by the Federal Government in the Federal Budget is applicable on the employees of the Petitioner, therefore, being un-controllable cost, the Authority has decided to actualize the Pay & Allowances cost of the Petitioner, based on its audited accounts for the relevant year for its existing employees. The impact of any such adjustment would be allowed as part of PYA in the next indexation/ adjustment request or tariff determination as the case may be.

<u>Additional Recruitment and Outsourcing</u>

8.16. Regarding additional recruitment, the Authority observed that Salaries & Wages cost for the FY 2024-25, as per the accounts of the Petitioner, has been considered as base cost, therefore, impact of any new recruitment made till FY 2024-25 has already been accounted for either as part of Salaries & Wages cost or under O&M if service have been outsourced. The Authority also understands that any allowing cost upfront either on account of new hiring, would be unfair with the consumers, without considering/ analyzing its benefits. The Authority understands that it will be in a better position to adjudicate on the issue, once the Petitioner provides details of actual cost incurred in this regard and substantiates the same with the quantified benefits accrued. Although, the Authority has decided to actualize the Pay & Allowances cost of the Petitioner, based on its audited accounts for the relevant year, however, that would only be to the extent of existing employees. Accordingly, the Petitioner is directed to provide detail of new recruitment during each year or new hiring if any, along-with its financial impact and benefits accrued, for consideration of the Authority, in its subsequent adjustment/ indexation request.

<u>Post-Retirement Benefits</u>

8.17. The Authority noted that the head of Post-retirement benefit includes employees' pension, free electricity and medical facility. The Authority also understands that employees of XWDSICSOs are hired on Government pay scales, thus, any pension increase announced by the Federal Government in the Budget is also applicable on the retired employees of XWDISCOs.

8.18. It is also pertinent to mention that the Authority in its previous determinations and considering the overall liquidity position of the power sector and in order to ensure that XWDISCOs fulfil their legal obligations with respect to the post-retirement benefits, directed the XWDISCOs to create a separate fund in this regard. The rationale behind creation of separate fund was to ensure that DISCOs record their liability prudently as the funds would be transferred into a separate legal entity, which would also generate its own profits, as it would be kept separate from the Company's routine operations, thus reducing the Distribution Margin and eventually consumer-end tariff in longer run.

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8.19. In compliance with the Authority's direction, the Petitioner has created a separate Fund for its post-retirement benefits and provided following details of its pension fund balance and Payments made thereof;

Financial Year	NEPRA allowed amount (As per Applicable Tariff)	Amount Paid to Pensioners	Accumulated Fund Balance net of Profit
2015-16	428,745,655	2,134,489,506	207,000,000
2016-17	460,464,704	2,461,130,746	660,129,105
2017-18	988,860,604	3,211,289,879	1,116,202,822
2018-19	2,418,145,205	4,329,892,086	1,276,427,541
2019-20	2,707,000,000	4,469,675,503	1,958,079,212
2020-21	3,448,841,096	4,908,771,295	2,619,196,311
2021-22	4,655,000,000	5,487,126,085	4,287,125,502
2022-23	10,604,000,000	7,443,444,032	6,409,948,262
2023-24	10,106,000,000	3,717,226,743	9,287,026,221
FY 2024-25	18,328,000,000	8,201,612,108	17,776,635,494

8.20. From the above table, the Authority notes that the Petitioner has complied with the earlier directions of the Authority and deposited excess amount in the Fund, after making actual payments. In view thereof, the Authority has also decided to allow the Petitioner, provision for Post-retirement benefits, for the FY 2025-26 as well.

8.21. The Authority further notes that the audited accounts of the Petitioner for the FY 2025-26, are not yet available, therefore, the information provided by the Petitioner for the FY 2024-25, has been relied upon and provision reported as for FY 2024-25, has been considered for FY 2025-26 i.e. Rs. 25,312 million, for its both Distribution and Supply of Power Functions.

8.22. The Petitioner is directed to deposit the amount of provision, over and above their actual post-retirement benefit payments, in the Fund and in case of failure to deposit the excess amount in the Fund, the same shall be adjusted/deducted in the subsequent tariff determination and from thereon, only actual amounts paid and amount transferred into the fund would be allowed.

8.23. Since the Audited accounts of the Petitioner, do not provide bifurcation of post-retirement benefits in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of post-retirement benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of post-retirement benefits for the FY 2025-26 pertaining to the Distribution Function works out as Rs.20,756 million, to be adjusted in the MYT Control period as per the adjustment mechanism provided in the instant determination.

<u>Repair & Maintenance Costs</u>

8.24. The Authority has carefully examined the Petitioner's request and also analyzed the past trend of R&M expenses of the Petitioner. The Authority understands that the adherence to service standards and improvement of customer services is only possible through continuous repair and maintenance of distribution network, however, at the same time the Petitioner has also requested for huge CAPEX for making additional investment in Fixed Assets,

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resulting in new, expensive and efficient equipment, leading to overall reduction in R&M cost and increasing the total Assets base.

8.25. The Authority is also of the view that since the previous MYT of the Petitioner has ended on 30.06.2025, therefore, it would be appropriate to account for the actual cost of the base year while projecting O&M expenses and other Misc. expenses for the FY 2025-26, as any gain/loss of the previous MYT control period may not be carried forward in the new MYT.

8.26. In view of the foregoing and keeping in view the current approved tariff methodology, the Authority has decided to allow an amount of Rs.2,104 million under R&M head, for the FY 2025-26, after incorporating the inflationary impact as also requested by the Petitioner, on the R&M cost as per the audited accounts of the Petitioner for the FY 2024-25 for both the Distribution and Supply functions. The same is hereby allowed to the Petitioner for the FY 2025-26 for both its distribution and Supply Functions.

8.27. Since the Audited accounts of the Petitioner, do not provide bifurcation of the R&M costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of R&M costs in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of R&M i.e. Rs. 2,062 million for the FY 2025-26 allocated to the distribution function. The assessed repair and maintenance cost for the FY 2025-26 i.e. Rs. 2,062 million, shall be considered as the reference cost for working out future repair and maintenance expenses, in the remaining control period as per the adjustment mechanism prescribed in the instant determination.

8.28. The DISCOs are also directed to provide a certification from its Auditors that Repair and Maintenance expenditure does not include any CAPEX nature item. In case any CAPEX nature cost has been booked as R&M expenses, the same may be disclosed separately in the financial statements. The Authority may consider to revise the R&M assessment of the Petitioner, based on such disclosure/certification.

Other O&M Expenses

8.29. The Authority noted that as per the approved tariff methodology, all other operating expenses are part of O&M costs which are to be assessed through NCPI-X formulae for the tariff control period. Here it is pertinent to mention that the Petitioner itself has requested that other O&M expenses, may be linked with CPI excluding the Vehicle Running expenses during the entire tariff control period.

8.30. For assessment of Other O&M costs for the FY 2025-26, the Authority, keeping in view the cost as per the audited accounts of the Petitioner for the FY 2024-25, and incorporating therein inflationary impact as also requested by the Petitioner, has decided to allow an amount of Rs.5,610 million to MEPCO for the FY 2025-26. The allowed amount of Rs. 5,610 million is being allowed for both the Distribution and Supply functions for the FY 2025-26.

8.31. However, while working out the other O&M expense the cost on account of PEPCO management fee has been excluded, as also excluded by the Petitioner itself. Similarly, no costs on account of CSR activities is allowed as part of O&M expenses, and the Petitioner is direct to carry such activities from its allowed returns.

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8.32. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Other O&M costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of other O&M costs in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the cost of other O&M expenses for the FY 2025-26 pertaining to the distribution function works out as Rs. 4,376 million.

8.33. Based on the figures as per financial statements, the Authority has incorporated all the costs including bill collection, building rent, NEPRA fee, insurance cost, rent, rates & taxes, and travelling, transportation etc.

8.34. The aforementioned assessment for the FY 2025-26 shall be considered as reference for working out Other Operating Expenses for the remaining tariff control period and shall be adjusted based on changes in "NCPI-General", in line with the mechanism specified in the instant determination. However, the vehicle running expenses would be adjusted with "NCPI-Transport", in line with the mechanism provided in the instant determination.

8.35. In case the Petitioner's actual O&M cost (excluding pay & Allowances & post retirement benefits) for the relevant year as per its audited accounts is lower than the amount allowed for that year, any saving in this regard, shall be shared between consumers and the Petitioner in the ratio of 50:50. For future indexation of O&M cost during the MYT control period, the lower of allowed O&M cost or actual O&M cost of the previous year, after excluding therefrom the capex nature O&M and amount of O&M capitalized, if any, and pay & allowances & post-retirement benefits, shall be considered as reference.

8.36. In case the actual O&M cost for the previous year, as referred to above is not available at the time of projecting next year's O&M cost, the allowed cost for the previous year shall be considered as reference to be indexed as per the provided mechanism. Once the audited account for the previous year is available, the already projected O&M cost shall be reworked based on lower of allowed cost or actual O&M cost of the previous year. Any adjustment in this regard, if required, shall be made part of PYA. In addition, the allowed O&M cost shall also be adjusted based on mechanism provided in the instant determination. The Petitioner is also directed to disclose its O&M costs in terms of distribution and supply functions separately in its audited accounts.

<u>PPMC Fee</u>

8.37. Here it is pertinent to mention that some DISCOs during the hearing requested to allow cost on account of Management Fee of Power Planning and Monitoring Company (the "PPMC"). DISCOs in support of their request referred to the SRO 1358-I (2025) dated 29.07.2025, issued by the Ministry of Energy (PD), pursuant to the Federal Cabinet decision dated 27.10.2021, the National Electricity Policy, 2021, the National Electricity Plan (2023–2027), whereby it has been designated as a "designated entity" for the implementation of the priority areas of the NE Plan, and strategic roadmap as per the NE policy. The SRO further mandates the company to charge a fee from DISCOs, for the services rendered, as may be approved by the BoD of PPMC from time to time. The BoD of PPMC may, on annual basis, approve the annual budget and allocation of fees to DISCOs.

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8.38. It has also been submitted that clause 34(f) of the IMF Country Report clearly acknowledges PPMC's role in supporting policy, regulatory and tariff affairs, sector reforms, privatization, CD management and integrated power and energy planning.

8.39. The Authority noted that the National Electricity Plan allows the designated entity to charge a regulatory fee, which shall be allowed by the Regulator. The Authority also noted that previously the Authority discontinued the PEPCO fee in the absence of appropriate structure in place. The Authority also takes cognizance of the SRO dated 29.07.2025, issued by the Ministry of Energy (PD), pursuant to the Cabinet decision, as well as other justifications submitted by the DISCOs regarding the declaration of PPMC as a "designated entity" and its role in supporting policy, regulatory, and tariff matters, sector reforms, privatization, CD management, and integrated power and energy planning.

8.40. However, the Authority is of the view that it would be in a better position to adjudicate the matter, once the DISCOs provide details of the actual costs incurred and the functions/ services performed as designated entity for DISCOs and others, duly substantiated with documentary evidence and justifications.

8.41. Accordingly, the Authority has decided to pend upfront allowing such cost on account of PPMC at this stage and may consider the same as part of the PYA, subject to the Petitioner furnishing the above details, with proper justification and supporting documentary evidence, along with fulfillment of the process prescribed in the SRO No. 1358(I)/2025.

8.42. On the submissions of the Petitioner, to allow certain costs as uncontrollable, the Authority noted that as per the approved tariff methodology, Power Purchase Price is the only uncontrollable cost which is allowed a pass-through item. However, considering the fact that XWDISCOs employees are hired on Government pay scales, thus, any salary and pension increase, announced by the Federal Government in Fiscal Budget is also applicable on such employees/ pensioners of XWDISCOs. Therefore, salaries & wages cost and pension expenses to the extent of such employees can be considered as un-controllable cost for XWDISCOs as long as they remain in public sector.

9. <u>Whether the requested/projected amount under heads of Other Income, Deprecations and RORB based on WACC of 14.06% is justified?</u>

9.1. The Petitioner submitted following regarding Depreciation, RORB and Other Income;

<u>Depreciation</u>

9.2. Depreciation is charged as per straight-line method so as to diminish the cost of fixed asset over its estimated useful life. As per Company policy, Building and Civill Works are depreciated @ 2%, Distribution Equipment's @ 3.5%, Other Plant & Office Equipments and Vehicles @ 10%.

Depreciation Expense			(Rs. In Million)		
Description	2025-26	2026-27	2027-28	2028-29	2029-30
Depreciation Expense	8,944	10,397	11,839	13,157	14,362

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9.3. As per MYT Guidelines, Depreciation expense for future years will be assessed in accordance with the following formula/mechanism:

DEP(Rev)= DEP(Ref) * GFAIO(Rev) / 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

9.4. Regarding allowed investment for FY 2025-26 and FY 2026-27, since the Distribution Investment Plan (DIP) of the Petitioner is under regulatory proceedings, the Authority has decided to allow the following provisional Investments under head of own financing, which shall be subject to adjustments pursuant to the final decision of the Authority in matter of DIP of the Petitioner.

Rs. Mln

Provisional Capex	MEPCO
FY 2025-26	3,352
FY 2026-27	15,560

9.5. The Authority decided that the above approved Investments are provisionally allowed for purpose of tariff rebasing and does not include the cost for AMI, APMS, Scanning meters, Data Centers, etc., the investment in this smart metering area can only be started once DIP is approved, wherein the detailed project wise scope and cost approvals shall be decided in the final decision of DIP of the Petitioner.

9.6. Regarding the T&D Losses Target, the Authority has decided to provisionally approve the following loss target:

Provisional T&D Loss	MEPCO
FY 2025-26	11.34%
FY 2026-27	11.34%

9.7. The Petitioner is directed to carry out its T&D loss study through an independent third party, as per the approved terms of references (ToRs), which shall be communicated to the Petitioner separately by NEPRA. The independent third-party T&D loss study must be submitted by the Petitioner within nine (09) months of issuance of this decision. In case, the T&D loss studies are not submitted within the allowed time period, the following T&D Loss target shall become applicable for FY 2025-26 and FY 2026-27, and all relevant tariff adjustment shall be reworked on such revised targets. The financial impact of such revision shall be made part of PYA of subsequent tariff rebasing.

RevisedT&D Loss Target (Failure to submit study)	MEPCO
FY 2025-26	9.30%
FY 2026-27	9.30%

9.8. The submitted T&D loss study by an independent third-party shall be considered by the Authority for revision / firm up of T&D loss Targets for the applicable period in the next rebasing of the tariff for DISCOs (January 2027) or mid-term (December 2027) review of DIP of the Petitioner, as the case may be.

9.9. Not used

9.10. Not used

9.11. After taking into account the new investments as mentioned above, the Gross Fixed Assets in Operation for the FY 2025-26 have been re-worked. Accordingly, the depreciation charge for the FY 2025-26 has been assessed as Rs.8,439 million calculated on actual depreciation rates for each category of Assets as per the Company policy, which will be considered as reference cost for working out future depreciation expenses for the remaining tariff control period, to be adjusted as per the mechanism provided in the instant determination.

9.12. After carefully examining the relevant details and information pertaining to the deferred credit and amortization as per the accounts for the FY 2024-25, the Authority has projected amortization of deferred credit to the tune of Rs.5,384 million for the FY 2025-26. Accordingly, the consumers would bear net depreciation of Rs.3,055 million.

9.13. The actual depreciation reflected in the Audited accounts of the Petitioner for the FY 2024-25, do not provide bifurcation of depreciation cost in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of depreciation cost in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Accordingly, the depreciation cost of Rs.8,270 million, for the FY 2025-26 allocated to the distribution function.

<u>Return on Rate Base:</u>

9.14. The Petitioner submission on the issue is as under;

- ✓ The Petitioner submitted that RAB is calculated as the sum of Opening GFA plus Addition in Fixed Assets less Depreciation, plus Capital Work-in-Progress (CWIP) less Deferred Credit/Contract Liabilities.

- ✓ Rate of Return/Weighted Average Cost of Capital (WACC): The Rate of Return or WACC of 14.06% has been calculated based on Capital Assets Pricing Model (CAPM), 3-months KIBOR+2% spread and Debt-Equity Ratio of 70:30.

- ✓ RoE is calculated using CAPM model and requires the estimation of following components

    i) Risk Free Rate (Rf)

    ii) Beta (B)

    iii) Market Premium (P)

- ✓ Risk free rate is the rate of return that the investors expect to earn on investments that have virtually no risk of default. The Authority, for assessment of RoE component, considered Weighted Average Yield of 05-Years Pakistan Investment Bond (PIB) as risk free rate in its

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previous determination. For instant MYT, MEPCO has used Weighted Average Yield of 05-Years PIB as on 14.59% as risk free rate.

- ✓ The expected return on any investment is the sum of Risk Free Rate and extra return to compensate for risk i.e. Risk Premium.
- ✓ Currently, NEPRA uses a standard beta of 1.10 for calculating the return on equity for all DISCOs. The same beta has been used by MEPCO for computing return on equity.
- ✓ Cost of debt has been taken as 03-Months KIBOR as on 13th March 2025 plus spread of 02% (200 basis points) on the analogy of latest determination by NEPRA.
- ✓ Based on the above input parameters i.e. Return on Equity & Cost of Debt, the WACC has been computed as 14.06%.
- ✓ During hearing, the Petitioner submitted following working regarding RORB and WACC;

Description	FY 2024-25	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	Determined	Audited	Projected	Projected	Projected	Projected	Projected
Gross Fixed Assets - Opening Bal	188,137	203,736	231,691	270,209	313,389	351,400	387,492
Addition in Fixed Assets	10,735	31,738	38,518	43,180	38,012	36,092	31,658
Gross Fixed Assets - Closing Bal	198,872	235,474	270,209	313,389	351,400	387,492	419,150
Less: Accumulated Depreciation	81,447	82,382	92,155	102,552	114,391	127,548	141,910
Net Fixed Assets in Operation	117,425	153,013	178,054	210,837	237,009	259,944	277,240
Add: Capital Work In Progress	28,270	17,019	38,430	43,401	38,903	37,075	31,853
Investment in Fixed Assets	145,695	170,032	216,485	254,238	275,912	297,019	309,093
Less: Deferred Credits	67,478	86,488	84,575	90,650	96,348	101,849	105,552
Regulatory Assets Base (RAB)	78,217	83,544	131,910	163,588	179,564	195,171	203,542
Average Regulatory Assets Base	60,794	81,585	115,808	147,749	171,576	187,367	199,356
Rate of Return/WACC	21.14	21.14	14.06	13.36	13.36	13.36	13.36
Return on Rate Base	12,852	17,247	16,281	19,737	22,920	25,029	26,630

Description	FY 2024-25	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	Determined	Actual/ Proj.	Projected	Projected	Projected	Projected	Projected
Market Rate %			13.90	13.90	13.90	13.90	13.90
Risk Free Rate %	13.77	13.77	12.36	12.36	12.36	12.36	12.36
Market Risk Premium %	1.23	1.23	1.54	1.54	1.54	1.54	1.54
Beta	1.10	1.10	1.10	1.10	1.10	1.10	1.10
RoE %	15.12	15.12	14.05	14.05	14.05	14.05	14.05
Cost of Debt (3 Month's KIBOR+2% Spread)	14.97	14.14	14.06	13.06	13.06	13.06	13.06
WACC %	15.02	14.43	14.06	13.36	13.36	13.36	13.36

9.15. The Authority observed that as per Section 31(3) of the NEPRA Act, the following general guidelines shall be applicable to the Authority in the determination, modification or revision of rates, charges and terms and conditions for provision of electric power services;

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(b) tariffs should generally be calculated by including a depreciation charge and a rate of return on the capital investment of each licensee commensurate to that earned by other investments of comparable risk;

(c) tariffs should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service;

9.16. In line with the aforementioned guidelines, the Authority allows DISCOs, a Weighted Average Cost of Capital (WACC) to account for the return on equity and cost of debt. Similarly, for recovery of principal portion of debt, the Authority includes a depreciation charge in the revenue requirement of DISCOs.

9.17. Consequent to the aforementioned discussion, the WACC works out as per formula given below;

Cost of Equity;

$Ke = R_F + (R_M - R_F) \times \beta$

Where;

R_F is the risk free Rate
R_M is the Market Return
β is Beta

The cost of debt;

$Kd = KIBOR + Spread$

9.18. Accordingly, the WACC as per the given formula works pout as under;

$WACC = ((Ke \times (E / V) + (Kd \times (D / V))$
Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;

9.19. The Authority uses the Capital Asset Pricing Model (CAPM) for calculation of Return of Equity (RoE) component of the WACC, being the most widely accepted model, which is applied by regulatory agencies all over the world to estimate the cost of capital for regulated utilities. Further, as per the Tariff methodology, in case of negative equity the Authority would consider a minimum of 20% equity and any equity in excess of 30% would be considered as debt.

9.20. The expected return on any investment is the sum of the risk-free rate and an extra return to compensate for the risk. This extra return or 'risk premium' is the difference between market rate of return and risk-free rate. Generally, the return on stock market index is taken as a measure of market rate of return. To have an appropriate measure of the market rate of return, the Authority analyzed KSE-100 Index return, over a period of 10 years i.e. FY 2016 to FY 2025. Further, return of different neighboring markets and other international markets were also analyzed.

9.21. For risk free rate, the yield of 05 year PIB is considered. The weighted average yield of accepted bids for 5 years PIB as of 17.07.2025 remained at 11.4916%. Regarding assessment of beta, the Authority has considered the earlier studies in the matter, range of betas used

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by international Regulators, and accordingly decided to use the beta of 1.10, while assessing the RoE component.

9.22. Based on the application of the above methodology and the parameters discussed herein, the RoE of the Petitioner, as derived strictly through the formulaic approach, works out to a level lower than the benchmark applied in recent determinations. However, the Authority notes that RoE is not applied in isolation and must be assessed in the context of sector-wide regulatory consistency and comparable risk profiles. In this regard, the Authority observes that a PKR-based RoE of 14.47 % has been consistently allowed in recent determinations of XWDISCOs as well as in the case of K-Electric, reflecting a uniform regulatory treatment of the distribution segment. Keeping in view the need to maintain parity, avoid undue volatility in allowed returns, and promote continued investment in the distribution sector in terms of Section 31(3) of the NEPRA Act, the Authority has exercised its regulatory discretion to allow a PKR-based RoE of 14.47% for the Petitioner.

9.23. Regarding the cost of debt, it is the interest rate on which a company would get borrowing from the debt market / commercial banks i.e. a rate at which banks lend to their customers. In order to have a fair evaluation of the cost of debt, the Authority has taken cost of debt as 3 month's KIBOR + 1.50% spread, as maximum cap. Consequently, the cost of debt has been worked out as 12.64% i.e. 3 Months KIBOR of 11.14% as of July 02, 2025 plus a spread of 1.50% *(150 basis points)*.

9.24. In view thereof, the WACC for the FY 2025-26 has been worked out as under;

Cost of Equity;
Ke = 14.47%
The cost of debt is;
Kd = 12.64%

WACC= ((Ke x (E / V) + (Kd x (D / V))
Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;
WACC = ((14.47% x 30%) + (12.64% x 70%)) = 13.19%

9.25. Based on above and using WACC of 13.19% on RAB by including allowed investment for the FY 2025-26, the RoRB of the Petitioner for the FY 2025-26 has been worked out as under;

	MEPCO	
Description	FY 2024-25	FY 2025-26
Fixed Assets O/B	203,657	235,395
Addition	31,738	23,870
Fixed Assets C/B	235,395	259,265
Depreciation	82,904	91,343
Net Fixed Assets	152,491	167,922
Capital WIP C/B	18,175	12,378
Fixed Assets Inc. WIP	170,666	180,300
	-	-
Less: Deferred Credits	86,488	93,939
Total	84,178	86,361
RAB		85,270
WACC		13.19%
RORB		11,246

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9.26. The total amount of RoRB as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, the RORB for the FY 2025-26 i.e. Rs.11,021 million, allocated to the distribution function.

9.27. 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 mechanism given in the instant determination.

9.28. In addition, the allowed RAB for previous year will be trued up downward, keeping in view the amount of investment allowed for the respective year, other than consumer financed investments. In case, the Petitioner ends up making higher investments than the allowed (other than consumer financed investments), 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.

9.29. Here it is also pertinent to mention that the amount of receipts against deposit works has been adjusted while working out the cost of working capital, therefore, no adjustment on this account has been made from the RAB. In view thereof, any interest earned on such deposits shall not be adjusted as part of other income. The Petitioner therefore shall ensure a separate disclosure of such income in its audited accounts. In case of failure to disclose such income separately, the entire interest income shall be adjusted as part of other income.

9.30. The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover the risk of floating KIBOR. Accordingly, fluctuation in the reference KIBOR would be adjusted biannually as also requested by the Petitioner itself. In addition, the Authority has also decided to adjust savings, if any, resulting from cheaper financing by the Petitioner. If the Petitioner manages to negotiate a loan below 1.50% spread, the entire savings would be passed onto the consumers annually, through PYA. In case of more than one loan, the saving with respect to the spread would be worked out based on individual loans. In case, the spread is greater than the allowed cap of 1.50%, additional cost would be borne by the Petitioner itself. Similarly, if the Petitioner's total actual cost of debt remains lower than the cost allowed for the year, the entire savings would also be passed onto the consumers annually, through PYA.

<u>Other income</u>

9.31. Other Income includes Profit on Bank Deposits, Amortization of Deferred Credit and Income from Other Sources. Various components of Other Income have been assessed on the basis of last five-years trend of respective component except Amortization of Deferred Credit which has been calculated @ 3.5% of the accumulated balance of Consumer Finance Assets.

9.32. The Late Payment Surcharge (LPS) has been excluded from the total Other Income as per existing practice of NEPRA in its Tariff determination of MEPCO for FY 2024-25.

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The detail of other income is as under.

Other Income Break-Up	(PKR Million)				
Description	2025-26	2026-27	2027-28	2028-29	2029-30
Amortization	4,563	4,935	5,307	5,684	6,012
Profit on Bank Deposit	3,230	3,270	3,310	3,340	3,370
Sale of Scrap	53	56	59	61	65
Miscellaneous	425	472	524	582	646
Meter and Service Rent	79	83	87	91	96
Reconnection fee	113	116	120	123	127
TV License Fee	67	70	73	77	81
Miscellaneous Service Charges	201	212	222	233	245
Total Other Income	8,731	9,213	9,701	10,193	10,642

Income from Non-Regulated Business:

9.33. The Petitioner regarding Other Income submitted that it intends to submit that the income/revenue, if any, which is not part of its regulated activities shall neither be passed through nor form the part of tariff. In case the Regulatory Asset Base is used simultaneously for its regulated business as well as any other activity without impacting the consumer services, the additional income shall be shared between MEPCO and consumers in the ratio of 50:50.

9.34. Other income is considered to be a negative cost which may include, but not be limited to, amortization of deferred credit, meter and rental income, late-payment charges, profit on bank deposits, sale of scrap, income from non-utility operations, commission on PTV fees and miscellaneous income.

9.35. Since the other income would be trued up every year as per the mechanism provided in the instant determination, therefore, for the FY 2025-26, the Authority has decided to allow an amount of Rs.8,731 million based on audited accounts of the Petitioner for FY 2024-25, including the amount of amortization of deferred credit but exclusive of the amount of late payment charges (LPS), for both of its Distribution and Supply functions.

9.36. The Authority in consistency with its earlier decision, on the issue, has not included the amount of LPS while assessing the other income for the FY 2025-26. Here it is pertinent to mention that the LPS recovered from the consumers on utility bills shall be offset against the late payment invoices raised by CPPA (G) against respective XWDISCO only, and in the event of non-submission of evidence of payment to CPPA (G), the entire amount of Late Payment charge recovered from consumers shall be made part of other income and deducted from revenue requirement in the subsequent year.

9.37. The total amount of Other Income as worked out above has been allocated in terms of Distribution and Supply Functions, as per the criteria adopted by the Petitioner itself. Accordingly, Other Income for the FY 2025-26 pertaining to the Distribution function works out as Rs.3,056 million.

9.38. The reference Other Income determined for the FY 2025-26 would be adjusted annually as per the adjustment mechanism prescribed in the instant determination.

10. <u>What will be adjustment mechanism for future indexation of different components of revenue requirement during the MYT? Whether there should any efficiency factor (X Factor) and Z-Factor?</u>

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10.1. The Petitioner proposed following Adjustment Mechanism for the MYT Control Period in different Cost Components which is in line with the MYT Guidelines and Determination of NEPRA in the case of MEPCO as well as other DISCOs operating under Multi-Year Tariff.

Sr. No.	Tariff Component	Adjustment
01	Fuel Cost	Monthly
02	Var. O&M, CPP and UoSC	Quarterly
03	O&M Cost	Annually
04	Post Retirement Benefits	Annually
Sr. No.	Tariff Component	Adjustment
05	Depreciation, RORB, Other Income	Annually
06	Prior Year Adjustment	Annually
07	KIBOR	Annually

10.2. The Petitioner has requested adjustment of following DM components in line with mechanism given in Annex, V, VI and VII of NEPRA Guidelines for Determination of Consumer-End Tariff dated 16th January 2015;

Sr. No.	DM Component	Adjustment Mechanism
01	Return on RAB (RORB)	$RORB_{(Rev)} = RORB_{(Ref)} \times RAB_{(Rev)} / RAB_{(Ref)}$
02	Depreciation Expense	$DEP_{(Rev)} = DEP_{(Ref)} \times GFAIO_{(Rev)} / GFAIO_{(Ref)}$
03	Other Income	$OI_{(Rev)} = OI_{(1)} + (OI_{(1)} - OI_{(0)})$

10.3. Under latest MYT Determination, the Tariff components i.e. Depreciation & RORB are subject to annual adjustment / True-up downward only. MEPCO has proposed Up-word / Down-word annual adjustment / True-up mechanism based on various scenarios whereby the allowed investment to be gauged on the basis MYT control period.

10.4. MEPCO requested the adjustments for O&M cost after its bifurcation into controllable and uncontrollable costs.

10.5. The uncontrollable costs are requested to be trued-up at the end of every year and the controllable costs should be indexed every year (CPI – X + Z).

$$O\&M = [\text{Controllable cost}_t \times \{1 + (CPI - X)\} + \text{Uncontrollable costs} + Z$$

Where,

CPI = Consumer Price Index

X = Efficiency factor (Proposed as "0" for MYT Control Period)

Z = Costs relating to extraordinary events

Efficiency Factor (X)

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10.6. The Efficiency factor is applied to encourage DISCOs efficiency through different technological and procedural interventions. However, where the Tariff covers for expenses is already insufficient and DISCOs are struggling to meet their expenses to effectively run their operations, the application of X-Factor is counter productive.

10.7. MEPCO has Asset Base Rs. 235 (B) whereas significant part of Distribution asset is old and in deteriorated condition specially grids and distribution transformers.

10.8. MEPCO out of its total *134* No. Grid stations, has *71* Grids more than 30-years old and *05* Grids more than 20-years old. On the other hand, MEPCO has *113,769* No. Distribution Transformers which on an average require Rs. 0.9 (B) p.a.

10.9. The other expenses mainly constitute outsource services which are already availed on the bare minimum level. Therefore, applying efficiency factor on these expenses will prove counter productive.

Z' Factor for Force Majeure Events:

10.10. The Petitioner submitted that it has a wide business area with a spreading network and prone to natural calamities like flooding, storms, poor law & order situation etc. Provision for such extraordinary events proposed as a "Z" factor to be included in the O&M cost indexation formula. Costs incurred due to force majeure shall be recoverable during the subsequent year subject to prior approval of NEPRA. Costs recoverable under insurance coverage shall not be included in the tariff for the subsequent year.

10.11. The Authority, while assessing the O&M costs of the Petitioner for the FY 2025-26, has taken into account the audited accounts of the Petitioner for the FY 2024-25 and the amount requested by the Petitioner, subject to adjustment during the MYT control period, as per the mechanism mentioned below. Therefore, risk / benefit of any future cost fluctuations, lies with the Petitioner along with an opportunity for optimizing overall costs under these head. The treatment is in line with the very sprit of multi- year tariff regime and in accordance with Authority's approved tariff methodology.

10.12. Regarding adjustment of O&M costs with efficiency factor X, the Authority in line with its earlier decisions in the matter of MYTs, has decided to keep the efficiency factor as 30% of increase in NCPI for the relevant year of the MYT control period. The Authority has further decided to implement the efficiency factor from the 3rd 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. The O&M part of Distribution Margin shall be indexed with NCPI subject to adjustment for efficiency gains (X factor).

10.13. Regarding request of the Petitioner to allow 'Z" factor, the Authority observed that it has allowed insurance cost to the Petitioner in the reference O&M cost for the FY 2025-26 subject to future increases, and the same covers for any such extra ordinary events. Therefore, the request of the Petitioner, to allow any such factor as a separate cost is not justified.

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Indexation of O&M cost components

10.14. Salaries & Wages and Post-retirement Benefits: Considering the fact that employees of XWDISCOs are hired on Government pay scales, and any salary increase announced by the Federal Government in the Federal Budget is applicable on the employees of the Petitioner, therefore, being un-controllable cost, the Salaries & Wages and benefits, would be actualized, based on the audited accounts of the Petitioner for the relevant year for its existing employees, as long as they remain in public sector. The impact of any such adjustment would be allowed as part of PYA in the next indexation/ adjustment request or tariff determination as the case may be.

Adjustment Mechanism - Salaries, Wages & Other Benefits
Revised Salaries, Wages & Other Benefits Expenses = Ref. Salaries, Wages & Other Benefits x [1+(GoP Increase or CPI)]
FY 2025-26, allowed Salaries, Wages & Other Benefits may be considered as reference cost for future adjustment.
The Authority may consider to allow GoP increase till the time the DISCOs remain in public sector, otherwise CPI indexation may allowed if DISCOs get privatized.
The allowed amount for FY 2025-26, may be actualized based on Audited accounst for FY 2025-26, considering the same as uncontrollable cost on part of XWDISCOs.

10.15. Post-retirement benefits would be allowed based on the actuarial valuation report for the year for which assessment is being made or as per the latest available audited financial statements. It would be mandatory for the Petitioner to deposit the whole amount of allowed Post retirement benefits into the separate Fund and route all its pension payments through the Fund. If the Petitioner fails to transfer the whole amount of postretirement benefits into the Fund, the Authority would adjust the deficit payments in the next year's provision and from thereon, only actual amounts paid and amount transferred into the fund would be allowed.

10.16. Transportation/Vehicle Running expense portion of O&M cost

10.17. The reference costs would be adjusted every Year with Transport index of NCPI. The Adjustment mechanism would be as under;

Vehicle running/Transportation expenses (Rev) =

(Vehicle running/Transportation expenses (Ref.) x {1 + (Transport index of NCPI)])

10.18. Remaining O&M costs will be indexed every year according to the following formula:

The reference costs would be adjusted every Year with NCPI-X factor. The X factor would be applicable from the 3rd year of the MYT control period. The Adjustment mechanism would be as under;

O &M(Rev) = O & M (Ref.) x {1 + (NCPI-X)]

Where

O &M (Rev) = Revised O&M Expense for the Current Year

O &M (Ref) = Reference O&M Expense for the Reference Year

Δ NCPI = Change in NCPI published by Pakistan Bureau of Statistics for the month of December for the respective year. For O&M expenses, other than vehicle running expenses, NCPI-General shall be used, whereas

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for Vehicle Running expense, NCPI-Transport shall be used. Reference NCPI-General and NCPI-Transport of December 2024 for thepurpose of future adjustment/ indexation shall be 4.07% and - 0.18% respectively.

X = Efficiency factor i.e. 30% of NCPI relevant for indexation purpose

11. RORB

11.1. 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)	=RORB(Ref) x RAB(Rev) / RAB(Ref)
The allowed RORB may be considered as reference cost for future adjustment.	
In addition the allowed RORB for previous year will be trued up based one actual investment (maximum cap to the extent of allowed investment)carried out during that year. Further KIBOR fluctuation on bi-annual basis also subject to adjustment. Further Spread of 1.50% is allowed as maximum cap, in case DISCOs manage to obtain financing on spread less than 1.5% the same shall be adjusted as part of PYA.	

11.2. In addition, the Petitioner is directed to disclose the amount of IDC capitalized during the year and adjust its RAB for the year after excluding therefrom the impact of IDC capitalized during the year.

11.3. In addition, the allowed RAB for previous year will be trued up downward, keeping in view the amount of investment allowed for the respective year, other than consumer financed investments. In case, the Petitioner ends up making higher investments than the allowed (other than consumer financed investments), 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.

11.4. The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover the risk of floating KIBOR. Accordingly, fluctuation in the reference KIBOR would be adjusted biannually. In addition, the Authority has also decided to adjust savings, if any, resulting from cheaper financing by the Petitioner. If the Petitioner manages to negotiate a loan below 1.50% spread, the entire savings would be passed onto the consumers annually, through PYA. In case of more than one loan, the saving with respect to the spread would be worked out based on individual loans. In case, the spread is greater than the allowed cap of 1.50%, additional cost would be borne by the Petitioner itself. Similarly, if the Petitioner's total actual cost of debt remains lower than the cost allowed for the year, the entire savings would also be passed onto the consumers annually, through PYA.

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12. Depreciation Expenses

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

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

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

12.2. In addition, the allowed Depreciation for previous year will be trued up downward, keeping in view the amount of investment allowed for the respective year, other than consumer financed investments. In case, the Petitioner ends up making higher investments (excluding consumer financed 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.

13. Other Income

13.1. Other Income shall be adjusted annually as per the following mechanism during the MYT control period to calculate future Other Income.

Adjustment Mechanism - Other Income (OI)	
OI(Rev)	=OI(Allowed Previous year) + [OI(allowed for previous year) – OI(Actual previous year)]
The allowed Other income may be considered as reference cost for future adjustment.	
In addition the allowed Other Income for previous year will be trued up based on actual Other Income during that year	

Working Capital

13.2. The Authority during proceedings directed the Petitioner to provide it working capital calculation and has considered the submissions of the Petitioner and in order to access the working capital requirement of the Petitioner, the Authority obtained details of number of days available with the Petitioner to pay in terms of energy procured from National Grid. Based on the information provided by CPPA-G and in line with the mechanism adopted for KE, the working capital requirement of the Petitioner for its distribution function has been assessed as under;

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Distribution working Capital	Credit Period Days	Factor	MEPCO
Stores and Spares (3% of GFA)	3%	3%	7,778
Trade debt (30 days of Revenue Receivable)	30	0.08	4,774
Total Current Assets			12,552
Current Liabilities	2/3	66.67%	8,368
Working Capital Requirement			4,184
Less Receipt Against Deposit Work			28,075
Net Working Capital			(23,891)
Cost of debt local			12.00%
Working Capital Cost			(2,867)

13.3. As reflected in the table above, the Petitioner's working capital requirement for the distribution function has been assessed as Rs.4,184 million. The Authority further considers that receipts against deposit works, being directly related to the distribution network business, are also required to be accounted for as part of working capital calculations. Accordingly, after including the amount of receipt against deposit works available with the Petitioner, as per the data provided by the Petitioner, its net cost of working capital for the distribution function works out as negative Rs.2,867 million, based on 3 months KIBOR i.e. 11% +1% spread as maximum cap, subject to downward adjustment in case the actual spread remains lower. The aforesaid working capital position e is allowed to Petitioner for the CY 2026, and shall remain subject to adjustment, as per the mechanism provided below, once the audited accounts of Petitioner for the FY 2025-26 are available.

Working capital (Distribution)
Formula for Future Adjustment
Revised cost of working capital = Working capital requirement as per given formula x Cost of debt on allowed parameters

-Working capital requirement shall be calculated based on assessed revenue requirement under each head for relevant year.

- -Cost of Debt shall 3 Months KIBOR + 1% spread as maximum cap, subject to downward adjustment at the end of each financial year.

Actualization of Previous year based on allowed revenue as PYA

Current Assets

- Lower of 30 days receivables based on allowed revenue (including the impact of allowed adjustments), but excluding Working Capital cost OR Actual average Receivables for the Financial Year (excluding opening receivables).

- Stores & Spares - Lower of 3% of Avg. GFA (opening + closing)/2 or Actual average Stores & Spares. GFA based on based on Audited account to the extent of allowed Investment.

- Lower of allowed Cash & bank balance or Actual Cash & Bank Balances (Excluding cash/bank balance not meant for O&M expenses)

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Current liabilities

- 2/3rd of aforementioned current assets (Receivables + Stores & spares + Cash)

- Receipt against deposit work figure will be actualized based Audited Financial statement initially and finally based on third party evaluation.

Any other amount retained by the Petitioner

13.4. For the purpose of 3 - Month KIBOR, the actual weighted average KIBOR of finance cost incurred by the Petitioner shall be considered. Similarly, for the purpose of spread, actual weighted average spread incurred by the Petitioner shall be considered. In case actual weighted average spread is lower than 1% cap, the same shall be adjusted downward only. No upward adjustment of spread is allowed.

13.5. The Authority further notes that since the amount of receipts against deposit works has been adjusted while working out the cost of working capital, therefore, any interest earned on such deposits shall not be adjusted as part of other income. The Petitioner therefore shall ensure a separate disclosure of such income in its audited accounts. In case of failure to disclose such income separately, the entire interest income shall be adjusted as part of other income.

14. <u>Whether the requested PYA is justified?</u>

14.1. The Petitioner submitted following for PYA in its Tariff petition;

✓ Rule-53 of NEPRA Tariff Guidelines 2015 provides that under-recovery or over-recovery of the cost-of-service incurred during the previous year(s) shall be accounted for going forward during the current year under the head of prior period adjustment.

✓ The Prior Years Adjustment (PYA) on account of under/over recovery of past costs are summarized below:

	Prior Year Adjustment (PYA)	(PKR Million)	
Sr. No.	Description	FY 2025-26	FY 2026-27
1	Sales Mix Variance FY 2022-23	4,898	
2	Under/Over Recovery of Quarterly Adjustments	6,826	
3	Under/Over Recovery of DM	7,167	
4	True-up FY 2023-24	-8,022	
5	Turnover Tax FY 2023-24	5,587	
6	Turnover Tax FY 2024-25	3,260	3,260
7	Turnover Tax (Payment made under ADRC Order)	4,041	5,388
8	PRB Liability	19,283	
9	Quarterly Adjustments UMPI, Incremental Units 2021-22	821	
10	Quarterly Adjustments Incremental Units	2,166	
11	Financing of Delayed PPP Quarterly Adjustment	6,936	
12	Differential Amount of WHT/Advance Tax	2,150	
13	GENCO Pension Liability	4,340	
	Total	59,453	8,648

Sale Mix Variance:

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✓ The Sales Mix Variance amounting to Rs. 4,898 (M) for FY 2022-23 was requested vide Annual Indexation of tariff for FY 2024-25. However, the same was not allowed by the Authority with the remarks to provide the reconciled data of sales mix with its reported revenue as per Audited Financial Statements for the respective year. The requisite reconciliation has been submitted to the Authority, hence the sale mix variance of Rs. 4,898 (M) for FY 2022-23 is being claimed as part of PYA.

Under Recovery of Quarterly Adjustments (QTA):

✓ The summary of under recovery against various quarterly tariff adjustments allowed by NEPRA is given below:

Under Recovery of QTA		(Rs. In Million)	
Description	Amount	Description	Amount
Qtr FY 2022-23		2nd Qtr FY 2023-24	
Allowed Amount	25,330	Allowed Amount	15,233
Qtr. Rs/kWh	3.9856	Qtr. Rs/kWh	2.7063
Recovered	23,911	Recovered	12,853
Under/(Over) Recovery	1,419	Under/(Over) Recovery	2,380
1st Qtr FY 2023-24		3rd Qtr FY 2023-24	
Allowed Amount	-538	Allowed Amount	3337
Qtr. Rs/kWh	-0.7107	Qtr. Rs/kWh	0.4639
Recovered	-2,013	Recovered	2,512
Under/(Over) Recovery	1,475	Under/(Over) Recovery	825
4th Qtr FY 2023-24			
Allowed Amount	7,967		
Qtr. Rs/kWh	1.8146		
Recovered	7,240		
Under/(Over) Recovery	727		
Grand Total			6,826

✓ The Authority is requested to allow the under recovery of Rs. 6,826 (M) on account of aforementioned QTAs.

Under Recovery of Distribution Margin (DM) for FY 2023-24:

✓ The Authority allowed DM of Rs. 46,391 (M) for FY 2023-24, against which actual amount recovered Rs. 39,224 (M) which resulted in under recovery of Rs. 7,167 (M) as tabulated below:

Description	Period		Amount
	01 Jul 2023 to 11 Jul 2023	12 Jul 2023 to 30 Jun 2024	
DM Allowed in Determination 2023-24			46,391
DM Recovered			
Units Sold (kWh)	761	16,143	16,904
ISP-2 Incremental Units (kWh)	-24	-284	-308
Net Metering (adjusted) Units kWh	-3	-82	-85
Net Unit Sold (kWh)	734	15,777	16,511
DM Rate Rs/kWh	1.85	2.39	1.85 & 2.39
DM Recovered	1,358	37,865	39,224
Under Recovered DM			7,167

✓ The Authority is requested to allow the under recovered DM of Rs. 7,167 (M) as PYA.

True-Up FY 2023-24:

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✓ In line with MYT adjustment mechanism, True-Up of Depreciation, RoRB and Other Income for FY 2023-24 is elaborated hereunder:

MYT True-Up for FY 2023-24 (Rs.	
Depreciation	Amount
Allowed	6,208
Actual	6,610
Under/(Over) Recovery	402
RoRB (Investment + KIBOR)	
Allowed	13,808
Actual	15,853
Under/(Over) Recovery	2,045
Other Income	
Allowed	-7,108
Actual	-17,577
Under/(Over) Recovery	-10,469
Total	-8,022

✓ The Authority is requested to consider and allow the true-up amounting to Rs. (8,022) (M) as PYA.

Turnover Tax for FY 2023-24:

✓ In line with Authority existing practice, the amount of Minimum Turnover Tax paid by MEPCO for FY 2023-24 is tabulated below:

Turnover Tax FY 2024-25		(Rs. In Million)
Description	Amount	Remarks
1st QTR 2023-24	440	CPR No. IT20230927010122231660
2nd QTR 2023-24	1,149	CPR No. IT20231229010116694786 & CPR No. IT202312301011717604
3rd QTR 2023-24	1,000	CPR No. IT20230901011968860
4th QTR 2023-24	2,412	CPR No. IT20240628011988802
Payment with Tax Return 2024	587	CPR No. IT20241231010111857636
Total	5,587	

✓ The Authority is requested to consider and allow Rs. 5,587 (M) paid on account of Minimum Turnover Tax for FY 2023-24 as PYA.

Turnover Tax for FY 2024-25:

✓ Payment of Turnover Tax for first two quarters of FY 2024-25 has been made to FBR as detailed below:

Turnover Tax FY 2024-25		(In Million)
Description	Amount	Remarks
1st QTR 2024-25	2,117	CPR No. IT20240924010117704844 & CPR No. IT20240924010117705361
2nd QTR 2024-25	1,143	CPR No. IT20241226010117715469 & CPR No. IT20241226010117715468
Total:	3,260	

✓ The Authority is requested to consider Rs. 3,260 (M) paid on account of Turnover Tax for first two quarters of FY 2024-25 and allow the same during FY 2025-26 as PYA. The tentative amount of Turnover Tax due for third and fourth quarters of FY 2024-25 is narrated as under:

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Turnover Tax FY 2024-25	(Rs. In Million)	
Description	Amount	Remarks
3rd QTR 2024-25	2,120	Due in March 2025
4th QTR 2024-25	1,140	Due in June 2025
Total:	3,260	

✓ The Authority is requested to consider and allow the same during FY 2026-27 as PYA.

Turnover Tax TY 2018-2022 (Payment made Under ADRC Order):

✓ It is apprised that pursuance to Federal Govt. Tax Laws (Amendment) Act 2024, whereby it is mandatory for the SOEs (Including MEPCO) to approach FBR for appointment of Alternate Dispute Resolution Committee (ADRC), if aggrieved by any orders of FBR, and the SOEs to withdraw all pending litigation and cases immediately. Accordingly, MEPCO approached FBR for appointment of ADRC for resolution of Turnover Tax Cases for the period FY 2017-18 to FY 2021-22 involving alleged obligation of Rs. 28,887 (M). FBR appointed ADRC which after due proceedings and accepting stance of MEPCO, resolved the subject issue of Minimum / Turnover Tax whereby MEPCO was required to deposit Rs. 9,430 (M) in quarterly installments completing the payment up till June 2026.

Turnover Tax TY 2018-2022 (ADRC Order)		(Rs. In Million)
Description	Amount	Remarks
ADRC Payment 1st Installment (Dec	2,000	CPR No. IT20241231010118518OO & CPR No. IT2024123101011852235
ADRC Payment 2nd Installment	694	Due in Mar-2025
ADRC Payment 3rd Installment	1,347	Due in Jun-2025
Total:	4,041	

✓ The Authority is requested to allow Rs. 4,041 (M) on account of Turnover Tax during FY 2025-26 as PYA.

✓ Further apprised that quarterly installment due in four quarters of FY 2025-26 as per ADRC decision, have been claimed as PYA as summarized below:

Turnover Tax TY 2018-2022 (ADRC Order) (Rs. In Million)		
Description	Amount	Remarks
ADRC Payment (Due in FY 2025-26)	5,388	Due on Sept-2025, Dec-2025, Mar-2026 & Jun-2026
Total:	5,388	

✓ The Authority is requested to allow Rs. 5,388 (M) on account of Turnover Tax during FY 2026-27 as PYA.

Post-Retirement Benefits (PRB) Less Determined:

✓ In line with the decision of Authority to allow the Provision for PRB on the basis of Audited Financial Statements as well as to consider the amount of PRB Liability routed through Other Comprehensive Income (OCI) in future (Reference Para 5.41 of MEPCO Annual Indexation for FY 2024-25 under MYT), the difference of provision for PRB as per Audited Account for FY 2023-24 & provision allowed by the Authority and PRB Liability routed through OCI for FY 2023-24 is tabulated below:

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- ✓ The Authority allowed the amount of Minimum/Turnover Tax on the basis of CPRs provided by MEPCO. In this context, it is highlighted that payment of Minimum/Turnover Tax is made to FBR after adjustment of Withholding/Advance Tax from gross amount of Minimum Turnover Tax and CPRs are prepared for reduced amount paid to FBR. Whereas, while calculating Revenue Requirement, the Authority considers and reduce the gross amount of Other Income including profit on bank deposits. Hence the differential amount on account of Withholding/Advance Tax amounting to Rs. 2,150 Million (Annex-ix) may please be considered and allowed as PYA.

GENCO Pensioners Liability:

- ✓ ECC of the cabinet, approved adjustment of Pensioners of GENCOs Power Plants under closure with following stipulations:

  "It is proposed that 2,368 Pensioners of GENCOs may be adjusted in their pension disbursing *DISCOs or WAPDA. Similarly, 1,753 employees of these plants would be adjusted in DISCOs. Pensions of these employees will be paid by the relevant DISCOs on their retirement according to rules of the relevant DISCOs. In turn the respective DISCOs and WAPDA would claim adjustment of the same from NEPRA in their tariffs."*

- ✓ In pursuance of above, 563 pensioners (out of 2,368 Pensioners) have been adjusted in MEPCO however due to more than one surviving widows against one PPO number, the total number increases to 571 pensioners. This adjustment of GENCOs Pensioners in MEPCO is subject to Determination of NEPRA to allow this cost or otherwise.

- ✓ As per Actuarial Report prepared by Nauman Associates Consulting Actuaries, opening actuarial liability of these Pensioners has been assessed as Rs. 4,340 Million (Actuarial Report is attached as. The opening Actuarial liability of GENCO Pensioners amounting to Rs. 4,340 Million was requested by MEPCO in its Annual Indexation/Adjustment for FY 2023-24 & FY 2024-25, however the Authority not allowed the additional amount with the remarks that the petitioner has been allowed provision for PRB as per latest available Financial Statements which the Authority understand includes all employees as well as active pensioners. Authority is requested to re-consider the opening liability of GENCO Pensioners and allow Rs 4,340 Million as PYA.

Bifurcation of PYA:

- ✓ The Bifurcation of PYA is as under:

Bifurcation of PYA				Rs. In Million			
Sr. No.	Description	FY 2025-26			FY 2026-27		
		DOP	SOP	Total	DOP	SOP	Total
1	Sales Mix Variance FY 2022-23		4,898	4,898			-
2	Under/Over Recovery of Quartly Adjustments	-	6,826	6,826			-
3	Under/Over Recovery of DM	6,379	788	7,167			-
4	True-up FY 2023-24	-8,022		-8,022			-
5	Turnover Tax FY 2023-24		5,587	5,587			-
6	Turnover Tax FY 2024-25		3,260	3,260		3,260	3,260
7	Turnover Tax (Payment made under ADRC Order)		4,041	4,041		5,388	5,388
8	PRB Liability	18,070	1,213	19,283			-
9	Quarterly Adjustments UMPL Incremental Units 2021-22		821	821			-
10	Quarterly Adjustments Incremental Units		2,166	2,166			-
11	Financing of Delayed PPP Quarterly Adj.		6,936	6,936			-
12	Differential of WHT/Advance Tax		2,150	2,150			-
13	GENCO Pensioners Liability	4,067	273	4,340			-
	Total	20,494	38,959	59,453	-	8,648	8,648

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Indexation/True-Up for FY 2024-25

- ✓ Audited Accounts of MEPCO for FY 2024-25 have been finalized and approved by the AGM on 27.10.2025. Based on Audited Accounts as well as in accordance with Tariff Methodology, MEPCO requests the Authority to consider and allow the Indexation/True-Up, as tabulated below, in its instant decision of MEPCO MYT.

Nomenclature	Rs. In Million
True Ups FY 2024-25	2,459
DM Under/Over Recoveries FY 2024-25	6,851
QTR Adjustments	(858)
Sales Mix Variance	30,279
Opening PRB Liability of GENCO Employees	3,211
Un-Regulated Income	14,997
PRB Liability (OCI)	26,395
Write Off Bad Debts	4,450
Total	87,784

PYA Requested VS Determined FY 2025-26

Sr. No	Description	FY 2025-26	
		Requested	Interim Tariff Determined
1	Sales Mix Variance FY 2022-23	4,898	4,898
2	Under/Over Recovery of Quarterly Adjustments	6,826	4,924
3	Under/Over Recovery of DM	7,167	5,338
4	True-up FY 2023-24	(8,022)	(11,810)
5	Turnover Tax FY 2023-24	5,588	5,588
6	Turnover Tax FY 2024-25	3,260	3,260
7	Turnover Tax (Payment made under ADRC Order)	4,041	4,041
8	PRB Liability	19,283	-
9	Quarterly Adjustments UMPL Incremental Units 2021-22	821	-
10	Quarterly Adjustments Incremental Units	2,166	-
11	Financing of Delayed PPP Quarterly Adj.	6,936	-
12	Differential of WHT/Advance Tax	2,150	-
13	GENCO Pensioners Liability	4,340	-
14	FCA Impact -Adjusted as PYA	-	231
15	Previous PYA Difference	-	2,003
16	PYA FY 2023-24 Under Recovered	-	2,478
	Total	59,454	20,951

Description	Amount
4th Qtr FY 2022-23	
Allowed Amount	25,330
Qtr. Rs/kWh	3.9856
Recovered	23,911
Under/(Over) Recovery	1,419
1st Qtr FY 2023-24	
Allowed Amount	(538)
Qtr. Rs/kWh	(0.7107)
Recovered	(2,013)
Under/(Over) Recovery	1,475
2nd Qtr FY 2023-24	
Allowed Amount	15,233
Qtr. Rs/kWh	2.7063
Recovered	12,853
Under/(Over) Recovery	2,380
3rd Qtr FY 2023-24	
Allowed Amount	3,337
Qtr. Rs/kWh	0.4639
Recovered	2,512
Under/(Over) Recovery	825
4th Qtr FY 2023-24	
Allowed Amount	7,967
Qtr. Rs/kWh	1.8146
Recovered	7,240
Under/(Over) Recovery	727
Total Under/(Over) Recovery	6,826

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Description	Period		Total
	01 Jul 2023 to 11 Jul 2023	12 July 2023 to 30 Jun 2024	
DM Allowed in Determination 2023-24			46,391
DM Recovered			
Units Sold (kWh)	761	16,143	16,904
ISP-2 Incremental Units (kWh)	(24)	(284)	(308)
Net Metering (adjusted) Units kWh	(3)	(82)	(85)
Net Unit Sold (kWh)	734	15,777	16,511
DM Rate Rs/kWh	1.85	2.40	1.85 & 2.40
DM Recovered	1,358	37,865	39,224
Under/(Over) Recovered			7,167

True Ups FY 2023-24	
Depreciation	
Allowed	6,208
Actual	6,610
Under/(Over) Recovery	402
RoRB (Investment + KIBOR)	
Allowed	13,808
Actual	15,853
Under/(Over) Recovery	2,045
Other Income	
Allowed	(7,108)
Actual	(17,577)
Under/(Over) Recovery	(10,469)
Total True Up	(8,022)

Turnover Tax FY 2023-24

Description	Amount (In Million)	Remarks
1st QTR 2023-24	440	CPR No. IT20230927010122316600
2nd QTR 2023-24	1,149	CPR No. IT20231229010116947868 & CPR No. IT202312301011717604
3rd QTR 2023-24	1,000	CPR No. IT202309010119668860
4th QTR 2023-24	2,412	CPR No. IT20240628010119888O2
Payment with Return 2024	587	CPR No. IT202412310101185763 6
Total:	5,587	

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Turnover Tax FY 2024-25		
Description	Amount (In Million)	Remarks
1st QTR 2024-25	2,117	CPR No. IT20240924010117704844 & CPR No. IT20240924010117705301
2nd QTR 2024-25	1,143	CPR No. IT20241226010117715460 & CPR No. IT20241226010117715468
Total:	3,260	

Turnover Tax FY 2024-25		
Description	Amount (In Million)	Remarks
3rd QTR 2024-25	2,120	Due
4th QTR 2024-25	1,140	Due
Total:	3,260	

Financial Year	Quarter	Revised Amount	Amount Allowed	Less/ (Excess)
FY 2021-22	2nd	7,641	7,074	567
	3rd	2,424	2,170	254
TOTAL		10,065	9,244	821

Quarterly Adjustments Incremental Units

Rs. In Million

Financial Year	Quarter	Revised Amount	Amount Allowed	Less/ (Excess)
2021-22	1st	4,114	3,762	352
	4th	19,530	19,530	-
2022-23	1st	10,657	10,604	53
	2nd	2,393	2,354	39
	3rd	10,120	10,173	(53)
	4th	27,240	25,330	1,910
2023-24	1st	(727)	(538)	(189)
	2nd	15,287	15,233	54
Total		88,614	86,448	2,166

Financing of Delayed PPP Quarterly Adjustments

Period	Submission Date	Determination Due Date	NEPRA Determination Date	Delay in Months	Notified (Rs in M)	FINANCE COST		
						KIBOR Date	Rate%	Amount (in Million)
1st Quarterly Adjustment FY 2018-19	31-Oct-18	15-Nov-18	14-Jun-19	7	17,041	15-11-18	9.39	934
2nd Quarterly Adjustment FY 2018-19	06-Feb-19	21-Feb-19	14-Jun-19	4	17,339	21-02-19	10.76	611
3rd Quarterly Adjustment FY 2018-19	09-May-19	24-May-19	27-Sep-19	4	4,015	24-05-19	11.85	172
4th Quarterly Adjustment FY 2018-19	23-Aug-19	07-Sep-19	27-Sep-19	0	1,430	11-09-19	13.30	-
1st Quarterly Adjustment FY 2019-20	29-Oct-19	13-Nov-19	29-Nov-19	0	1,429	13-11-19	13.49	-
2nd Quarterly Adjustment FY 2019-20	05-Mar-20	20-Mar-20	24-Sep-20	6	19,757	20-03-20	12.34	474
3rd Quarterly Adjustment FY 2019-20	13-May-20	28-May-20	24-Sep-20	4	12,950	28-05-20	8.13	346
4th Quarterly Adjustment FY 2019-20	20-Aug-20	04-Sep-20	15-Feb-21	5	11,147	04-09-20	7.28	458
1st Quarterly Adjustment FY 2020-21	03-Nov-20	18-Nov-20	06-May-21	6	8,805	18-11-20	7.30	348
2nd Quarterly Adjustment FY 2020-21	15-Jan-21	30-Jan-21	06-May-21	4	8,843	01-02-21	7.34	163
3rd Quarterly Adjustment FY 2020-21	17-May-21	01-Jun-21	29-Jul-22	13	(2,153)	01-06-21	7.49	(175)
4th Quarterly Adjustment FY 2020-21	10-Aug-21	25-Aug-21	30-Dec-21	4	(2,872)	25-08-21	7.41	(71)
1st Quarterly Adjustment FY 2021-22	10-Nov-21	25-Nov-21	05-May-22	6	3,762	25-11-21	9.95	187
2nd Quarterly Adjustment FY 2021-22	03-Feb-22	18-Feb-22	16-Jun-22	4	7,074	21-02-22	10.41	247
3rd Quarterly Adjustment FY 2021-22	22-Apr-22	07-May-22	29-Jul-22	2	2,170	09-05-22	14.68	51
4th Quarterly Adjustment FY 2021-22	22-Jul-22	06-Aug-22	14-Oct-22	2	19,491	10-08-22	15.81	511
1st Quarterly Adjustment FY 2022-23	19-Oct-22	03-Nov-22	17-Jan-23	2	10,604	01-11-22	15.77	279
2nd Quarterly Adjustment FY 2022-23	24-Jan-23	08-Feb-23	17-Apr-23	2	2,354	08-02-23	17.31	70
3rd Quarterly Adjustment FY 2022-23	14-Apr-23	29-Apr-23	03-Jul-23	2	10,173	02-05-23	22.05	341
4th Quarterly Adjustment FY 2022-23	20-Jul-23	04-Aug-23	20-Oct-23	2	25,330	04-08-23	22.71	615
1st Quarterly Adjustment FY 2023-24	16-Oct-23	31-Oct-23	20-Dec-23	2	(538)	31-10-23	21.96	(25)
2nd Quarterly Adjustment FY 2023-24	15-Jan-24	30-Jan-24	28-Mar-24	2	15,233	30-01-24	21.80	376
3rd Quarterly Adjustment FY 2023-24	18-Apr-24	03-May-24	31-May-24	0	3,337	03-05-24	21.87	-
4th Quarterly Adjustment FY 2023-24	22-Jul-24	06-Aug-24	06-Sep-24	1	7,967	06-08-24	19.51	133
1st Quarterly Adjustment FY 2024-25	17-Oct-24	01-Nov-24	05-Dec-24	1	3,896	01-11-24	14.03	41
Total								6,936

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True-Ups FY 2024-25	
Depreciation	Rs. In Million
Allowed	6,622
Actual	7,488
Under/(Over) Recovery	866
RoRB (Investment + KIBOR)	
Allowed	12,852
Actual	17,247
Under/(Over) Recovery	4,395
Other Income	
Allowed	(7,108)
Actual	(9,910)
Under/(Over) Recovery	(2,802)
Total True Ups	2,459

D.M. Under/(Over) Recovery

Rs. In Million

Description	Total
DM Allowed FY 2024-25	56,903
DM Recovered	
Units Sold (kWh)	16,569
Incremental Units (kWh)	(65)
Net Metering (adjusted) Units kWh	(348)
Net Units Sold (kWh)	16,156
DM Allowed Rate Rs/kWh	3.10
Actual DM Recovered	50,052
Under/(Over) Recovered DM	**6,851**

Under/(Over) Recovery of QTA Adjustments

Rs. In Million

Description	Amount
4th Qtr FY 2022-23	
Allowed Amount	25,330
Qtr. Rs/kWh	3.9856
Recovered	23,911
Under/(Over) Recovery	1,419
2nd Qtr FY 2024-25	
Allowed Amount	(10,709)
Qtr. Rs/kWh	(2.0023)
Recovered	(10,170)
Under/(Over) Recovery	(539)
3rd Qtr FY 2024-25	
Allowed Amount	(15,778)
Qtr. Rs/kWh	(2.5792)
Recovered	(14,040)
Under/(Over) Recovery	(1,738)
Total Under/(Over) Recovery	(858)

Note: Under/(Over)) Recovery of 4th Quarter of FY 2022-23 QTA was requested vide Annual Indexation Request for FY 2024-26, however the same was not considered by the Authority.

14.2. The Authority has analyzed the PYA workings submitted by the Petitioner and also obtained additional information, including category wise sales data from PITC. Based on the available information, Authority's decisions in terms of FCAs and Quarterly adjustments for the relevant period, mechanism provided in the MYT determination, and data provided by the Petitioner, the Authority has assessed the PYA of the Petitioner under various heads as under;

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Rs. Mln

Description	MEPCO
QTR	3,895
D.M	11,040
PYA	2,209
Sales Mix	4,898
True Ups	-
2023-24	(9,535)
2024-25	(3,419)
Other Head	10,650
Total	19,739

14.3. The detailed head wise working of aforementioned PYA is attached with Supply determination.

15. <u>Whether there will be any claw back mechanism or not?</u>

15.1. The Authority notes that submissions were received from DISCOs on the subject; however, the Authority observes that the issue raised stands substantially addressed within the existing regulatory framework.

15.2. The Authority is of the view that appropriate sharing mechanism for any savings by the utility have already been provided under each head separately e.g. O&M costs, T&D losses, cost of debt etc. therefore, no separate claw-back mechanism is required. However, in event that any additional return is realized by the Petitioner, which is not otherwise addressed under the approved mechanism, the same would be shared between DISCO and consumers equally.

16. <u>Upfront Indexation/adjustment for the period July 2026 to December 2026</u>

16.1. The Ministry of Energy (MoE) vide letter dated 18.08.2025, submitted that NEPRA determines the consumer-end tariff for XWDISCOs and K-Electric in accordance with Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the Act), read with Rule 17 of the NEPRA (Tariff Standards and Procedure) Rules, 1998. The uniform rebased tariff, once determined, is notified by the Federal Government under Section 31(7) of the Act. The latest rebasing was notified on July 1, 2025. In accordance with the NEPRA (Tariff Standards and Procedure) Rules, 1998 read with Part 5 of the NEPRA Determination of Consumer-end Tariff (Methodology & Process) Guidelines, 2015, the Distribution Companies (DISCOs) are required to initiate the tariff determination process by submitting their minimum filing requirements by January 31st of each year. The submission is followed by Authority's internal meetings, public hearing, tariff determination and notification by the Government. Keeping in view the recent annual tariff determinations, the rebasing is notified by the Government in the month of July, each year with effect from 1st July.

16.2. The Ministry further mentioned that as an unfortunate coincidence, the consumers face high Fuel Charges Adjustments (FCAs) as well as the annual tariff rebasing, simultaneously in the summer months. This increase in tariff coupled with higher consumption leads to significant hike in the consumer electricity bills of summer months which in turn results in unaffordability, public dissatisfaction and nationwide protests in the country. The issue can be streamlined if the timing of annual rebasing is shifted from summer to winter

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months where the electricity consumption is lower and any tariff increase can be absorbed in consumer bills. This would result in relatively stable and sustainable electricity prices throughout the year. The National Electricity Plan Strategic Directive 8 also stipulates that the Regulator shall also revisit the "Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015" to enable alignment of schedule of regulatory proceedings for planning activities and rate case & tariff determinations.

16.3. The MoE submitted that the Cabinet has approved that policy guidelines may be issued to NEPRA to revise the annual tariff determination process timelines by amending the relevant legal and regulatory framework in a way that the rebasing is notified with effect from 1st January, each year, after completion of all regulatory proceedings. In this regard, it is highlighted that NEPRA has already determined Power Purchase Price (PPP) references up to June 2026. Projections for the remaining six months will be shared subsequently.

16.4. In light of above and in exercise of powers under Section 31 of the Act, the Federal Government hereby issues the following policy guidelines for implementation by NEPRA;

"NEPRA shall revise the annual tariff determination process timelines by amending the relevant legal and regulatory framework (guidelines, rules and procedures) to ensure that annual rebasing is notified with effect from January 1st of each year, after completion of all regulatory proceedings."

16.5. MEPCO also vide letter dated 17.10.2025, submitted that the MoE vide letter dated 16.10.2025, has conveyed that the Federal Government has approved the revision of the annual tariff determination schedule, making it effective from 1st January each year. The Authority has already determined the Power Purchase Price (PPP) references up to June 2026, accordingly, it is submitted that the references for the remaining period up to December 2026 may also be determined, in line with the above-mentioned directives.

16.6. MEPCO further stated that it has already submitted its Multi-Year Tariff (MYT) Petition for FY 2025-26 to FY 2029-30 for determination and the decision of the Authority is awaited. Meanwhile, an interim tariff for FY 2025-26 has been determined by the Authority in response to PESCO's request dated 29.05.2025.

16.7. MEPCO accordingly requested that the Authority to determine the consumer-end tariff for the period from July 1, 2026 to December 31, 2026 in accordance with the revised annual rebasing timeline effective January 1, 2026, to ensure smooth and timely transition to the revised rebasing schedule.

16.8. The matter was discussed during the hearing, and the Petitioner requested the following costs on account of interim indexation for the 06 months period from Jul. 26 to Dec. 26;

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Description	MEPCO
Salaries, Wages & Other Benefits	12,847
Post Retirement Benefits	15,391
Other O & M Costs	6,474
Depreciation	5,199
Return on Rate Base	9,868
Turn Over Tax	
Gross Distribution Margin	49,779
Less: Other Income	(4,607)
Net Distribution Margin	45,171
PYA	
Total	45,171

16.9. The Authority has considered the guidelines issued by the Federal Government regarding tariff rebasing to be made effective from 1st January, instead of July each year. The Authority is cognizant of the fact that rebasing of tariff effective July, if upward, coupled with high consumption, leads to increase in overall electricity bills during summer months; thus, adversely impacting DISCOs performance in terms of recoveries and losses. However, even with re-basing in January, the overall billing impact for the consumers in summer months would remain same, had the rebasing been made effective from July. Nonetheless, in light of NE Plan, SD 8 and the instant policy guidelines, the Authority has completed the consultation process for revision in "Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015", and the same are now in the process of notification.

16.10. Further, in light of the instant policy guidelines, the Authority has determined the revised Power Purchase Price (PPP) references for the period from January 2026 to December 2026 through a separate decision. Pursuant thereto and keeping in view the request of the Petitioner to also determine tariff for the period from July 1, 2026 to December 31, 2026, in accordance with the revised annual rebasing timelines, the Authority has also determined provisional revenue requirement of MEPCO for the period from July 1, 2026 to December 31, 2026 as under:

Description	Unit	July to December 2026 FY 2026-27
Pay & Allowances		10,804
Post Retirement Benefits		13,922
Repair & Maintainance		1,117
Traveling allowance		681
Vehicle mainterance		394
Other expenses		1,902
O&M Cost	[Mln. Rs.]	28,820
Depriciation		4,518
RORB		5,095
O.Income		(4,366)
Margin	[Mln. Rs.]	34,068

16.11. For the purpose of rebasing for the period from Jan. to Dec. 2026, the amount recovered by the Petitioner, to the extent of distribution and supply margin along-with PYA, from Jul. to Dec. 25, based on interim tariff allowed for the FY 2025-26, has been adjusted from the revised assessed tariff for the FY 2025-26. The recovered amount has been calculated by applying the Rs./kWh rate as per the interim tariff (to the extent of Distribution & Supply Margin and PYA), with the projected unit sales from July to December 2025.

16.12. The adjusted revenue requirement so worked out for the period from Jan. to Jun. 26 has been clubbed together with the provisional revenue requirement determined for the

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period from Jul. to Dec. 2026, to work out the overall revenue requirement of the Petitioner for the period from January 2026 to December 2026. The Schedule of Tariff (SoT) of the Petitioner has been designed accordingly.

16.13. Any under or over recovery of the determined revenue requirement for the FY 2025-26, based on the allowed regulatory targets in terms of T&D losses, recovery etc., and provisional revenue requirement being allowed for the six months period i.e. from Jul. to Dec.26, would be adjusted subsequently, while determining the final revenue requirement of the Petitioner for the FY 2026-27.

17. Order

17.1. In view of the discussion made in the preceding paragraphs and after accounting for the adjustments discussed above, the allowed revenue requirement of the Petitioner, for the FY 2025-26 along-with upfront indexation/adjustment from July to December 2026 and Tarif table of CY 2026 (January 2026 to December 2026), to the extent of its distribution function is summarized as under;

		Revised Allowed FY 2025-26	Allowed CY 2026
Description	Unit	DoP	DOP
Units Received	[MkWh]		18,427
Units Sold	[MkWh]		16,337
Units Lost	[MkWh]		2,090
Units Lost	[%]		11.34%
Energy Charge			
Capacity Charge			
Transmission Charge & Market Operation Fee			
Power Purchase Price	[Mln. Rs.]		
Wire Business Margin			
Power Purchase Price with Wire Business	[Mln. Rs.]		
Pay & Allowances		16,880	16,780
P.M Assistance Package			
Post Retirement Benefits		20,756	22,378
Repair & Maintainance		2,062	1,998
Traveling allowance		1,002	800
Vehicle maintenance		579	578
Other expenses		2,796	2,926
O&M Cost	[Mln. Rs.]	44,074	45,461
Depriciation		8,270	9,011
RORB		11,021	10,490
O.Income		(3,056)	(2,987)
Margin	[Mln. Rs.]	60,310	61,974
Prior Year Adjustment			
Working Capital	[Mln. Rs.]		(2,867)
Revenue Requirement	[Mln. Rs.]	60,310	59,107
Average Tariff	[Rs./kWh]		3.62

17.2. The above assessment has been carried out based on the data/information provided by the Petitioner, which the Authority believes is correct and based on facts. In case of any deviation / misrepresentation observed at a later stage, the Petitioner shall be held responsible for the consequences arising out, under NEPRA Act, Rules and Regulations made thereunder. Any consequential adjustment if required will be made accordingly.

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17.3. The Petitioner is directed to follow the following time lines for submission of its future indexation/adjustment during the MYT control period;

Description	ADJUSTMENTS/ INDEXATION	TIME LINES
Salaries, Wages & Benefits	Annually as per the mechanism given in the decision	Request to be submitted by Petitioner in end of July of every year, so that adjustment / indexation for the next year is determined in timely manner.
Post-retirement Benefit		
Other operating expenses		
Depreciation		
Return on Regulatory Asset Base		
Other Income		
Prior Year Adjustment	Annually as per the mechanism given in the decision	
KIBOR	Bi-Annually, as per the decision	
Return on Equity (ROE)	No adjustment allowed over Reference ROE	
Spread	As per the mechanism in the decision	

17.4. The Petitioner is responsible to provide distribution service within its service territory on a non-discriminatory basis to all the consumers who meet the eligibility criteria laid down by the Authority and make its system available for operation by any other licensee, consistent with applicable instructions established by the system operator.

17.5. The Petitioner is directed to ensure separate disclosure of each item in its audited financial statements as mentioned in the determination.

17.6. The Petitioner is also directed to ensure breakup of its Operating cost in terms of Distribution and Supply function separately in its audited financial statements.

17.7. The Petitioner shall follow the performance standards laid down by the Authority for distribution and transmission of electric power, including safety, health and environmental protection instructions issued by the Authority or any Governmental agency or Provincial Government;

17.8. The Petitioner shall ensure to develop, maintain and publicly make available, its investment program for satisfying its service obligations and acquiring and selling its assets.

17.9. The Petitioner shall disconnect the provision of electric power to a consumer for default in payment of power charges or to a consumer who is involved in theft of electric power on the request of Licensee.

17.10. The Petitioner shall comply with, all the existing or future applicable Rules, Regulations, orders of the Authority and other applicable documents as issued from time to time.

18. <u>Summary of Direction</u>

18.1. The Authority hereby directs the Petitioner to;

i. Provide year wise detail of amounts deposited in the Fund, amount withdrawn along-with profit/interest earned thereon since creation of Fund each year.

ii. Provide the amount of IDC capitalized with its subsequent adjustment request and reflect the same in its Audited Financial Statements each year.

iii. ensure that by the time it files its next tariff petition/ adjustment request, MDI for all consumers at all levels is properly recorded.

iv. provide a certification from its Auditors that Repair and Maintenance expenditure does not include any CAPEX nature item.

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19. The Determination of the Authority, is hereby intimated to the Federal Government for filing of uniform tariff application in terms of section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

20. The instant determination of the Authority along-with order part, be also notified in terms of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, while notifying the uniform tariff application decision of the Authority.

AUTHORITY

Amina Ahmed
Member

Engr. Maqsood Anwar Khan
Member

Waseem Mukhtar
Chairman

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