



National Electric Power Regulatory Authority

Islamic Republic of Pakistan

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No. NEPRA/TRF-626/PESCO-Distribution/2025/ 300-07

January 07, 2026

SUBJECT: DETERMINATION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED (PESCO) 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



(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 and Power Department, Government of Khyber Pakhtunkhwa, 1st Floor, A-Block, Abdul Wali Khan Multiplex, Civil Secretariat, Peshawar
4. Managing Director, National Grid Company (NGC) of Pakistan, 414 WAPDA House, Shahrah-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, Peshawar Electric Supply Company (PESCO), WAPDA House, Shami Road, Sakhi Chashma, Peshawar
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-626/PESCO/MYT- Distribution/2025

DETERMINATION OF DISTRIBUTION OF POWER TARIFF PETITION
FOR
PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED (PESCO)
FOR THE FY 2025-26 – FY 2029-30
UNDER
NEPRA TARIFF (STANDARDS AND PROCEDURE) RULES - 1998

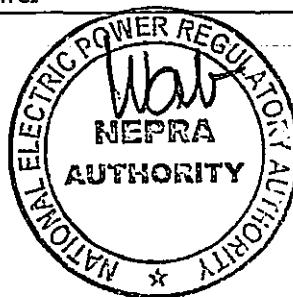
Islamabad
JANUARY 07, 2026





Abbreviations

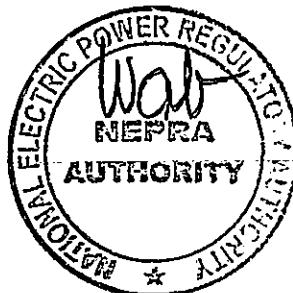
CpGenCap	The summation of the capacity cost in respect of all CpGencos for a billing period minus the amount of liquidated damages received during the months
ADB	Asian Development Bank
AMI	Advance Metering Infrastructure
AMR	Automatic Meter Reading
BoD	Board of Director
BTS	Base Transceiver Station
CAPM	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
CY	Calander Year (Jan. to Dec.)
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
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
PESCO	Peshawar Electric Supply 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
PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED (PESCO) FOR DETERMINATION
OF DISTRIBUTION TARIFF UNDER MYT REGIME FOR THE FY 2025-26 TO FY 2029-30**

CASE NO. NEPRA/TRF-626/PESCO/MYT- Distribution/2025

PETITIONER

Peshawar Electric Supply Company Limited (PESCO), WAPDA House Shami Road, Peshawar.

INTERVENER

Nil

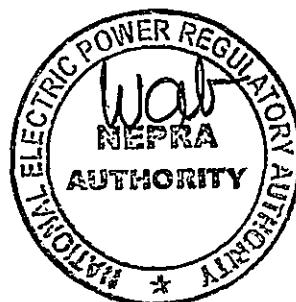
COMMENTATOR

Nil

REPRESENTATION

PESCO was represented by its Chief Executive Officer along-with his technical and financial teams.

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1. Background

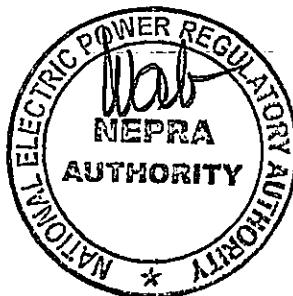
- 1.1. The Authority awarded a Multi-Year Tariff (MYT) to Peshawar Electric Supply Company (PESCO), for a period of five years starting from 1st July 2021 till 30th June 2025. Upon expiry of its MYT on 30.06.2025, PESCO (hereinafter also called as "the Petitioner"), being a Distribution Licensee as well as Supplier of Last Resort, filed separate tariff petitions for the determination of its Distribution and Supply of Electric Power Tariff under the MYT Regime for another 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. PESCO 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 number of investments and target of T&D losses. However, the petitions were filed with considerable delay i.e. on 29.04.2025, and were based on the requested numbers of Investment and T&D losses. PESCO also requested for grant of interim tariff for the FY 2025-26, in order to allow for timely rebasing of consumer-end tariff effective July 1, 2025, as considerable time would be required to finalize the MYT petitions. The Authority acceded with the request of PESCO and granted an "Interim tariff", vide decision dated 23.06.2025 for FY 2025-26, subject to adjustment and/ or refund, based on the final determination of the Authority in the matter of MYT petitions of the Petitioner.
- 1.3. The Petitioner, inter alia, requested the following costs for its Distribution of power function for the five years control period;

Category	Period	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Margin						
Salaries and benefits	Rs. Mln	21,643	23,763	26,208	28,951	32,146
Repair and Maintenance	Rs. Mln	1,511	1,662	1,828	2,011	2,212
Travelling expenses	Rs. Mln	293	322	354	389	428
Vehicle expenses	Rs. Mln	391	439	493	553	621
Other expense	Rs. Mln	257	283	312	343	377
Total O&M Costs	Rs. Mln	24,095	26,469	29,195	32,247	35,784
Depreciation	Rs. Mln	5,016	6,044	6,761	7,634	8,301
Return on Rate Base	Rs. Mln	9,855	12,648	14,762	16,295	17,014
Gross Distribution Margin	Rs. Mln	38,966	45,161	50,718	56,176	61,099
Less: Other Income	Rs. Mln	(4,308)	(4,432)	(4,486)	(4,443)	(4,275)
Net Distribution Margin	Rs. Mln	34,658	40,729	46,232	51,733	56,824
Projected Sales	GWh	9,321	9,656	9,981	10,331	10,728
Requested Tariff	Rs./kWh	3.72	4.22	4.63	5.01	5.30

2. Proceedings

- 2.1. In terms of Rule 4 of the Rules, the petition was admitted by the Authority. Since the impact of any such costs 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. Hearing in the matter was scheduled on November 03, 2025, for which notice of admission / hearing along-with the title and brief description of the petition was published in the newspapers on 24.10.2025, and also uploaded on NEPRA website; Individual notices were also issued to stakeholders/ interested parties.

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3. Issues of Hearing

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

- i. Whether the projected energy purchases and sales are justified?
- ii. Whether the requested/projected O&M cost (including new hiring) is justified and what are the basis for such projections?
- iii. Whether there should be any bifurcation of O&M on the basis of controllable and uncontrollable costs?
- iv. Whether the requested/projected amount under heads of Other Income, Depreciations and RORB based on WACC of 17.05% is justified?
- v. 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)?
- vi. Whether the request to allow working capital, Worker welfare fund and cost of open access & cross subsidy is justified?
- vii. Whether there will be any claw back mechanism or not?
- viii. 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 (IR), if any, were desired from the interested person/ party within 7 days of the publication of notice of admission in terms of Rule 6, 7 & 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 arguments raised during the hearing, issue-wise findings are given as under;

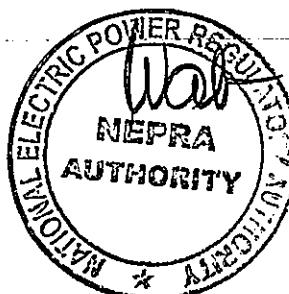
5. Whether the projected energy purchases and sales are justified?

5.1. The Petitioner, during the hearing submitted that purchases (GWhs) have been projected to grow at 2% annually, starting from 11,951 GWhs in FY 2025-26 to 13,091 GWhs in FY 2029-30. The Petitioner highlighted that its actual purchases for the FY 2024-25 remained at 11,013 GWhs. Regarding sales, the Petitioner projected sales of 9,321 GWhs for the FY 2025-26 to reach 10,728 GWhs by FY 2029-30 i.e. growth of 3%. The year wise purchases and sales as submitted by the Petitioner is as under;

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Purchases (GWhs)	11,951	12,226	12,481	12,761	13,091
Sales (GWhs)	9,321	9,656	9,981	10,331	10,728

5.2. 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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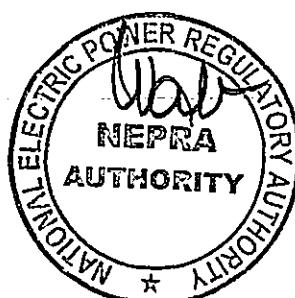




decision, therefore, for the purpose of instant decision, the power purchases (GWhs) of the Petitioner as per the separate PPP decision, have been taken into account.

6. Whether the requested MYT for a control period of five years is justified?
 - 6.1. The Petitioner submitted that the petition has been filed in accordance with the Rule 3(1) and Rule 4(7) of the Rules and NEPRA Performance Standards (Distribution) Rules, 2005. As per Rule 17 (3) (1) of Rules, tariff should allow the licensee the recovery of any and all costs prudently incurred to meet the demonstrated needs of their consumers. The Petitioner also submitted that it has filed Investment Plan and assessment of T&D losses for a period of five years, which are under deliberation with the Authority.
 - 6.2. The Authority observed the Petitioner has requested for a five year tariff control period, in line with its five years investment plan. The Authority also noted that approval of the investment plan and assessment of T&D losses of the Petitioner for the five year period is at 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 & 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. Whether the requested/projected O&M cost (including new hiring) is justified and what are the basis for such projections?
8. Whether there should be any bifurcation of O&M on the basis of controllable and uncontrollable costs?
 - 8.1. The Petitioner's submitted that its Distribution Margin consists of the following factors:
 - ✓ Operation & Maintenance Expenses
 - Operational Expenses:
 - Salary, Wages & Other Benefits
 - Travelling Expenses
 - Vehicle Expenses
 - Other Expenses
 - Repairs & Maintenance Expenses
 - Other Income
 - ✓ Depreciation Expense
 - ✓ Return on Rate Base
 - 8.2. The Petitioner also stated that sum of its O&M Cost, Depreciation and RORB minus Other Income results in PESCO's Distribution Margin, dividing this by the total units sold yields the average Distribution Margin per kWh. The DM of PESCO for Distribution Licensee for FY 2023-2024 was Rs. 4.26/kWh and the DM for FY 2025-26 to FY 2029-30 is projected Rs. 3.72/kWh, 4.22/kWh, 4.63/kWh, 5.01/kWh & 5.30/kWh respectively.
 - 8.3. The Petitioner provided the following head wise justification for the requested amounts;

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O&M Expenses

✓ O&M expenses include Salaries & Wages, Repair & Maintenance, Travelling, Vehicle Running and Other Expenses. Based on the impact of increase in inflation, salaries and other allowances, the Audited O&M Expense for Distribution (Non-Sale Elements) FY 2023-24 are Rs. 20,577 million and the projections for FY 2024-25 to 2029-30 are as per detail below:

Rs. in Million

Description	Nepra Determ'n	Distribution of Power Business						Avg. for Tariff Control Period	
		Base Year	Tariff Control Period						
			2025-26 Proj.	2026-27 Proj.	2027-28 Proj.	2028-29 Proj.	2029-30 Proj.		
Salaries and Benefits	20,315	21,967	21,643	23,763	26,208	28,951	32,146	26,542	
Repair and Maintenance	1,433	1,374	1,511	1,662	1,828	2,011	2,212	1,845	
Traveling Expenses	315	266	293	322	354	389	428	357	
Vehicle Expenses	243	348	391	439	493	553	621	499	
Other Expenses	231	234	257	283	312	343	377	314	
Grand-Total	22,537	24,189	24,095	26,459	29,194	32,246	35,784	29,557	
% Increase/(Decrease)			0%	10%	10%	10%	11%		

✓ The Average O&M expense (Rs./kWh) for Tariff Control Period is assessed as under:

Description	Nepra Determ'n	Distribution of Power Business						Avg. for Tariff Control Period	
		Base Year	Tariff Control Period						
			2025-26 Proj.	2026-27 Proj.	2027-28 Proj.	2028-29 Proj.	2029-30 Proj.		
Salaries and Benefits	1.64	2.41	2.32	2.46	2.63	2.80	3.00	2.64	
Repair and Maintenance	0.12	0.15	0.16	0.17	0.18	0.19	0.21	0.18	
Traveling Expenses	0.03	0.03	0.03	0.03	0.04	0.04	0.04	0.04	
Vehicle Expenses	0.02	0.04	0.04	0.05	0.05	0.05	0.06	0.05	
Other Expenses	0.02	0.03	0.03	0.03	0.03	0.03	0.04	0.03	
Grand-Total	1.82	2.65	2.59	2.74	2.92	3.12	3.34	2.94	

✓ Salaries & Wages including employee's retirement benefits is the major component of O&M expense. Since PESCO was incorporated as company in compliance with power sector reform policy of Government of Pakistan and the WAPDA employees working in Area Electricity Board Peshawar gradually become employees of the company in terms of the Man Power Transition Plan, therefore PESCO had to maintain the GOP pay scales and the terms of employment for the employees which were prevalent in WAPDA. The following additional increases are also made by GoP in its annual budget for FY 2024-25 along with various other impacts:

Increase in Pay & Allowances announced for FY 2025-26:

- Expected increase in salaries (15%).
- Impact of Additional recruitment.

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- c) Cost of new hiring is claimed as an additional item as PESCO is operating with only 42% of existing staff against the total sanctioned staff and facing severe shortage of resources and if PESCO could not hire required staff the operations of the company would be unsustainable.
- d) Employees Retirement Benefits have been based on the average of annual increase in the last three years audited figures.
- e) Keeping in view the above increases, the Salaries and Wages are based on the Audited Financial Statement of PESCO for FY 2023-24 and Provisional figure for FY 2024-25 and projected for FY 2025-26 to 2029-30 are as under:

Rs. In Million

Description	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	Audited	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Pay & Allowances	6,319	7,243	8,674	9,998	11,564	13,420	15,624
Pay & Allow. (Contract)	649	744	891	1,028	1,188	1,379	1,606
Pay & Allow. (Daily Wages)	8	9	10	12	14	16	19
Employee Benefits	230	263	315	364	421	488	568
Post-Retirement Benefits	9,447	11,115	9,116	9,610	10,088	10,442	10,810
Other Benefits	2,222	2,592	2,635	2,753	2,934	3,205	3,520
Total Salaries & Wages	18,875	21,967	21,643	23,763	26,208	28,951	32,146

Adjustment mechanism:

- ✓ The following adjustment mechanism is proposed:
 - a. The base year FY 2024-25 does not reflect the true cost rather showing with employees of 10,122 with sanctioned posts of 24,385 and accordingly factor "N" is included to account for the new recruitments.
 - b. Adjustment in Salary & Pension (including pension part of post-retirement benefit) may be linked with the Increase announced by GoP in Annual Budget on actual basis.
 - c. 5% increase on account of Annual Increment may be allowed.
 - d. The remaining allowances / benefits may be adjusted on the basis of CPI for controllable costs and on the basis of actual in case of uncontrollable costs.
 - e. An additional variable "N" may be included to account for the New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc.) against vacant positions and the same may be indexed as proposed above.

Repair & Maintenance expenses:

- ✓ Repair and Maintenance expenses have been assumed at around 2% of the net Fixed Assets in operation. PESCO has to maintain its old and over loaded system in order to ensure un-interrupted power supply to the consumers. Moreover cost of material has also increased due to inflationary pressure. Therefore, Repair & Maintenance expenditure has been projected for Distribution (Non-Sale Elements) as Rs. 1,511 million for FY 2025-26, Rs. 1,662 million for FY 2026-27, Rs. 1,828 million for FY 2027-28, Rs.

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2,011 million for FY 2028-29 & Rs. 2,212 million for FY 2029-30. Repair and Maintenance budget is required for the following:

- i. Repair of Power Transformers damaged at Grid Stations and controlling Breakers, Isolators etc.
- ii. Repairs and Maintenance of 5,153 KM Transmission Lines.
- iii. Repair & Maintenance of 1,132 Nos 11KV feeders.
- iv. Repair & Maintenance of 29,564 KMs HT Lines.
- v. Repair & Maintenance of 46,260 KMs LT Lines.
- vi. Repair & Maintenance of 109,175 Nos of Distribution Transformers

Repair & Maintenance Cost for Tariff Control Period

✓ The projected Repair & Maintenance for Distribution of Power Business for FY 2025-26 to FY 2029-30 is as under:

Rs. in Million									
Distribution Business									
Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
	2023-24	2024-25	2024-25	2025-26	2025-27	2025-28	2025-29	2025-30	
Repair And Maintenance	1,102	1,433	1,374	1,511	1,662	1,828	2,011	2,212	1,845
%Increase/(Decrease)				10%	10%	10%	10%	10%	

✓ The average Repair & Maintenance expense (Rs./kWh) for Tariff Control Period is assessed as under:

Rs. in Million									
Distribution Business									
Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
	2023-24	2024-25	2024-25	2025-26	2025-27	2025-28	2025-29	2025-30	
Repair And Maintenance	0.16	0.12	0.15	0.16	0.17	0.18	0.19	0.21	0.18
%Increase/(Decrease)				8%	6%	6%	6%	6%	

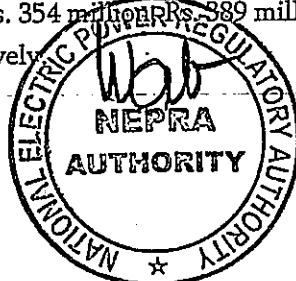
Adjustment Mechanism:

✓ The following adjustment mechanism is proposed:

- a. Adjustment in Repair & Maintenance may be linked with the percentage of Fixed Assets (i.e. 2% of the net Fixed Assets) in operation.

Travelling expenses:

✓ Travelling Expenses for Distribution (Non-Sale Elements) have been projected Rs. 293 million, Rs. 322 million, Rs. 354 million, Rs. 389 million & Rs. 428 million for FY 2025-26 to FY 2029-30, respectively.



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Rs. in Million

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
Travelling Expense	196	315	266	293	322	354	389	428	357
%Increase/(Decrease)				10%	10%	10%	10%	10%	

✓ The average Travelling expense (Rs./kWh) for Tariff Control Period is assessed as under:

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
Travelling Expense	0.03	0.03	0.03	0.03	0.03	0.04	0.04	0.04	0.04
%Increase/(Decrease)				8%	6%	6%	6%	6%	

Adjustment mechanism:

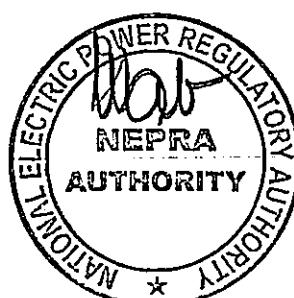
✓ The following adjustment mechanism is proposed:

- Adjustment in Travelling Expenses may be linked with the CPI.

Vehicle running expenses:

✓ The Authority's determination of Vehicle Running expenses for FY 2024-25 at Rs. 243 million, with only a marginal 20.8% increase from the determined amount of Rs. 201 million for FY 2023-24, appears much lesser than the prevailing market prices. Previously, the Authority acknowledged the fact that the increased POL prices will impact recovery campaigns and consumers services, as the same is required for door to door surveillance and monitoring as well as providing services to the consumers efficiently. In the MYT Tariff Determinations, the Authority relied on the inflationary increase on General Category (CPI) instead of the Transport Category, despite a substantial 24.07% increase in transport prices in December 2021. Furthermore, data from the PSO website indicates a 39% increase in POL prices during FY 2021-22, a 67.8% increase during FY 2022-23 and a 13.18 % increase during FY 2023-24, consequently, the actual expenditure for FY 2024-25 is increased against the allocated amount.

✓ Vehicle Running Expenses for Distribution (Non-Sale Elements) were Rs. 169 million for the FY 2023-24 and projected for FY 2025-26 to FY 2029-30 as Rs. 391 million, Rs.439 million, Rs.493 million, Rs.553 million & Rs.621 million respectively.





Vehicle Running Expenses for Tariff Control Period

Rs. in Million

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
	Act/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Vehicle Expense	169	243	348	391	439	493	553	621	499
%Increase/(Decrease)				12%	12%	12%	12%	12%	

✓ The average Vehicle expense (Rs./kWh) for Tariff Control Period is assessed as under:

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
	Act/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Vehicle Expense	0.03	0.02	0.04	0.04	0.05	0.05	0.05	0.05	0.05
%Increase/(Decrease)				10%	8%	9%	8%	8%	

Adjustment mechanism:

✓ The following adjustment mechanism is proposed:

a. Adjustment in Vehicle Running Expenses may be linked with the CPI.

Operating expenses:

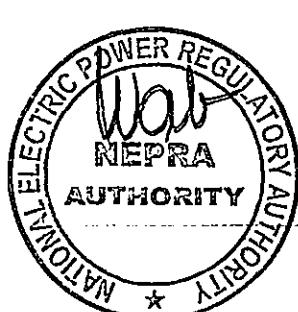
✓ Other Expenses include Rent, Rates and Taxes, Utility expenses, communications, office supplies, professional fees, auditor's remuneration, outsourced services, management fees, electricity bill collection expenses etc.

Other Operating expenses for Tariff Control Period

Rs. in Million

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
	Act/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Other Expense	235	231	234	257	283	312	343	377	314
%Increase/(Decrease)				10%	10%	10%	10%	10%	

✓ The average Other expenses (Rs./kWh) for Tariff Control Period is assessed as under:



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Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
	Act/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Other Expense	0.04	0.02	0.03	0.03	0.03	0.03	0.03	0.04	0.03
% Increase/(Decrease)				6%	6%	6%	6%	6%	6%

Adjustment mechanism:

- ✓ Adjustment in Other Operating Expenses may be linked with the CPI.
- ✓ The O&M part of Distribution Margin shall be indexed with CPI (component wise).

Accordingly, the O&M will be indexed every year according to the following formula:

$$O\&M_{Rev} = [O\&M_{Ref} \times (1 + (\Delta CPI - X))] + O\&M_{Actual} + N$$

Where:

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

O&M (Ref) is Reference O&M Expense for the Reference Year which is controllable cost

O&M (Actual) is Actual O&M Expense for the Current Year and is uncontrollable cost

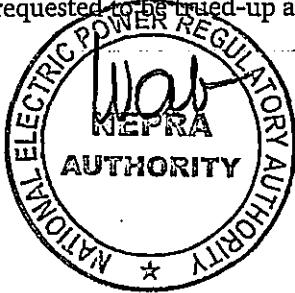
**ΔCPI is Change in Consumer Price Index published by Pakistan Bureau of Statistics latest available on 1st July against the CPI as on 1st July of the Reference Year in terms of percentage (excluding pay & allowances and pension)*

X is Efficiency factor and to be allowed to the extent that the actual expenses are less than the determined instead of 30%, which is on a very higher side as CPI is not a true reflection of DISCOs expenses

N is New Hiring (excluding outsourcing of Services like Bill Distributor, Drivers etc), including indexation of controllable and un-controllable costs to account for the expenditure that is not in the Base Cost

** Note: Change in CPI may be used component wise instead of general NCPI, e.g., for vehicle expenses, NCPI under transport category should be used or it should be linked with PSO prices.*

8.4. On the issue of controllable and uncontrollable factors, the Petitioner's submitted that O&M expenses are one of the major unknowns for XWDISCOs in Pakistan due to many uncontrollable factors such as statutory implications arising out of increase in salaries (as announced by the Federal Government), increase in certain expenses due to growth in consumer base, this includes increase in maintenance expenses, meter reading expenses, whereas other expenses are directly linked to the rate of petroleum. The employees' cost includes costs related to salaries and benefits of all staff (administrative, operational and security). To ensure an efficient, coordinated, economical distribution system and to build, maintain and operate system more systematically, it will be employing a highly skilled and technically proficient team to manage all aspects of the distribution of power to ensure that all key commercial interests of all stakeholders are maintained, protected and prioritized. The O&M cost needs to be bifurcated into controllable and uncontrollable cost components and the 'Uncontrollable costs' are requested to be tried-up at the end of every year and the



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'Controllable costs' should be indexed every year with CPI change less agreed efficiency factor, adjustable in last two years, to pass on the benefit of system efficiency to the consumers.

Controllable cost

8.5. The controllable O&M costs are projected by assuming an inflation rate of 10% to 11% for each year of the tariff control period excluding the base year. The controllable cost during control period will also increase annually due to new projects (as envisaged in DM) and accordingly this new addition in per unit base cost of controllable component may be allowed in the related year in which project is planned to be completed and indexed subsequently as part of controllable cost component.

Uncontrollable cost

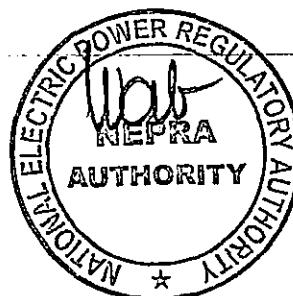
8.6. With regards to uncontrollable cost different growth rates are projected for different cost streams based on management experience. Uncontrollable cost factors could be affected by growth in employee benefits, consumer growth rates and growth in regulatory fee etc. The uncontrollable cost will also increase annually due to new projects (as envisaged in DIIP) and accordingly projected cost includes impact of new projects.

8.7. The Petitioner provided following detail of its controllable and uncontrollable costs;

Controllable Costs	Uncontrollable Costs
Travelling Expenses	Pay and Allowances – Existing
Office Supplies & Store handling	Rent, Rate & Taxes
Vehicle Expenses	Injuries & Damages
Power, Light & Water	Collection Expenses
Communication & Postage	Legal Charges
Advertising & Publicity	Management Fee
Subscription & Periodicals	Audit Charges
Misc. Expenses	
Bank Charges	
Insurance Premium	

8.8. The Petitioner during the hearing while reiterating its earlier submissions, presented the following justification and basis for projected O&M cost;

- **Salaries & Other Benefits:** Increased based on GoP notified increases:
 - ✓ FY 2025-26: 10% Ad-hoc Relief allowance & 30% DRA on Basic Pay of FY 2021-22
 - ✓ Cost of new hiring is claimed as an additional item (N Factor)
 - ✓ Cost of outsourcing may be allowed additionally, due to staff shortage (O Factor)
- **Post Retirement Benefits:** Increased using $(1 + \text{GoP Increase})$ considering recent pension reforms and average growth of the last three years.
- **Repair & Maintenance, Traveling Expenses & Other Expenses :** In line with $(1 + \text{NCPI})$ due to escalation in material & service costs and higher travel and lodging costs.
- **Vehicle Expenses:** Based on $(1 + \text{Change in Fuel Rates} - \text{PSO})$ reflecting fuel price variation linked with PSO rates.





- Inflation: CPI: Other O&M Cost is projected based on NCPI.
- X-Factor: Efficiency factor is estimated @ 0% - capped to the extent of the actual expenses (*30% is on a very higher side as NCPI is not a true reflection of DISCOs expenses*)

8.9. The Petitioner also, while referring to the recent decision of the Federal government to not initiate any new hiring, requested the following cost on account of outsourcing of certain services like Bill Distributor, Drivers etc., during the MYT control period;

Outsourcing instead of new hiring

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
	Proj.	Proj.	Proj.	Proj.	Proj.
Outsourcing (Nos)	3,816	5,641	7,327	8,306	9,512
Cost (Min. Rs.)	3,037	4,488	5,829	6,608	7,573

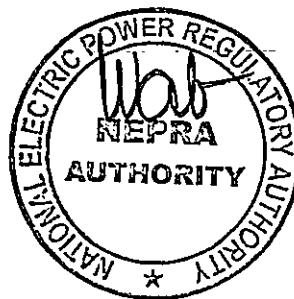
8.10. The Authority observed that as per section 31(3) of NEPRA Act, following general guidelines shall be applicable to the Authority in the determination, modification or revision of rates, charges and terms and conditions for provision of electric power services;

- ✓ *"(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;"*

8.11. Further, as per 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 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.

8.12. 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.

8.13. 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.

8.14. 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 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.

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

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

9.1. The Authority noted that head of Salaries, Wages and Other Benefits include employees Pay & Allowances and Post-retirement benefits and accounts for over 80% of the Petitioner's total O&M costs, excluding therefrom 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.

9.2. 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.

9.3. 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.12,469 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.

9.4. Accordingly, the cost of Salaries & Wages (excluding post-retirement benefits, discussed separately), for both the Distribution and Supply Functions works out as Rs.14,751 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.



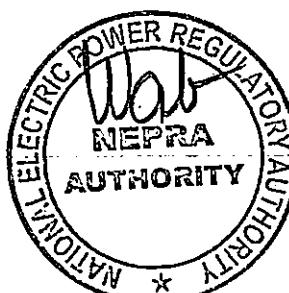
- 9.5. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Salaries, Wages and other benefits costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of Salaries, Wages and other benefits in terms of Distribution and Supply Functions, the criteria as adopted by the Petitioner has been used. Thus, 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.9,736 million.
- 9.6. The assessed Salaries & Wages costs for the FY 2025-26 i.e. Rs.9,736 million, shall be considered as the reference cost for future adjustment/ indexation of Salaries & Wages expenses, in the remaining tariff control period as per the mechanism given in the instant determination.
- 9.7. 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.

10. **Additional Recruitment and Outsourcing**

- 10.1. 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. For future recruitment, the Petitioner during hearing requested to primarily allow cost on account of outsourcing of certain services, citing the GoP decision that does not allow for any further recruitments. The Authority understands that any allowing cost upfront either on account of new hiring or outsourcing, 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 services actually outsourced 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. This addresses the concern of the Petitioner regarding inclusion of an "N" or "O" factor.

11. **Post-Retirement Benefits**

- 11.1. Regarding post-retirement benefits, the Petitioner presented that its number of pensioners have increased by around 18% over the last four years i.e. from 15,518 in FY 2021-22 to 18,371 in FY 2024-25, and Pension expense has also increased to Rs.13,375 million in FY 2024-25, as compared to Rs.6,779 million in FY 2020-21 as detailed below;





Description	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Nos. of Pensioners	15,518	16,220	17,688	18,371
Increase in Nos.	1,334 -229	702 -229	1,468	683
% Increase (yoY)	9.40%	4.50%	9.10%	3.90%
Monthly Pension (Mln Rs.)	5,792	7,277	9,119	11,189
Commutation (Mln Rs.)	987	1,818	1,750	2,186
Total Pension (Mln Rs.)	6,779	9,095	10,869	13,375
Increase (Mln Rs.)		2,316	1,774	2,506

11.2. The Petitioner accordingly requested the following amounts under the head of post-retirement benefits during the MYT control period;

Description	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Pension	9,116	9,610	10,088	10,442	10,810
Other Benefits	2,635	2,753	2,934	3,206	3,520
Total	11,751	12,363	13,022	13,648	14,330

11.3. The Authority noted that head of post-retirement benefit includes employees' pension, free electricity and medical facility. The Authority 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.

11.4. It is also pertinent to mention here that the Authority in its previous determinations, considering the overall liquidity position in 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 Petitioner's routine operations, thus reducing the Distribution Margin and eventually consumer-end tariff in longer run.

11.5. In compliance with the Authority's direction, the Petitioner created a separate Fund for its post-retirement benefits and has also reported balance of the Fund as under;

Pension Funds Balance	Mln. Rs.		
	FY 2023-24	FY 2024-25	As of 31.10.2025
	425	1,609	

11.6. Here it is pertinent to mention that the Authority in the previous MYT of PESCO, keeping in view its operational performance, in terms of T&D losses and recovery, considered that allowing provision for post-retirement benefits instead of actual payments, would not be in the interest of the consumers as any additional amount over & above the actual payments, would be eaten-up by the inefficiencies of the Petitioner and the Petitioner would not be able to deposit the excess amount in the Fund. Hence, the Petitioner was allowed actual payments only, however, if the Petitioner still manages to deposit any additional amount in the Fund, the Authority may consider to allow the same as PYA in the subsequent adjustment request.



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11.7. The operational performance of PESCO over the last three years has remained stagnant in terms of recovery, however, for the FY 2024-25, the T&D losses have shown improvement of around 1%, but remained still well above the targets allowed by the Authority. A snapshot of PESCO's performance over the last three years is given below;

Description	2022-23	2023-24	2024-25
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Losses			
Actual	37.54%	38.14%	37.15%
Allowed	20.24%	19.71%	19.26%

Recovery			
Actual	91.65%	91.91%	91.48%
Target	100.00%	100.00%	100.00%

11.8. In view of the aforementioned and keeping in view the request of the Petitioner, the Authority has decided to allow post-retirement benefits for the FY 2025-26, keeping in view the actual payments as per the Audited/ provisional accounts of the Petitioner for the FY 2024-25, (*excluding cost associated with HAZECO*), and the request of the Petitioner for the FY 2025-26. Accordingly, the cost of post-retirement benefits being allowed to the Petitioners for the FY 2025-26, works out as Rs.12,794 million, for both its distribution and Supply functions.

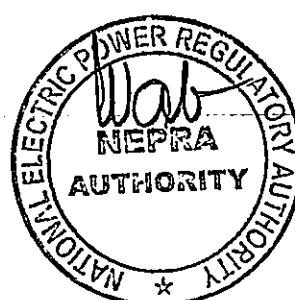
11.9. Since the Audited accounts of the Petitioner, do not provide bifurcation of post-retirement benefits in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of post-retirement benefits in terms of Distribution and Supply functions, the criteria as adopted 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.8,444 million.

11.10. Additionally, in light of earlier decision of the Authority, to allow the amount deposited in the Fund as PYA, the Authority has decided to allow an amount of Rs.2,745 million, deposited by the Petitioner in the Fund. If the Petitioner also manages to deposit any further amount in the Fund, the Authority may consider allowing the same as PYA in the subsequent adjustment request.

11.11. Considering the fact that the Petitioner is obligated to pay to its pensioners, the pension increases announced by the Federal Government, therefore, being an un-controllable cost, the Authority has decided to actualize the post-retirement benefits cost of the Petitioner for the relevant year, based on its audited accounts. The impact of any such adjustment would be allowed as part of PYA in the next indexation/ adjustment request.

12. Repair & Maintenance Costs

12.1. Regarding Repair and maintenance expenses, the Petitioner has assumed the same at around 2% of the net Fixed Assets in operation. The Petitioner while justifying its submissions stated that it has to maintain its old and over loaded system in order to ensure un-interrupted power supply to the consumers, moreover cost of material has also increased due to inflationary pressure. Accordingly, the Petitioner projected repair & maintenance costs as under for both its Distribution and Supply Functions;



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Description	Nepra Deter'm'n	ACTUAL	Tariff Control Period ¹					RS. IN LAKHS
			Base Year	Y2	Y3	Y4	Y5	
			2025-26	2026-27	2027-28	2028-29	2029-30	
			Proj.	Proj.	Proj.	Proj.	Proj.	
Repair and Maintenance		1,493	1,470	1,580	1,738	1,911	2,102	2,313

12.2. For the Distribution function only, the Petitioner has requested the following amounts;

Distribution Business									
Description	Audited	Nepra Deter'm'n	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	2025-30
Repair And Maintenance	2023-24	2024-25	Acc/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	1,845
%Increase/(Decrease)				10%	10%	10%	10%	10%	

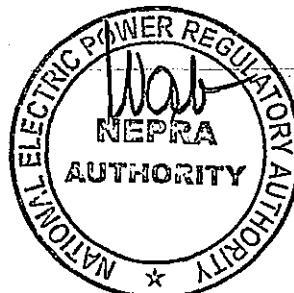
12.3. The Petitioner provided the following justification in this regard;

- ✓ Repair of Power Transformers damaged at Grid Stations and controlling Breakers, Isolators etc.
- ✓ Repairs and Maintenance of 5,153 KM Transmission Lines.
- ✓ Repair & Maintenance of 1,132 Nos 11KV feeders.
- ✓ Repair & Maintenance of 29,564 KMs HT Lines.
- ✓ Repair & Maintenance of 46,260 KMs LT Lines.
- ✓ Repair & Maintenance of 109,175 Nos of Distribution Transformers

12.4. The Petitioner for the adjustment of above costs proposed that this may be linked with the percentage of Fixed Assets (i.e. 2% of the net Fixed Assets) in operation.

12.5. The Authority has carefully examined the Petitioner's request of linking the R&M cost as a percentage of Net Fixed Assets (NFAs). The Authority, while going through the actual expenditure incurred by the Petitioner on account of R&M during the last three years as per its audited accounts, observed that the same works out as 0.88%, 1.05% and 1.20% of the NFAs for the FY 2022-23, FY 2023-24 and FY 2024-25 respectively. Moreover, the Petitioner has not provided any rationale or working to substantiate its request of setting R&M as 2% of NFAs except that it has to maintain old and over loaded system in order to ensure un-interrupted power supply to the consumers, and that cost of material has also increased due to inflationary pressure.

12.6. No doubt that the adherence to service standards and improvement of customer services is only possible through continuous repair and maintenance of distribution network, however, at the same time the Petitioner has also requested huge CAPEX for making additional investment in Fixed Assets, resulting in new, expensive and efficient equipment, leading to overall reduction in R&M cost and increasing the total Assets base. Thus, the Petitioner's idea if adopted would result in undue benefit to the Petitioner in the long run. In addition to aforementioned discussion, the Petitioner's request of annual adjustment in this regard is against the very spirit of multiyear tariff regime. 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.



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12.7. In view of the foregoing and keeping in view the current approved tariff methodology, the Authority has decided to allow an amount of Rs.1,541 million under R&M head, for the FY 2025-26, after incorporating the inflationary impact 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, after excluding therefrom the cost associated with HAZECO. The same is hereby allowed to the Petitioner for the FY 2025-26 for both its distribution and Supply Functions.

12.8. 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 for the FY 2025-26 pertaining to the distribution function works out as Rs.1,479 million.

12.9. The assessed repair and maintenance cost for the FY 2025-26 i.e. Rs.1,479 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.

12.10. 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.

13. Other O&M Expenses

13.1. Other O&M expenses include Travelling costs, Vehicle Maintenance and other expenses i.e. Rent, Rates & Taxes, Power, Light and Water, Communication, Bill Collection Charges, Office supplies, Director Fees, Auditor Remuneration, Professional Fees, Outside Service Employed, Management Fees, NEPRA License Fees, Advertisement & Publicity, Subscriptions & Periodicals, Representation & Entertainment, Insurance, Bank Charges, and other miscellaneous expense.

13.2. The Petitioner projected its Other O&M costs including Travelling, Vehicle Maintenance and other expenses as under during the MYT control period for both its distribution and supply functions;

Description	Tariff Control Period					Mln. Rs.
	Y1	Y2	Y3	Y4	Y5	
	2025-26	2026-27	2027-28	2028-29	2029-30	
	Proj.	Proj.	Proj.	Proj.	Proj.	
	Traveling Expenses	410	451	496	546	600
	Vehicle Expenses	511	574	644	723	812
		Other Expenses	1,815	1,997	2,196	2,416
		Grand-Total	2,736	3,021	3,336	3,684
						4,069

13.3. For its Distribution Function, the Petitioner has requested the following amounts;

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Description	Mln. Rs.				
	Y1	Y2	Y3	Y4	Y5
Travelling Expenses	293	322	354	389	428
Vehicle Expenses	391	439	493	553	621
Other Expenses	257	283	312	343	377
Grand-Total	941	1,044	1,159	1,285	1,426

13.4. The Petitioner submitted that Travelling Expenses have been projected keeping in view the new hiring and enhancement of rates by Federal Government and requested that adjustment in Travelling Expenses may be linked with the CPI. Similarly, for Other expenses, the Petitioner also requested to link the same with CPI.

13.5. For Vehicles running expenses, the Petitioner stated that the Authority in its determination for FY 2024-25 allowed Vehicle Running expenses at Rs. 243 million, with only a marginal 20.8% increase from the determined amount of Rs. 201 million for FY 2023-24, which appears much lesser than the prevailing market prices. Previously, the Authority acknowledged the fact that the increased POL prices will impact recovery campaigns and consumers services, as the same is required for door to door surveillance and monitoring as well as providing services to the consumers efficiently. The Authority relied on the inflationary increase on General Category (CPI) instead of the Transport Category, despite a substantial 24.07% increase in transport prices in December 2021. Furthermore, data from the PSO website indicates a 39% increase in POL prices during FY 2021-22, a 67.8% increase during FY 2022-23 and a 13.18 % increase during FY 2023-24, consequently, the actual expenditure for FY 2024-25 is increased against the allocated amount. PESCO during the hearing submitted that it has a fleet of more than 785 vehicles, most of them have completed useful life of 10 years and need major over hauling. The financial position of the company doesn't allow to replace the old vehicles. The Distribution system of the company is spread all over Khyber Pukhtunkhwa. Moreover, the cost of POL and Spare parts is increasing due to inflation. The Petitioner accordingly requested that adjustment in Vehicle running expenses may be linked with change in CPI for transport, and presented the following changes in the prices of POL over the last 07 years;

Description	FY 2019-20		FY 2020-21		FY 2021-22		FY 2022-23		FY 2023-24		FY 2024-25		FY 2025-26	
	Ave. Rs. / Ltr.	Ave. Rs. / Ltr.	Incr (oyj)											
Average Price of Petrol (Annual/PKR)	106.89	106.43	-0.40%	150.57	41.50%	247.8	64.60%	278.9	12.60%	255.3	-8.50%	266.1	4.20%	
Average Price of Diesel (Annual/PKR)	117.5	108.98	-7.30%	149.36	37.10%	255.5	71.10%	286.1	12.00%	259.8	-9.20%	276.4	6.40%	
Average POL Price (Petrol + Diesel / PKR)	112.2	107.7	-4.00%	149.97	39.70%	251.7	57.80%	282.5	12.30%	257.6	-8.80%	271.2	5.30%	

13.6. 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, except vehicle running expenses, may be linked with CPI during the entire tariff control period. Accordingly, 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 excluding therefrom the cost associated with HAZECO, and incorporating therein inflationary impact, has decided to allow an amount



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of Rs.2,441 million to PESCO for the FY 2025-26. The said amount of Rs.2,441 million is being allowed for both the Distribution and Supply of Power function for the FY 2025-26.

13.7. By considering the figures as per financial statement, the Authority has incorporated all the costs including bill collection, building rent, NEPRA fee, insurance cost, rent, rates & taxes, and travelling, transportation etc.

13.8. The aforementioned assessment for the FY 2025-26 shall be considered as reference for working out future Other Operating Expenses for remaining tariff control period to be adjusted based on change in "NCPI-General", in line with the mechanism provided 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.

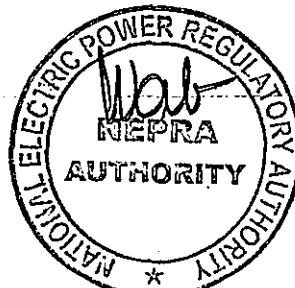
13.9. Since the Audited accounts of the Petitioner, do not provide bifurcation of the Other O&M costs in terms of Distribution and Supply Functions, therefore, for the purpose of allocation of total cost of other O&M costs in terms of Distribution and Supply Functions, the criteria as adopted by the 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.715 million.

13.10. 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.

13.11. If the actual O&M cost for the previous year, as referred 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 are 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.

PPMC Fee

13.12. 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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13.13. 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.

13.14. PESCO during hearing requested an amount of Rs.444.46 million, on account of PEPCO/ PPMC Management Fee as under;

Period	Amount (Mln Rs.)
Upto 2022-23	392.962
2023-24	35.49
2024-25	16.016
Total	444.468

13.15. 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.

13.16. 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.

13.17. 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.

13.18. 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.

14. Whether the requested/projected amount under heads of Other Income, Depreciations and RORB based on WACC of 17.05% is justified?

Depreciation

14.1. The Petitioner has submitted that Depreciation is calculated on the basis of value of existing Assets plus the additions in assets during the FY 2025-26; actual depreciation for FY 2023-24 was Rs. 3,448 million. The assets are depreciated on straight line method as



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per utility practice i.e. land at 0 %, buildings and civil works at 2%, Plant and machinery at 3.5%, office equipment and mobile plant at 10% and other assets at 10%.

14.2. Based upon these assumptions, the figure for depreciation has been worked as under for the tariff control period for both the distribution and supply functions;

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period	
				Test Year	Y2	Y3	Y4	Y5		
	2023-24	2024-25	2024-25	2024-25	2025-26	2025-27	2025-28	2025-29	2025-30	
	Act/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Depreciation Expense	3,831	5,017	5,126	5,574	6,716	7,513	8,482	9,224	7,502	
%Increase/(Decrease)					9%	20%	12%	13%	9%	

14.3. For Distribution Function, depreciation has been projected as Rs. 5,016 million for FY 2025-26, Rs. 6,044 million for FY 2026-27, Rs. 6,761 million for FY 2027-28, Rs. 7,634 million for FY 2028-29 & Rs. 8,301 million for FY 2029-30 as detailed below;

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period	
				Test Year	Y2	Y3	Y4	Y5		
	2023-24	2024-25	2024-25	2024-25	2025-26	2025-27	2025-28	2025-29	2025-30	
	Act/Pro.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Depreciation Expense	3,448	4,515	4,613	5,016	6,044	6,761	7,634	8,301	6,751	
%Increase/(Decrease)					9%	20%	12%	13%	9%	

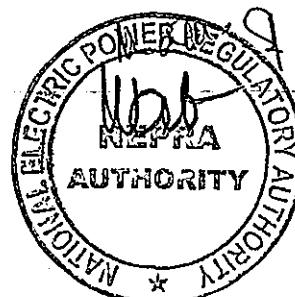
14.4. The Petitioner has proposed that adjustment in Depreciation Expenses may be linked with the Gross Fixed Assets in operation.

14.5. The Authority noted that as per the Methodology, depreciation expense for the test year, which in the instant case is FY 2025-26, will be determined by applying depreciation charge on the Gross Fixed Assets in Operation, including new investment and will be considered reference for the tariff control period.

14.6. 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. Mn	
Provisional Capex	PESCO
FY 2025-26	11,435
FY 2026-27	11,681

14.7. 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 PESCO.





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

Provisional T&D Loss	PESCO
FY 2025-26	19.26%
FY 2026-27	19.26%

14.9. 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.

Revised T&D Loss Target (Failure to submit study)	PESCO
FY 2025-26	8.90%
FY 2026-27	8.90%

14.10. 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 the DIP of PESCO, as the case may be.

14.11. Not used

14.12. Not used

14.13. 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.4,171 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.

14.14. 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.3,161 million for the FY 2025-26. Accordingly, the consumers would bear net depreciation of Rs.1,010 million.

14.15. 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 for the FY 2025-26 pertaining to the Distribution function works out as Rs.3,754 million.

RoRB

14.16. The Petitioner has submitted that the Authority allowed WACC of 20.4% to PESCO for the FY 2024-25 in its tariff determination for FY 2024-25, against the requested WACC of 21.27%, hence, the same needs to be reconsidered in view of the MYT determination, wherein adjustments on account of variation in KIBOR is permissible on biannual basis. PESCO has calculated WACC of 17.05% based on the following calculations:

*Weighted Average Cost of Debt for FY 2024-25 include 3 month's Kibor plus 2% spread.

By incorporating the above adjustment of ERC, the calculation of WACC and RORB will be as under: $WACC = [14.47\% * 30\%] + [18.16\% * 70\%] = 17.05\%$

14.17. PESCO stated that it has no other source of revenue except Tariff to pay off the principal, interest and exchange risk payable to EAD except for consumer end Tariff and if not allowed, it will in any way effect the consumers as the same will be passed in the form of deficit financing resulting in financial hardship to the consumers.

14.18. PESCO is of the opinion that return should be adequate enough to not only cover the cost of debt but also to cater for the exchange rate parity as well as reasonable return to the equity holders. PESCO therefore requested the Authority to allow RORB @17.05% WACC, including debt as per following calculations and further projection is also being made for the tariff control period;

Description	UoM	2025-26	2026-27	2027-28	2028-29	2029-30
		Proj.	Proj.	Proj.	Proj.	Proj.
Net Fixed Assets in Operation	[Mn Rs]	103,072	120,673	137,660	152,902	164,389
Add: Capital Work In Progress - Closing Bal	[Mn Rs]	47,731	52,813	53,211	51,525	44,981
Less: Cap. WIP-Deposit Portion	[Mn Rs]	12,692	12,865	12,779	12,822	12,800
Investment in Fixed Assets	[Mn Rs]	138,110	160,621	178,093	191,605	196,571
Less: Deferred Credits	[Mn Rs]	54,356	58,925	63,342	67,431	71,279
Regulatory Assets Base	[Mn Rs]	83,754	101,696	114,751	124,174	125,291
Average Regulatory Assets Base	[Mn Rs]	72,253	92,725	108,223	119,463	124,733
Rate of Return	[%age]	17.05%	17.05%	17.05%	17.05%	17.05%
Return on Rate Base	[Mn Rs]	12,318	15,809	18,451	20,367	21,266

14.19. In view thereof, PESCO has requested the following RoRB for both its Distribution and Supply Business during the MYT control period;

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Distribution & Supply of Power Business										
Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period	
				Test Year	Y2	Y3	Y4	Y5		
				2024-25	2025-26	2025-27	2025-28	2025-29	2025-30	
RORB	10,390	15,145	9,603	12,318	15,809	18,451	20,367	21,266	17,642	
%Increase/(Decrease)				28%	28%	17%	10%	4%		

14.20. For Distribution Business, PESCO has requested the following RoRB during the MYT control period;

Distribution of Power Business										
Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period	
				Test Year	Y2	Y3	Y4	Y5		
				2024-25	2025-26	2025-27	2025-28	2025-29	2025-30	
RORB	8,313	12,116	7,683	9,855	12,648	14,762	16,295	17,014	14,115	
%Increase/(Decrease)				28%	28%	17%	10%	4%		

14.21. 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;

(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;

14.22. 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.

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

Cost of Equity:

$$K_e = R_f + (R_m - R_f) \times \beta$$

Where;

R_f is the risk free Rate

R_m is the Market Return

β is Beta

The cost of debt:

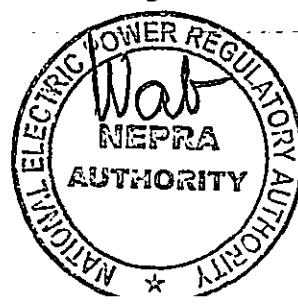
$$K_d = KIBOR + \text{Spread}$$

14.24. Accordingly, the WACC as per the given formula works out as under;

$$\text{WACC} = ((K_e \times (E/V)) + (K_d \times (D/V)))$$

Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;

14.25. 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



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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.

- 14.26. 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.
- 14.27. 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 by international Regulators, and accordingly decided to use the beta of 1.10, while assessing the RoE component.
- 14.28. By taking into account the aforementioned factors, the RoE of the Petitioner works out differently, however, keeping in view the request of the Petitioner and the Authority's earlier decisions in the matter of other XWDISCOs and K-Electric, the Authority has decided to allow RoE component of 14.47%, PKR based.
- 14.29. 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).
- 14.30. 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%

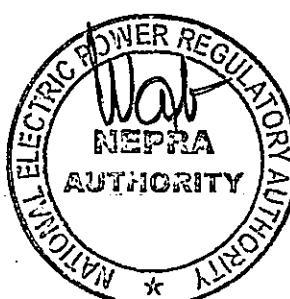
$$\text{WACC} = (Ke \times (E / V) + (Kd \times (D / V))$$

Where E/V and D/V are equity and debt ratios respectively taken as 30% and 70%;

$$\text{WACC} = ((14.47\% \times 30\%) + (12.64\% \times 70\%)) = 13.19\%$$

- 14.31. 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;

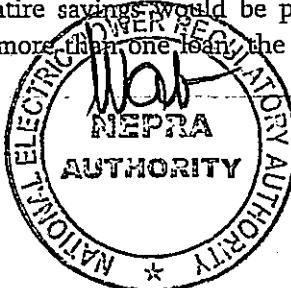
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PESCO		
Description	FY 2024-25	FY 2025-26
Fixed Assets O/B	137,332	127,168
Addition	13,900	13,476
Fixed Assets C/B	151,232	140,644
Depreciation	52,679	43,715
Net Fixed Assets	98,553	96,930
Capital WIP C/B	22,895	22,631
Fixed Assets Inc. WIP	121,448	119,561
	70	
Less: Deferred Credits	52,924	57,088
Total	68,454	62,473
 RAB	 65,463	
 WACC	 13.19%	
 RORB	 8,634	

- 14.32. 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 pertaining to the Distribution function works out as Rs.6,907 million.
- 14.33. 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.
- 14.34. 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.
- 14.35. 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.
- 14.36. 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 saving would be passed onto the consumers annually, through PYA. In case of more than one loan, the saving with respect to the



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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.

Other Income

14.37. The Petitioner has submitted that main sources of other income include Interest Income, Sale of Scrap, Amortization of Deferred Credit, Rental & Service Income etc., whereas the Wheeling Charges and Late Payment Surcharge have been excluded as per decision of NEPRA. Accordingly, the Petitioner has projected the following amounts as Other Income during the MYT control period for both its Distribution and Supply functions;

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
				Act/Pro.	Proj.	Proj.	Proj.	Proj.	
Other Income	-5.523	-5.021	-5.021	-6.270	-6.451	-6.530	-6.466	-6.221	-6.388
%Increase/(Decrease)				25%	3%	1%	-1%	-4%	

14.38. The Petitioner has provided the following detail of other income pertaining to the Distribution Function;

Description	Audited	Nepra Determination	Base Year	Tariff Control Period					Avg. for Tariff Control Period
				Test Year	Y2	Y3	Y4	Y5	
				2024-25	2025-26	2025-27	2025-28	2025-29	
				Act/Pro.	Proj.	Proj.	Proj.	Proj.	
Other Income	-3.795	-3.464	-3.450	-4.308	-4.432	-4.486	-4.443	-4.275	-4.389
%Increase/(Decrease)				25%	3%	1%	-1%	-4%	

14.39. 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.

14.40. 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.6,270 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) and wheeling charges from TESCO for both of its Distribution and Supply functions. The Petitioner is further directed to provide year wise detail of wheeling charges charged to TESCO and the amount actually received from TESCO in this regard.

14.41. 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.

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14.42. 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.4,326 million.

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

15. 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)?

Adjustment Mechanism

15.1. Regarding adjustment mechanism of different components, the Petitioner during the hearing presented as under;

DESCRIPTION		MYT ASSUMPTIONS
Oper. & Maintenance		
Salaries & Other Benefits		(1 + GoP Increase) + N / O (Outsourcing)
Post Retr. Benefits		(1 + GoP Increase)
Other Operating Expenses	Annually as per Approved Mechanism	(1 + NCPI) X Factor @ 0% capped to the actual expenses
Depreciation (Actual Basis)		
Return on R/Asset Base (Actual Basis)		
Less Other Income		
KIBOR	Bi-Annually as per Decision	(3 Months KIBOR + 2.25%) Rate 4.7% of NCRA (Benchmarks for Tariff Determination) Gulfstream, 2018

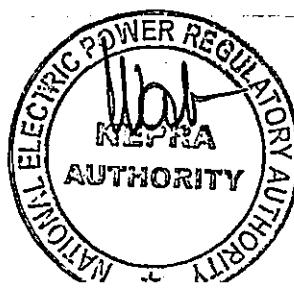
15.2. The Petitioner submitted that O&M component of the Distribution Margin shall be indexed with NCPI-X factor, however, efficiency factor "X" has been proposed as zero '0', capped to actual expenses.

15.3. 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 spirit of multi- year tariff regime and in accordance with Authority's approved tariff methodology.

15.4. 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).

15.5. Indexation of O&M cost components

15.6. 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



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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)]
The 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 shall be actualized based on Audited accounts for the relevant year , considering the same as uncontrollable cost on part of XWDISCOs.

15.7. Considering the fact that the Petitioner is obligated to pay to its pensioners, the pension increases announced by the Federal Government, therefore, being an un-controllable cost, the Post-retirement Benefits would be actualized based on the audited accounts of the Petitioner for the relevant year. 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 - Actual Post-retirement Benefits payment
Revised Post-Retirement Benefits = Ref. Post-Retirement Benefits x [1+(GoP Increase or CPI)]
The allowed Post-Retirement Benefit 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 shall be actualized based on Audited accounts for the relevant year , considering the same as uncontrollable cost on part of XWDISCOs.

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

15.9. 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)})

15.10. 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

△ 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 for Vehicle Running expense, NCPI-Transport shall be used. Reference



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NCPI-General and NCPI-Transport of December 2024 for the purpose of future adjustment/ indexation shall be 4.07% and - 0.18% respectively.

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

16. RORB

16.1. The reference RoRB would be adjusted every Year based on the amount of RAB worked out for the respective year after taking into account the amount of investment allowed for that year as per the following mechanism;

Adjustment Mechanism - RoRB	
RORB(Rev)	$-\text{RORB}(\text{Ref}) \times \text{RAB}(\text{Rev}) / \text{RAB}(\text{Ref})$
<p>The allowed RORB may be considered as reference cost for future adjustment.</p> <p>In addition the allowed RORB for previous year will be trued up based on 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.</p>	

16.2. In addition, PESCO shall be required 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.

16.3. 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.

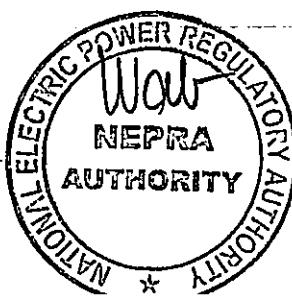
16.4. The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover the risk of floating KIBOR. Accordingly, 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.

17. Depreciation Expenses

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

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

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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

17.2. 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.

18. Other Income

18.1. 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)}
<p>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</p>	

19. Financial Charges

19.1. The Petitioner also raised the issue of non-provision of mechanism for indexation of approved investment plan in the MYT 2021-2025, under the head "Financial Charges". The Petitioner submitted that unavoidable factors such as natural calamities and inflation-induced mismatches between the scope and amount of allowed investment. Such approach could lead to negative consequences for service quality and long-term efficiencies. The Petitioner therefore requested that indexation mechanism of Investment Plan may be allowed, considering the NCPI local and NCPI foreign indices for foreign-funded projects of Distribution Plan of the Petitioner, which is integrated with the 132 KV network studies, envisages expansion and rehabilitation of the Company network during the 2025-26 to FY 2029-30.

20. The Authority understands that issue regarding indexation mechanism for the allowed investment pertains to the investment plan submitted by the Petitioner, for which separate proceedings are being carried out, therefore, the Petitioner needs to take-up this issue during proceedings of its investment plan.

21. Whether the request to allow Working capital, Worker welfare fund and cost of open access & cross subsidy is justified?

21.1. The Petitioner subsequently vide letter dated 08.08.2025, in continuation of its Distribution and Supply Tariff Petitions, submitted certain additional points for consideration and incorporation in the final MYT determination of PESCO as under;

- ✓ Recovery Loss
- ✓ Cost of Working Capital
- ✓ Worker's Welfare Fund (WWF)

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- ✓ Other Income
- ✓ T&D Loss targets
- ✓ Cost of Open Access and Cross Subsidy

21.2. The Authority noted that issue of Recovery loss pertains to the Supply of power function, therefore, the same been discussed in the Supply tariff determination of the Petitioner. Similarly, the issue of T&D losses, being relevant with the DIP and assessment of T&D losses, would be discussed and deliberated in detail in the Investment Plan determination of the Petitioner.

21.3. On the issue of other income, the Petitioner additionally submitted as under;

✓ Liquidated Damages

PESCO recognizes the importance of maintaining strong incentives for efficient contract management. Therefore, it is proposed that LDs recovered from PESCO's contractors and suppliers should generally be retained by PESCO in cases where the Authority has not approved any cost overruns, time extensions etc., related to those specific works or projects. For example, if a contractor fails to complete a grid station upgrade within the agreed timeline and no extension has been approved by the Authority, the LD imposed on that contractor should be retained by PESCO.

✓ Interest income/ Return on Bank deposits

PESCO submits that the interest income earned on deposits and surplus funds should not be treated as part of its regulated revenue. This income arises from prudent financial management and effective cash optimization strategies, rather than from PESCO's core regulated activities of electricity distribution and supply. It reflects the company's efforts to manage liquidity and utilize idle funds efficiently, which is separate from the operational costs of providing electricity to consumers. Therefore, PESCO respectfully requests that it be allowed to retain the interest income on such deposits, as it does not form part of the revenue derived from regulated operations. Furthermore, PESCO is contractually obligated to maintain substantial balances in its Main Collection Account (MCA) under various financing and operational agreements. As no adjustment has been claimed in the working capital component on account of funds tied up in MCA arrangements, PESCO requests to retain the income generated from these accounts. In line with regulatory transparency requirements, PESCO will disclose the interest income from its MCA accounts separately in its audited financial statements.

Liabilities written Back/ Assets written off/ Scrap Sales:

Financial outcomes resulting from its internal financial management decisions, such as asset write-offs and liability reversals, are purely commercial in nature and should not impact consumers. The Authority is requested to consider that assets written off are part of PESCO's own operational discretion, and any scrap sale proceeds should not be treated as other income up to the extent of the asset's historical cost. However, any amount realized from scrap sales exceeding the historical cost may be included as other income. Similarly, in cases where liabilities are written back and the related costs were already allowed in the tariff, the corresponding amount should be included in other income.

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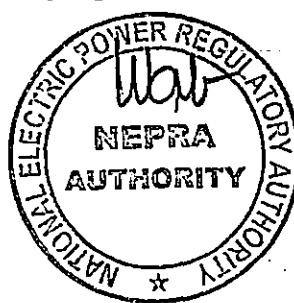
21.4. Regarding LDs from contractors, the Authority has decided to allow PESCO to retain LDs from its contractors/ suppliers, only in case the Authority does not allow any cost overruns/ time extensions etc., for the said works. However, LDs recovered from bilateral energy supply contracts, as per their approved PPAs, if any, shall be adjusted in tariff.

21.5. On the point of liabilities written Back/ Assets written off/ Scrap Sales, the Authority considers request of PESCO reasonable and has decided that assets written off would be PESCO's own commercial decisions, for which consumers should not be impacted. Accordingly, any scrap sale proceeds from such written-off assets shall not be included as part of other income to the extent of value written off on historical cost basis. However, if the amount of scrap sales exceeds the value written off on historical cost basis, the excess amount shall be included as part of other income. Similarly, for liabilities written-back, for which PESCO has already been allowed cost in the tariff, the same shall be included as part of other income.

21.6. For Interest income/ Return on Bank deposits, the Authority has decided that interest income on deposits and return on bank deposits to the extent of allowed RoRB and Depreciation, needs to be retained by PESCO. However, interest income on deposits and return on bank deposits, excluding interest income on amount allowed to PESCO for RoRB and Depreciation, shall be passed on to the consumers 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.

21.7. On the issue of open access and cross subsidy, PESCO submitted as under;

- ✓ For the purpose of tariff determination, the units served shall include energy supplied to both regulated and non-regulated (Open Access) consumers, along with any unit adjustments. It is worth mentioning that in line with Rule 5(2)(c) of the Eligibility Criteria Rules 2023 notified by the Government of Pakistan as well as Strategic Directive 88 of the NE Plan, Use of System Charges (UoS) which include wheeling charges, open access costs, and cross subsidies should be recovered on a uniform basis across all consumers. This approach is consistent with the currently uniform applicable tariff policy and is subject to determination by the Authority. These charges shall be deducted at actuals while calculating the revenue requirement for regulated consumers under the Supply Business.
- ✓ Any bilateral contract between a Bulk Power Consumer (BPC) and a Competitive Supplier must ensure the grossing up of BPC demand to include allowed technical losses as determined by NEPRA for PESCO distribution network. Therefore, the total demand to be served by the Competitive Supplier for a BPC must factor in these allowed losses. Any imbalances (shortages or excess energy) shall be recovered or adjusted from BPCs or their respective Competitive Suppliers in line with applicable provisions of the regulatory framework.
- ✓ The Authority should incorporate the treatment of Hybrid Bulk Power Consumers (BPCs) within the scope of the upcoming Multi-Year Tariff (MYT) determination. In line with the principles outlined in NEPRA's Decision on Wheeling Cost dated January 11, 2021, it is proposed that Hybrid BPCs who retains PESCO as the deemed supplier while partially sourcing power through open access, be levied based on the higher of





their sanctioned load or actual Maximum Demand Indicator (MDI), as outlined in the regulatory framework PESCO recommends that NEPRA provide clear guidance regarding the treatment of technical losses and other adjustments under such wheeling arrangements.

- ✓ Pehur Hydropower Plant (HPP), operating as a Competitive Supplier under the open access regime, supplies electricity to Hybrid Bulk Power Consumers (BPCs) connected to PESCO's distribution network. In this context, PESCO submits that any bilateral contract between Pehur HPP and these Hybrid BPCs must ensure that the consumers' demand is grossed up to include the allowed level of technical losses determined by NEPRA for PESCO's distribution system. This ensures that the total demand served by Pehur HPP accurately reflects the losses within the network. Any energy imbalances, whether shortages or surpluses should be recovered or adjusted from the respective Hybrid BPCs/ Pehur HPP in accordance with the applicable regulatory framework.
- ✓ Relevant tariff treatment be applied to Pehur HPP in accordance with NEPRA's guidelines, and respectfully requests the Authority to affirm this classification in the upcoming Multi-Year Tariff (MYT) determination. This is essential to ensure cost recovery for the capacity reserved by PESCO to serve such consumers on demand. Inclusion of this mechanism in the MYT will provide regulatory clarity, financial stability, and consistency in the treatment of open access consumers during the ongoing transition to a competitive electricity market.
- ✓ The Authority is requested to recognize that all charges recovered by PESCO on account of open access including use of system charges, open access costs, cross-subsidies, marginal pricing, or any other applicable cost shall be adjusted in the allowed revenue requirement of PESCO, as per the applicable framework determined by NEPRA.

21.8. On the point of the Petitioner that for the purpose of tariff determination, the units served shall include energy supplied to both regulated and non-regulated (Open Access) consumers, along with any unit adjustments, the Authority noted that tariff would be designed based on units supplied for the Regulated consumers only, however, any charges to be recovered by the Petitioner on account of open access, including use of system charges, open access costs, cross subsidy, marginal price, or any other cost, as per the applicable framework, would be adjusted in the allowed revenue requirement of the Petitioner.

21.9. Regarding, point of the Petitioner that total demand to be served by the Competitive Supplier for a BPC must factor in the allowed losses, the same is required to be dealt with in accordance with the mechanism provided in the approved Market Code.

21.10. Regarding recovery of stranded cost on account of open access, the same are to be dealt with in accordance with the amended SD 87 of the NE Plan, which clearly states the frameworks / policy guidelines to be issued by the Federal Government, from time to time, stipulating the mechanism to deal with stranded costs on account of market liberalization and open access. It also states that in the event the framework / policy guidelines is not in field or the quantum of demand allowed for a particular period has been exhausted; or any person intends to avail open access without the competitive auction process stipulated in the frameworks / policy guidelines, then the Authority shall, on an application made by





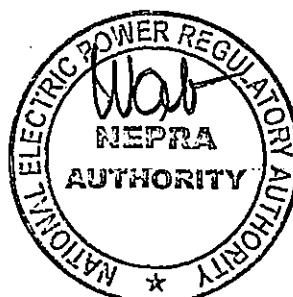
respective licensee or ISMO (as the case may be), determine other costs equal to the total generation capacity charges recovered from the equally placed bulk power consumers of the suppliers of last resort, either in a volumetric form (kWh) or through fixed charges. Such costs shall continue to be paid in the said manner till such time as may be reviewed by the Federal Government as per the procedure laid down in the applicable rules.

21.11. On the issue of Working Capital, PESCO submitted as under:

- ✓ Under the Multi-Year Tariff (MYT) framework, PESCO seeks a formal determination of the cost of working capital for its supply business for FY 2026. This request is being made in light of the essential financial resources required to sustain uninterrupted power procurement and supply operations. As a public sector entity, PESCO is obligated to maintain continuous energy supply to its consumers, which necessitates sufficient liquidity to meet operational obligations including payments to generation and transmission entities prior to the full recovery of costs from end-consumers. The nature of the electricity supply business inherently involves a significant time lag between the incurrence of costs and recovery through tariff mechanisms, thereby creating a genuine and unavoidable working capital requirement.
- ✓ NEPRA has acknowledged and allowed the cost of working capital to K-Electric (KE) as part of its supply business under the Multi-Year Tariff (MYT) regime. KE's claim was evaluated and approved on the basis of recognized operational lags, receivable build-ups, and the time delays in recovering various cost components such as Fuel Cost Adjustments (FCA), Quarterly Tariff Adjustments (QTA), and Annual Adjustments. NEPRA's determination in this regard, sets a clear regulatory precedent, reinforcing the fact that the working capital requirement is a legitimate and prudently incurred cost essential for the financial sustainability of power suppliers.
- ✓ Accordingly, PESCO submits that it faces similar, if not more pronounced, operational and financial challenges, particularly in the context of delayed recoveries, payment cycles of government and public sector consumers, and systemic lags/ delay in tariff pass-through timelines.

21.12. The Authority has considered the submissions of the Petitioner in terms of its obligation to maintain continuous energy supply to its consumers, and also reference made by the Petitioner to recent KE's MYT determinations for the period from FY 2023-24 to FY 2029-30. 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	Factor	PESCO
	Days		
Stores and Spares (3% of GFA)	3%	3%	4,219
Trade debt (30 days of Revenue Receivable)	30	0.08	2,131
Total Current Assets			6,351
Current Liabilities	2/3	66.67%	4,234
Working Capital Requirement			2,117
Less Receipt Against Deposit Work			22,134
Net Working Capital			(20,017)
Cost of debt local			12.00%
Working Capital Cost			(2,402)

21.13. As mentioned in the table above, PESCO's working capital requirement for the distribution function has been assessed as Rs.2,117 million. The Authority considers that receipts against deposit works, being related with distribution network business, are also required to be accounted for as part of working capital calculations. By including the amount of receipt against deposit works available with the Petitioner, as per the data provided by PESCO, its net cost of working capital requirement for the distribution function works out as negative Rs.2,402 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 same is allowed to PESCO for the CY 2026, and is subject to adjustment, as per the mechanism provided below, once the audited accounts of PESCO 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)

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.

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- Any other amount retained by PESCO
- For the purpose of 3 - Month KIBOR, the actual weighted average KIBOR of finance cost incurred by PESCO shall be considered. Similarly, for the purpose of spread, actual weighted average spread incurred by PESCO 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.

21.14. 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.

21.15. On the point of the Petitioner that KE's working capital claim was evaluated and approved on the basis of recognized operational lags, receivable build-ups, and the time delays in recovering various cost components such as Fuel Cost Adjustments (FCA), Quarterly Tariff Adjustments (QTA), Annual Adjustments, and that PESCO faces similar, if not more pronounced, operational and financial challenges, the Authority noted that KE has not been allowed any cost in this context.

21.16. The Authority observed that regarding quarterly tariff adjustments, Section 31 (7)(ii) of the NEPRA Act provides as under:

"the Authority may, on a quarterly basis and not later than a period of fifteen days, make quarterly adjustments in the approved tariff.."

21.17. Similarly, Section 31(7)(iv) of the NEPRA Act regarding monthly FCAs provides as under:

"the Authority may, on a monthly basis and not later than a period of seven days, make adjustments in the approved tariff on account of any variations in the fuel charges and policy guidelines as the Federal Government may issue and, notify the tariff so adjusted in the official Gazette."

21.18. Both clause 31(7) (ii) and 31(7) (iv) are similar in nature. It is settled jurisprudence now that the above referred clauses are only directory in nature, whereby no consequential penalty is provided. The courts have recognized that the time consumed in mandatory procedural processes, including publication of notices, affording the right of audience to consumers, scrutiny and due diligence of data, coupled with the procedural steps involved in filing and processing QTA and FCA petitions, inevitably exceeds the time frame stipulated under Section 31(7) of the Act.

21.19. Having said that the Authority endeavors to decide the Petitions/ adjustment requests etc., expeditiously after fulfillment of all legal requirements and directions of the superior courts. Hence, the request of the Petitioner to allow cost of working capital on account of operational lags, time delays in recovering various cost components such as Fuel Cost Adjustments (FCA), Quarterly Tariff Adjustments (QTA), Annual Adjustments is not allowed.

21.20. On the issue of Workers' Welfare Fund (WWF) and Workers' Profit Participation Fund (WPPF), PESCO submitted as under:

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- ✓ Workers' Welfare Fund (WWF) and Workers' Profit Participation Fund (WPPF) are statutory obligations under applicable federal laws and must be recognized as legitimate costs of doing business. These payments are not discretionary but are mandatory legal requirements imposed on companies under the relevant labor and tax legislation. As per Section 4(l) of the Workers Welfare Fund Ordinance, 1971 every Company shall pay 2% of its profit to Workers Welfare Fund. Extracts of Section 4 of the above-mentioned act is reproduced as under:

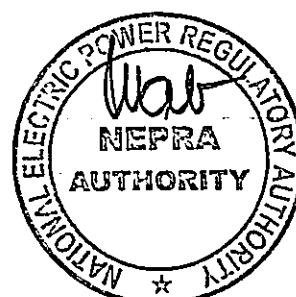
"4. Mode of payment by, and recovery from, industrial establishments. (i) Every industrial establishment the total income of which in any year of account commencing on or after the date7 specified by the (Federal Government) in the official Gazette in this behalf is not less than (five) lakh of rupees shall pay to the Fund in respect of that year a sum equal to two per cents, if its total income"
- ✓ As per chapter I(4)(i) of the Workers Welfare Fund Ordinance, 1971 "total income" is defined as follows:

"(i) "Total Income" means:

 - (i) where Return of Income is required to be filed under this Ordinance, the profit (before taxation or provision for taxation) as per accounts or the declared income as per the return of income, whichever is higher; and*
 - (ii) where return of Income is not required to be filed, the profit (before taxation or provision for taxation) as per accounts or four per cent of the receipt as per the statement filed under section 115 of the Ordinance, whichever is higher."*
- ✓ It is important to note that in the case of Independent Power Producers (IPPs), such statutory levies are allowed as pass-through items under their respective Power Purchase Agreements (PPAs). Similarly, NEPRA in its MYT determination for K-Electric has acknowledged this principle and allowed WWF and WPPF as pass-through items, subject to the provision of verifiable documentation.
- ✓ Currently, these costs are not embedded within the allowed O&M cost under PESCO's tariff framework. As such, any payments made by PESCO on account of WWF or WPPF would be borne from the company's allowed return, thereby effectively reducing the Return on Equity (RoE) allowed by the Regulator. This treatment does not reflect the principle of cost recovery and may adversely impact the financial viability and investment attractiveness of the DISCO.
- ✓ In line with this regulatory precedent, and consistent with the treatment extended to other market participants, PESCO submits that WWF amounting to Rs. 747 million for FY 2024 should also be allowed on an actual payment basis, subject to verification through supporting documents and treated as pass-through components of PYA, to be reflected in subsequent tariff adjustments.

21.21. Regarding WWF and WPPF, the Authority observed that the Petitioner is required to make payments on account of these heads under the law as mentioned here under;

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Workers Profit Participation Fund

102. As per Section 3(1) of The Companies Profit (Worker' Participation) Act 1968 every Company shall pay 5% of its profit to Worker's Participation Fund. Extracts of Section 3 of the above mentioned act is reproduced below:

(3. Establishment of fund:-

(i) Every company to which the scheme applies shall-

(a) establish a Workers' Participation Fund in accordance with the scheme as soon as the accounts for the year in which the scheme becomes applicable to it are finalized but not later than nine months after the close of that year $\text{A.Y. } 1967$;

3[(b) Subject to adjustments, if any, pay every year to the Fund not later than nine months after the close of that year five percent of its profits during such year, $\text{A.Y. } 1967$ and;

(c) furnish to the Federal Government and the Board, not later than nine months after the close of every year of account, its audited accounts for that year, duly signed by its auditors.]

103. As per section 2 of the Companies Profit Worker' Participation Act 1968 "Profits" are defined as follows:

(i) "profits" in relation to a company means such of the "net profits" as defined in section 97-C of the Companies Act, 1913 (VII of 1913), as are attributable to its business, trade, undertaking or other operations in Pakistan;

104. Extract of section 87C of Companies Act 1913 are as follows:

87C. If any company appoints a managing agent after the commencement of the Indian Companies (Amendment) Act, 1936, the remuneration of the managing agent shall be a sum based on a fixed percentage of the net annual profits of the company, with provision for a minimum payment in the case of absence of, or inadequacy of profits, together with an office allowance to be determined in the agreement of appointment.

(2) Any stipulation for remuneration additional to or in any other form than the remuneration stipulated in sub-section (1) shall not be binding on the company unless sanctioned by a special resolution of the company.

(3) For the purposes of this section "net profits" means the profits of the company calculated after allowing for all the usual working charges, interest on loans and advances,repairs and outgoings, depreciation, bounties or subsidies received from Government or from a public body, profits by way of premium on shares sold, profits on sale proceeds of forfeited shares, or profits from the sale of the whole or part of the undertaking of the company but without any deduction in respect of income-tax or super-tax, or any other tax or duty on income or revenue or for expenditure by way of interest on debentures or otherwise on capital account or on account of any sum which may be set aside in each year out of the profits for reserve or any other special fund.

Workers Welfare Fund

As per Section 4(1) of the Workers Welfare Fund Ordinance, 1971 every Company shall pay 2% of its profit to Worker's Welfare Fund. Extracts of Section 4 of the above mentioned act is reproduced below:

4. Mode of payment by, and recovery from, industrial establishments.

(1) Every industrial establishment, the total income of which in any year of account commencing as or after the date specified by the [Federal Government] in the Official Gazette at its behalf is not less than $\text{Rs. } 10,000$ (Rupees ten thousand/-) shall pay to the Fund in respect of that year a sum equal to two per cent $\text{of its total income } [1\% \text{ of } \text{Rs. } 10,000]$

As per chapter 1(4)(i) of the Workers Welfare Fund Ordinance, 1971 "total income" is defined as follows:

4(i) "total income" means

(i) where return of income is required to be filed under the Ordinance, the profit (before taxation or provision for taxation) as per accounts or the declared income as per the return of income, whichever is higher; and

(ii) where return of income is not required to be filed, the profit (before taxation or provision for taxation) as per accounts or four per cent of the receipt as per the statement filed under section 115 of the Ordinance, whichever is higher]

21.22. Since these costs have not been included as part of the allowed O&M cost of PESCO, therefore, in case PESCO pays any such amount, it would be paying the same from its allowed returns, thus, effectively reducing its allowed RoE. The Authority also noted that in the matter of IPPs and K-Electric, the WWF/WPPF payments are allowed as pass through items.

21.23. In view thereof, the Authority has decided to allow these costs as pass through, on actual payment basis, as part of annual PYA, subject to provision of verifiable documentary

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evidences, in the subsequent tariff adjustments. However, in case there is a policy decision not to allow WWF or WPPF as pass through costs in future owing to recent negotiations being carried out with power companies, the Authority may review its decision for PESCO as well.

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

22.1. Although DISCOs made their submissions on this issue, however, the Authority noted that DISCOs were not able to fully comprehend the issue.

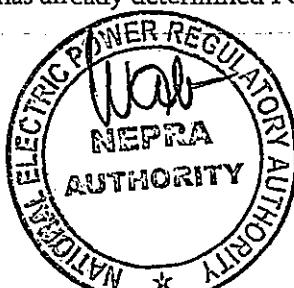
22.2. The Authority understands that sharing mechanism for any savings by the utility has already been provided under each head separately e.g. O&M costs, T&D losses, cost of debt etc. therefore, no such mechanism is separately required. However, still if there is any additional return by the Petitioner, which could not be comprehended at this stage, the same would be shared between DISCO and consumers equally.

23. Upfront Indexation/adjustment for the period July 2026 to December 2026

23.1. The MoE (PD) 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 Rules 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.

23.2. The MoE (PD) 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 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.

23.3. The MoE (PD) 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.

23.4. In light of above and in exercise of powers under Section 31 of the Act, the Federal Government issued 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."

23.5. PESCO also vide letter dated 20.10.2025 submitted that the MoE (PD) 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.

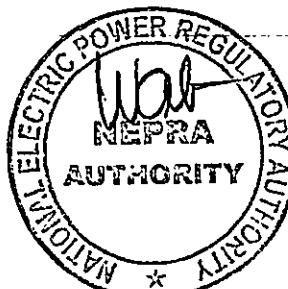
23.6. PESCO further stated that it has already submitted its Multi-Year Tariff (MYT) Petition for FY 2025-26 to FY 2029-30 for determination and the decision of the Authority is awaited. Meanwhile, an interim tariff for FY 2025-26 has been determined by the Authority in response to PESCO's request dated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

23.7. PESCO 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.

23.8. 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;

Description	Jul. 26 to Dec. 26
	Amount
	(Mln. Rs.)
O&M Cost	25,221
Depreciation	3,801
Return on Rate Base	8,948
Less: Other Income	(3,652)
Distribution Margin	34,319
Turnover Tax	2,031
Prior Period Adjustments	445
Revenue Requirement	36,795

23.9. 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



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Consumer End Tariff (Methodology and Process), 2015", and the same are now in the process of notification.

23.10. 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 PESCO for the period from July 1, 2026 to December 31, 2026 as under:

Description		Unit	Allowed July to December 2026
Pay & Allowances	[Mln. Rs.]	7,783	
Post Retirement Benefits	[Mln. Rs.]	7,037	
Repair & Maintenance	[Mln. Rs.]	818	
Traveling allowance	[Mln. Rs.]	159	
Vehicle maintenance	[Mln. Rs.]	173	
Other expenses	[Mln. Rs.]	963	
O&M Cost	[Mln. Rs.]	16,933	
Depreciation	[Mln. Rs.]	2,086	
RORB	[Mln. Rs.]	4,628	
O.Income	[Mln. Rs.]	(3,135)	
Margin	[Mln. Rs.]	20,512	

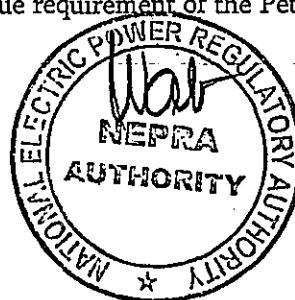
23.11. For the purpose of rebasing for the period from Jan. to Dec. 2026, the amount recovered by the Petitioner, to the extent of distribution and supply margin along-with PYA, from Jul. to Dec. 25, based on interim tariff allowed for the FY 2025-26, has been adjusted from the revised assessed tariff 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.

23.12. 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 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.

23.13. Any under 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.

24. Order

24.1. In view of the discussion made in preceding paragraphs and accounting for the adjustments discussed above, the allowed revenue requirement of the Petitioner, for the FY 2025-26,



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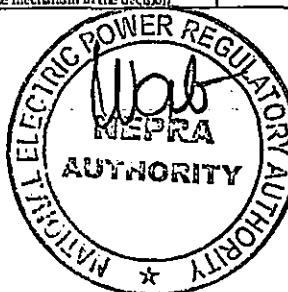
JuCY 2026 (January 26 to December 26) including upfront Indexation/adjustment for the period July 2026 to December 2026, to the extent of distribution function is summarized as under;

Description		Unit	Revised Allowed FY 2025-26	Allowed CY 2026
			DOP	DOP
Units Received	[MkWh]		10,373	
Units Sold	[MkWh]		8,375	
Units Lost	[MkWh]		1,998	
Units Lost	[%]		19.26%	
Pay & Allowances	[Mln. Rs.]	9,736	9,154	
Post Retirement Benefits	[Mln. Rs.]	8,444	9,268	
Repair & Maintenance	[Mln. Rs.]	1,479	1,482	
Traveling allowance	[Mln. Rs.]	213	153	
Vehicle maintenance	[Mln. Rs.]	248	247	
Other expenses	[Mln. Rs.]	254	263	
O&M Cost	[Mln. Rs.]	20,343	20,567	
Depreciation	[Mln. Rs.]	3,754	2,996	
RORB	[Mln. Rs.]	6,907	5,663	
O.Income	[Mln. Rs.]	(4,326)	(4,217)	
Margin	[Mln. Rs.]	26,678	25,008	
Prior Year Adjustment	[Mln. Rs.]			
Working Capital	[Mln. Rs.]			(2,402)
Revenue Requirement	[Mln. Rs.]	26,678	22,606	
Average Tariff	[Rs./kWh]			2.70

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

24.3. The Petitioner is directed to follow the below timelines for submission of its future indexation/adjustment during the MYT control period;

Description	ADJUSTMENTS/ INDEXATION	TIME LINES
Salaries, Wages & Benefits		
Post-retirement Benefit	Annually as per the mechanism given in the decision	
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	
		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.



9 March

24.4. For determination of use of system charges based on the aforementioned revenue requirement the Petitioner is directed to file its use of system charges petitions in line with applicable documents.

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

24.6. 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.

24.7. 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.

24.8. 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 of the Federal Government or the Provincial Government;

24.9. The Petitioner shall ensure that it develops, maintains and publicly makes available, its investment program for satisfying its service obligations and acquiring & selling its assets.

24.10. 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.

24.11. 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.

25. Summary of Direction

25.1. 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.

26. 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.

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*Determination of the Authority in the matter of MYT Petition
of PESCO for Distribution of Power Tariff under the MYT Regime*

27. 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

Amina Ahmed
Member

Maqsood Anwar Khan

Engr. Maqsood Anwar Khan
Member

Waseem

Waseem Mukhtar
Chairman

