National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/R/TRF-614/K-Electric/Supply-2024/ 7138-42 May 27, 2025

Subject: **Decision of the Authority in the matter of Petition filed by K-Electric Limited for Determination of Supply tariff under Multi Year tariff Regime for the Period from FY 2023-24 to FY 2029-30**

Please find enclosed herewith the subject Decision of the Authority alonghwith **Annex-I, IA, II, III, IV and V**(total 76 pages) in the matter of Petition filed by K-Electric Limited for Determination of Supply tariff under Multi Year tariff Regime for the Period from FY 2023-24 to FY 2029-30 in case No. TRF-614/K-Electric/Supply-2024.

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

Enclosure: As above

Wasim Anwar

(Wasim Anwar Bhinder)

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

Copy to:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad
3. Chief Executive Officer, K-Electric Limited (KEL), KE House, Punjab Chowrangi, 39-B, Sunset Boulevard, Phase-II Defence Housing Authority, Karachi.
4. Chief Executive Officer, Central Power Purchasing Agency Guarantee Limited (CPPA-G), Shaheen Plaza, 73-West, Fazl-e-Haq Road, Islamabad

DECISION OF THE AUTHORITY IN THE MATTER OF PETITION FILED BY K-ELECTRIC LIMITED FOR DETERMINATION OF SUPPLY TARIFF UNDER MULTI YEAR TARIFF REGIME FOR THE PERIOD FROM FY 2023-24 TO FY 2029-30

1. K-Electric Limited (herein referred to as "KE or K-Electric") is a vertically integrated utility (VIU), providing services to the city of Karachi and its suburbs. KE was awarded a Multi-Year Tariff (MYT) for a period of seven years starting from 1st July 2016 till 30th June 2023. Upon expiry of its MYT on 30.06.2023, K-Electric filed separate petitions for its Generation, Transmission, Distribution and Supply Tariffs. The Supply tariff petition has been filed for another period of seven (07) years from the FY 2023-24 to FY 2029-30 ("Petition").

2. K-Electric requested the following tariff for its Supply function for the first year of tariff control period, to be indexed based on the mechanism provided in the Petition;

Rs. /kWh								
Cost of Power EPP	Cost of Power CPP	Transmission Charges	Distribution Charges	O&M	Retail Margin	Recovery Loss Allowance	Working Capital	Total
18.88	12.54	3.48	3.84	0.42	0.59	2.88	2.07	44.69

3. The Authority admitted the Petition, and notice of admission was accordingly published in newspapers and uploaded on NEPRA website on 24.05.2024, inviting comments from the stakeholders.

4. Since the impact of any such determination is to be made part of the consumer end tariff, therefore, the Authority, in order to provide an opportunity of hearing to all the concerned and in the interest of natural justice, decided to conduct a hearing in the matter. The hearing was scheduled on 27.06.2024 at NEPRA tower and through ZOOM, for which notice of hearing / advertisement was published in newspapers on 13.06.2024 and also uploaded on NEPRA website. Individual notices were also served to the relevant stakeholders.

5. Based on the submissions made by KE in its Petition, the Authority framed the following issues for discussion during the hearing and presenting written/ verbal comments;

   i. Whether the request to allow Tariff control period of seven years is justified?

   ii. Whether the request for setting up annual references for cost of power (KE Own plants as well external sources), transmission & distribution costs, being pass through for Supply Tariff, along and its monthly and quarterly adjustment mechanism is justified?

   iii. Whether the request to allow stamp duty/taxes on purchase of Power / Furnace oil / Gas / RLNG / HSD etc. payable to Federal or Provincial Government, which are not of a pass through nature like input sales tax or claimable nature like withholding income tax, as pass through in tariff to enable KE recovery of prudent cost is justified?

   iv. Whether the request to include units exported by consumer, above the units consumed in a month, in total sent out at applicable tariff rate and the related power purchase cost be also included as power purchase cost is justified?

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v. Whether the requested O&M cost for the FY 2023-24 along-with proposed adjustment mechanism is justified?

vi. Whether the request of KE to not apply any efficiency factor (X factor) while allowing indexation for the O&M cost during the MYT control period is justified?

vii. Whether the request to allow retail margin @ 1.5% of total revenue, excluding retail margin, recovery loss and working capital, to be adjusted annually is justified?

viii. Whether the request to allow recovery loss based on yearly recovery loss % targets, to be adjusted annually due to change in sales mix, and variation in amounts billed to consumers along-with the floor and cap mechanism is justified?

ix. Whether the request to allow working capital inclusive of closing receivable amount (excluding PSC) as at June 2023, to be actualized at each year end, with quarterly indexations for changes in KIBOR and annual adjustments for changes in working capital requirements is justified?

x. Whether the request to also allow working capital cost owing to systematic lag in recovery of FCA, quarterly tariff adjustments and annual adjustment for over/ under recovery (excluding working capital adjustment) is justified?

xi. Whether the request to charge LPS linked with KIBOR and spread on energy dues outstanding on Government entities, is justified?

xii. Whether the requests that upon implementation of CTBCM and proposed central dispatch, any imbalances relevant to demand of KE consumers (i.e., regulated consumers) or dispatch of generation in KE system to meet the demand of CPPA-G system, which shall be settled at the marginal price of the system or any other mechanism prescribed by NEPRA, be allowed as pass-through in tariff under the Cost of Power, is justified?

xiii. Whether the proposed mechanism of monthly, quarterly and annual adjustments of various tariff components including retail margin, recovery loss, working capital, impact of actual vs allowed T&D losses, other income etc. is justified?

xiv. Whether the request for actualization of units billed and adjustment of any under or over recovery due to variation in units billed, is justified?

xv. Whether the requested Other Income and the proposed adjustment mechanism is justified?

xvi. Whether the request to allow Corporate Tax/ WPPF and WWF as pass through costs is justified?

xvii. Whether the request to share additional income from regulated business in the ratio of 50:50 between KE and consumes is justified?

xviii. Whether the request to retain income which is not part of regulated activities e.g. income from K-Solar, is justified?

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xix. Whether there is any cost/ benefit analysis of the requested tariff on domestic consumers, industrialization and economic growth?

xx. Whether the request to allow for adjustment for additional costs/revision required in tariffs pursuant to unbundling, is justified?

xxi. Whether the request to allow unrecovered cost pertaining to MYT 2017-23, to be included in the quarterly tariff adjustments to be filed is justified?

xxii. Whether the terms and conditions of Tariff (for supply of power specific to each consumer category) as proposed are justified?

xxiii. What would be the mechanism for adjustment of cost of open access, cross subsidy, keeping in view the opening of the markets?

xxiv. Whether KE's request to allow cost of SBLC provision on actual basis, with a cap of 1.5% on SBLC amount, to its existing as well upcoming power purchases, is justified?

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

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

6. The hearing was held as per the schedule, wherein KE was represented by its CEO along-with the financial and technical teams. A large number of stakeholders also participated in the hearing, which included representatives from media, general public, other DISCOs, industrial consumers and representatives from various industrial associations etc.

7. K-Electric during the hearing reiterated its submissions made in the Petition and presented its issue wise response in the matter. Different commentators raised their concerns on the Petition submitted by K-Electric. Written Comments were also received from various commentators.

8. A brief of the contention raised by commentators and the subsequent rejoinder by K-Electric is as under;

Mr. Abu Bakr Ismail

8.1. Mr. Abu Bakar Ismail, representing Amreli Steel raised concerns over the request of KE to allow USD based return. He however supported sharing of reduction in losses in the ratio of 50:50 between KE and the consumers.

8.2. On the point of USD based RoE, KE submitted that other private investors in the power sector in Pakistan, benchmark their return to dollarized levels as is the case with (IPPs and HVDC). KE's investors have invested approximately USD 700 Million as well as reinvestment of all profits, which has enabled USD 4 billion in CAPEX since privatization, resulting in improved performance and lowered tariff.

8.3. Had KE not improved operationally including reduction in T&D losses and generation efficiency improvements as compared to 2005 levels, KE tariff would have been PKR 17.3/kWh higher (as of June 2023). Furthermore, KE was being provided annually Rs.10 billion as operational subsidy pre-privatization, which has also been completely eliminated.

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8.4. In addition to the above, despite significant improvements achieved since privatization, KE returns have remained well below returns made by other private players. KE's average RoE has been around 1.42% since privatization, whereas returns made by other private players in the sector range between 22% to 32%, during the period FY 2010 to FY 2023, with significantly lower risk profiles as compared to KE. Hence KE should be allowed the dollarized returns level as allowed by NEPRA in MYT FY 2017-23.

8.5. Regarding sharing of losses, K-Electric acknowledged the comments that a 50:50 sharing mechanism for loss reduction should be allowed, meaning any reductions in losses will be shared equally between KE and consumers as it allows the necessary incentive to improve performance.

Mr. Arif Bilvani

8.6. Mr. Arif Bilvani during the hearing and in his written comments opposed the tariff control period of 7 years and submitted that it should be no more than 4 years tariff with mid-year review. No other Disco has been allowed such a long period of time. He was further of a view that the Petitioner becomes lax in fulfilling its commitments and tend to roll over projects on one pretext or the other. Even in the allowed period, there must be penal clauses for not undertaking or fulfilling the timely commitments made in the Petition.

8.7. Mr. Bilvani also opposed USD based return on equity by submitting that the Petitioner is not an IPP which are allowed dollar based return with an indexation under a certain specific policy, which does not cover the business of the Petitioner. It was further stated that K-Electric is a private company, albeit engaged in a regulated business but that doesn't mean that it can have very special treatment. There are scores of foreign investors in Pakistan who have hundreds of millions of dollars in various industrial & service projects which include Lotte Chemical from Korea, Landline telecom business is owned by Emarati group, and 03 oil refineries out of 05 are owned by foreign investors but none has been allowed dollar based returns or extraordinary concessions and favors as are being demanded by the Petitioner. Mr. Bilvani also opposed allowing depreciation and return on RAB in line with the previous MYT. He also requested to include the efficiency factor and heavy penal provisions for failure to achieve the benchmarks.

8.8. Mr. Bilvani further stated that tax on income, cost of WWF, WPPF, super tax & other taxes and levies should not be allowed as pass through items. All commercial organizations bear these if they do business in Pakistan. Citing/quoting examples of IPPs is not relevant. At the time of privatization, the acquirers knew about all these taxes. In the past the regulator allowed these despite opposition from the intervenors & participants.

8.9. Mr. Bilvani questioned high loss target of T&D losses allowed to K-Electric while comparing the same with Tata DDL, where losses have come down from 53% in 2002 to total AT&C loss (Transmission + Distribution + Recovery) of only 6.39% in the year 2023, whereas KEs ATC loss in 2022 was only 18.1%. It has been further stated that KE was privatized with the sole objective of getting rid of injecting subsidies arising due to all sorts of losses, providing finances for investment in all sorts of capex, improve the services to consumers in every aspect, get rid of load shedding (in any form), enhance the availability of power and get rid of mismanagement, corruption, unruly unions etc. But even after the lapse of about 20 years of privatization KE has not been able to meet the expectations.

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8.10. Mr. Bilvani also opposed allowing any recovery loss to K-Electric by stating that all commercial organizations have to bear recovery losses, and not burden the paying consumers. KE's recovery was 96.7% in 2022, therefore it should not be allowed recovery loss of 92.76% to 95.48% in the next 7 years. It's failure of the management which cannot be passed into tariff. It was also highlighted that no recovery loss is allowed to 05 Discos of Punjab.

8.11. Mr. Bilvani also questioned KE's request of allowing working capital, retail margin, raising of 75% debt in foreign loans, US CPI indexation, duplication of returns, year wise return components instead of levelized return and cost of unbundling.

8.12. Regarding 7-year tariff control period, K-Electric submitted that being a private entity, KE secures borrowings from lenders without a sovereign / government guarantee. When providing financing for projects, financers typically require cashflow projections over the life of the assets which, in KE's case, significantly exceeds the control period of 7 years, since KE's long term loans tenure usually span from 10-12 years, while the assets life range from 10-30 years.

8.13. Considering the fact that KE has been allowed a 7-year control period by the Authority in the past and the investment plan for T&D approved by the Authority also covers a span of 7 years, KE has requested to allow tariff control period for 7 years (i.e. FY 2024 to FY 2030). Moreover, for execution of investment plan, a viable and sustainable tariff for all segments including Transmission, Distribution & Supply segments is essential as lenders and shareholders require a clear, long-term outlook on KE's revenues and profitability to provide these loans & make equity investments. If KE is granted a shorter tariff control period, it would be challenging to provide the necessary long-term projections to financers, thereby making it difficult for them to assess the viability of the projects for which the financing is being secured.

8.14. KE also highlighted that private investment in Pakistan's power sector has occurred only with IPPs and PMLTC in the past, which have been granted tariffs over the life of their assets. KE being unique as the only vertically integrated utility involved in both transmission and distribution, makes it incomparable to other DISCOs in Pakistan. Unlike KE, DISCOs are Government owned that are granted shorter control periods which is viable for them since their financing arrangements are backed by the Government guarantees.

8.15. Additionally, KE clarified that approved investment plan includes a detailed investment revision mechanism. If any investment needs to be rolled over to subsequent years, this will be accounted for annually, and any resulting impact will be adjusted in the tariff on a timely basis. This approach ensures timely adjustments.

8.16. On the point of USD based RoE, K-Electric reiterated that other private investors in the power sector in Pakistan benchmark their return to dollarized levels as is the case with (IPPs and HVDC). KE's parent company i.e. KES Power Limited is a foreign entity having foreign shareholders, has invested approximately USD 700 Mln as well as re-investment of all profits, which has enabled USD 4 billion in Capex since privatization, which has helped improved performance and lowered tariff. Had KE not improved operationally including reduction in T&D losses and generation efficiency improvements as compared to 2005 levels, KE tariff would have been PKR 17.3/kWh higher (as of June 2023). Hence KE should be allowed dollarized return

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levels as allowed in MYT FY 2017-23. Furthermore, KE was being provided annually Rs.10 billion as operational subsidy, pre-privatization which has been completely eliminated.

8.17. In addition, despite significant improvements achieved since privatization, KE returns have remained well below returns made by other private players. KE's average RoE has been around 1.42% since privatization, whereas returns made by other private players in the sector range between 22% to 32%, during the period FY 2010 to FY 2023, with significantly lower risk profiles as compared to KE. Hence, KE should be allowed the dollarized returns level already granted by NEPRA in MYT FY 2017-23.

8.18. With reference to pass-through of taxes / WWF / WPPF in tariff and receipt of subsidy from GoP, K-Electric opined that under cost-plus tariff regime, tariffs are structured to cover all the prudent costs and provide an appropriate level of return. Any additional taxes, levies, costs, etc., imposed by the government are additional costs that are not accounted for in the given tariff therefore, necessitates pass-through of these costs in tariff. The similar mechanism is followed for other power sector entities operating in Pakistan as well.

8.19. Regarding concerns over KE's high losses compared to Tata DDL, KE emphasized that KE and Tata DDL are not directly comparable due to various factors. In India, the Government has implemented incentives to curtail theft and recovery losses, such as rationalized tariffs as well as free electricity for consumers using up to 200 units per month. This subsidy significantly aims to reduce losses since these consumers represent that proportion in the total consumer mix where losses are generally higher than other consumer segments. Moreover, macroeconomic conditions such as inflation, GDP and currency stability and its impact on electricity prices to customers as well as their ability to pay their electricity bills differ significantly between the two countries which are beyond KE's control.

8.20. Furthermore, Karachi suffers higher AT&C losses at 21.4%, compared to likes of Islamabad and Faisalabad due to different city dynamics & socio-economic situation. Reasons for variation in losses exist between those DISCOs & KE, which can be observed as per the below table where Karachi has the highest number of slums & population density with the least monthly household income;

City	Population Density (per sq. km)	Household Monthly Income (USD)	Number of Slums	Rank in Quality of Life Index[1]	Rank in World Bank's Ease of Doing Business Assessment (out of 13 cities)
Karachi	4,543	184	900+[2]	166	9
Islamabad	2,211	266	42+[3]	121	4
Lahore	1,653	220	356	155	3
Faisalabad*	792	184	169[4]	-	1

[1] https://www.numbeo.com/quality-of-life/rankings.jsp
[2] Slums in Karachi (unicef.org)
[3] Slums in Islamabad (unicef.org)
[4] Slums in Lahore & Faisalabad (unicef.org)

**Rank of Faisalabad in Quality of Life Index is not available.*

Source:

- *Pakistan Bureau of Statistics (Population Density)*
- *10 Facts About Poverty in Karachi - The Borgen Project*

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- *Study by Reall (UK) on Understanding Household Incomes: Pakistan [December 2022]*
- *Number of Slums: Report of Coverage Survey in Slums / Underserved Areas of 10 Largest Cities of Pakistan by UNICEF (July 2020)*
- *Rank in World Bank's Ease of Doing Business Assessment (World Bank)*

8.21. KE further explained that despite multi-faceted challenges, KE has significantly reduced its T&D losses since privatization which has resulted in decrease in tariff requirements by PKR 155 billion (T&D loss reduction annual impact of improvement from 34.2% in FY 2005 to 15.3% in FY 2023). Further, KE T&D losses are already lower than other regional DISCOs such as HESCO & SEPCO, where losses are 27% & 34% respectively.

8.22. On the point of recovery losses, KE highlighted that these are genuine and legitimate costs of power supply businesses and should be taken into account while setting cost reflective tariffs (also recommended by the National Electricity Policy 2021 in subsection 5.3.2).

8.23. In view of above, KE has requested the below recovery ratio improvement trajectory:

Description	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
Overall Recovery Ratio (%)	92.76%	93.20%	93.64%	94.12%	94.58%	95.03%	95.48%

8.24. Moreover, in order to avoid any significant losses / windfall gains from worsened / improved recovery ratio, KE has also proposed a Cap & Floor mechanism under which if KE performs 1.5% above or below the requested recovery ratio, the gain / loss will accordingly be passed-through in tariff.

8.25. KE would like to highlight that recovery losses are not allowed to other DISCOs in Pakistan. As a result, these DISCOs incur losses, which are absorbed by the Government as the owner of DISCOs. These losses then become part of the circular debt and are ultimately passed on to customers nationwide in the form of the PHL Surcharge thereby increasing the ultimate consumer tariff. On the other hand, KE being a private entity does not have any authority to impose a surcharge to fund this cost of recovery loss which is a legitimate & prudent cost of supply business.

8.26. Furthermore, KE achieved a recovery ratio of 96% in FY 2022 however, the recovery ratio declined notably to 92.76% in FY 2023 due to an unprecedented economic downturn, the fluctuations in interest rates and rising inflation affecting consumer paying propensity. Moreover, higher tariffs have also led to consumers resistance with many refusing to pay higher bills particularly in low-income areas where consumers are already financially strained.

8.27. The similar economic situation is currently continuing where it has become challenging for KE to go beyond the FY 2023 level along with a recent increase of PKR 5.72 /kWh in average consumer-end tariff, however despite these challenges, for the upcoming MYT FY 2024 to FY 2030, KE has still planned to improve recovery ratio by 2.7% through improving governance, engaging with customers, improving billing & collection processes and investing in infrastructure.

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8.28. Regarding demand growth and energization of KKI, KE apprised that already an actualization mechanism has been proposed under which if the actual growth differs with the projected 2.4% (CAGR), the resultant impact of over / under will be adjusted in the tariff. Furthermore, once the KKI project is energized, KE would be able to off take additional supply from the National Grid, which will result in reducing fuel cost component in the overall tariff.

8.29. On the comment over adjustment in sent-outs, KE submitted that sent out projections are based on multiple uncontrollable factors such as economic growth, government policies, incentive packages, technology disruption, etc. Sent outs are actualized for other power sector entities, NTDC and DISCOs as well, hence KE has also requested that annual adjustment for actualization of sent out in tariff should be done i.e. in case of higher sent outs, the tariff should be adjusted downwards and in case of lower sent out the tariff should be adjusted upwards similar to the mechanism followed for DISCOs.

8.30. Regarding the application of efficiency factor on O&M, KE explained that its O&M cost is projected to increase beyond CPI & Projected sent-out growth due to planned capacity enhancements along-with increase in consumer base & demand, as more fully explained in Petition. Therefore, no X-Factor should be applied as KE has not asked for any incremental O&M (other than CPI & growth in sent outs) owing to proposed capacity enhancements and increase in consumer base.

8.31. Furthermore, KE is already efficient in terms of O&M per unit as compared to other DISCOs operating in Pakistan as evident from the table below. Comparison of O&M Costs (net-off other income) with DISCOs allowed O&M (including transmission network costs) based on FY 2023 is as follows:

Description	Sent outs (GWh)	O&M Amount (PKR Mn)	O&M** PKR Per kWh	O&M (inc. NTDC in DISCOs & KE*** Transmission) PKR / kWh
	A	B	C = B / A	
SEPCO	3,869	8,194	2.12	2.34
GEPCO	11,440	24,064	2.1	2.32
HESCO	4,917	9,945	2.02	2.24
IESCO	11,724	17,614	1.5	1.72
QESCO	6,005	8,543	1.42	1.64
FESCO	16,041	21,872	1.36	1.58
PESCO	15,255	19,902	1.3	1.52
MEPCO	19,506	24,089	1.23	1.45
LESCO	26,032	29,581	1.14	1.36
KE	18,357	19,570	1.07	1.36

**Includes above 132kv as well whereas DISCOs does not include above 132kv.*
*** Other income items proposed for actualization are netted off.*
*** Excludes CAPEX transferred from Investment Plan made part of O&M.*
**** NTDC O&M as per decision dated 04.11.21 for FY 22 indexed with CPI of FY 23. Further, also includes O&M of PMLTC as per decision dated 08.09.23.*

8.32. With respect to KE's foreign borrowing, KE clarified that significant portion of its approved investments involve imports over which SBP mandates that foreign exchange for these imports be covered through foreign borrowing. Additionally, local banks have per-party exposure limits, making it impractical to fully fund the approved investment plan through Sukuks and local

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financing. Additionally, the borrowing mix is projected in the reference tariff which is proposed to be actualized at each year end as per the annual adjustment mechanism.

8.33. Regarding US CPI, KE stated that US CPI is requested on the CAPEX allowed by the Authority and not on O&M expenses. US CPI is required to be allowed to cover the increase in prices as international market prices also rise over period, which is not covered in currency deprecation.

8.34. With respect to duplication of return, KE highlighted that there is no duplication in the requested returns on RAB as 70% of the RAB is attributed as debt on which cost of debt has been requested, whereas 30% of the RAB has been attributed as equity on which return on equity has been requested.

8.35. On the issue of Working capital cost, KE submitted that working capital costs are necessary to be allowed to ensure recovery of finance cost that arise in short-term borrowings to cover operational needs. Furthermore, quarterly variation of KIBOR is requested for timely recovery of prudent costs to avoid accumulation of adjustments at each year end.

8.36. Regarding retail margin, KE stated that supply business faces most extreme risks and challenging operational circumstances as compared to other power sector entities. In lieu of the activities to be carried out by supply business and risks being borne, as a separate licensed activity, supply tariff needs to include an appropriate retail margin. Without including a retail margin, there would be no return or earning potential; even if the supply business meets all targets, it would only breakeven. KE further mentioned that tariff structure allowed by NEPRA is on a cost-plus tariff regime and Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 ("NEPRA Act"), where prudent costs along with suitable return is allowed. Therefore, the comment regarding concessions, favors or benefits is not appropriate. Furthermore, international precedents suggest that regulators in other countries allow retail margin in tariff on top of EBITDA / turnover / costs to compensate systematic and nonsystematic risks in the retail / supply business.

8.37. On cost of unbundling, KE clarified that the O&M costs requested by KE for the tariff control period are based on O&M of base year i.e. FY 2023. Such costs do not include any cost relating to unbundling neither any provision has been kept in the tariff to cover such costs. In this regard, it is requested that if there is any legal unbundling in future, KE shall be allowed one-time adjustment for additional costs / revision required in tariffs pursuant to unbundling with NEPRA for determination along with rationale.

8.38. Regarding year-wise returns, KE submitted that it allows for a more flexible and adaptive tariff setting. This approach responds more effectively to changing economic conditions through indexation and annual adjustment mechanisms, ultimately benefiting both the utility and the consumers. Furthermore, allowing a year wise tariff would also ensure alignment of tariff with those of other power sector entities across Pakistan.

8.39. On the point of T&D loss targets, KE mentioned that same has already been discussed in detail and approved by the Authority as part of KE's in the Investment Plan for FY 2024 to FY 2030, and if KE's losses are lesser than the allowed level of losses, a sharing mechanism for the same has already been included by the Authority in its investment plan decision.

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Mr. M. Mughni

8.40. Mr. Mughni raised concerns regarding request of KE for uncovered costs pertaining to the previous MYT.

8.41. On the point of Mr. Mughni regarding uncovered costs for previous MYT period, KE explained that it includes certain components such as pending quarterly variations, taxes (such as WPPF and WWF), end-of-term adjustment. Furthermore, similar adjustments are also allowed in case of other DISCOs operating as Prior Year Adjustments in their tariff determinations.

Mr. Rehan Javed

8.42. Mr. Rehan inquired about KE's share in circular debt and showed concern over request of recovery loss, by suggesting that target be set at 96%.

8.43. K-Electric while responding to the query of Mr. Javed on circular debt, stated that it does not have any contribution in the country's circular debt. Regarding concerns on recovery loss and suggestion that the target be set at 96%, KE submitted that unlike other DISCOs, K-Electric is not financially supported by the Government, therefore, a recovery gap allowance has been requested based on an improvement curve. Non-provision of recovery gap allowance, which is a genuine cost of business reflected in the form of provision for doubtful debts in the financial statements, would significantly impact KE's ability to meet its service obligations and may result in solvency issues for the supply business. Furthermore, the recovery ratio for FY 23 is around 92% due to successive increase in consumer-end tariff significantly impacting consumers' paying propensity along with prevailing economic situation, which is expected to prevail, however, K-Electric is still targeting to increase recovery ratio in the MYT FY 2024-30. Additionally, the section 5.3.2 of National Electricity Policy also requires to set the target giving consideration to the ground realities.

8.44. Amreli Steel in its written comments stated that the Authority has allowed all DISCOs rupee-based ROE of approximately 14.5%.

8.45. Federal B Area of Trade and Industry supported KE's petition by submitting that KE was provided a fixed cost of debt with no adjustment, which affected their financial performance — the company posted a 31-billion-rupee loss in FY23 compared to a profit of PKR 8.5 billion in FY22. Flexibility must be brought in to address the current economic situation; this can be done through an indexation mechanism that accounts for real-time changes in the interest rates, allowing KE to obtain adjustments that can help it maintain continuity in its investments. Such decisions can greatly determine the outcome of Rs.400 billion investment that has been approved over the next 7 years by NEPRA.

8.46. GEPCO in its written comments submitted that geographical area of KE is mostly urban compared with GEPCO's geographical area that consists of both rural and urban. However, Transmission and Distribution system of KE is inefficient and costly i.e. Rs. 3.38/kwh (Transmission) and Rs. 3.84/kwh (Distribution) respectively for FY 2024. GEPCO also mentioned that KE's weighted average cost of capital (WACC) for calculation of return on rate base (RORB) is 25.73%. If the same is approved, it shall constitute precedent for other DISCOs and the tariff

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for other DISCOs will have to be adjusted accordingly, resulting in unaffordable tariffs for consumers. It further highlighted that supplier and distribution/transmission functions are under one organization, therefore, requesting for cost of working capital is misnomer for the fact that the working capital is already in place through receipts from the consumers. In a combined SoLR and Distribution organization, allowing supplier margin calculated as a percentage to cost, including even generation cost shall be extra burden for regulated consumers. GEPCO also questioned recovery loss allowance of Rs. 46.06 billion, by stating that it is simply passing on inefficiency onto paying consumers.

8.47. Korangi Association of Trade and Industry (KATI) submitted that KE reported a financial downturn in FY23, a stark contrast to its performance in FY22. This has necessitated a flexible regulatory mechanism that account for real time economic shifts, such as an indexation mechanism for interest rates. Such adjustments are vital for sustaining KEs Rs.400 billion investment plan over the next seven years. It also mentioned that KE has successfully halved its line losses post-privatization and continues to address issues like illegal connections (kundas) that stem from unplanned urban sprawl. While operational and maintenance costs remain competitive, it is imperative that future regulatory decisions foster not only efficiency but also the growth that naturally follows from it.

8.48. KATI raised concerns regarding unauthorized Kunda connections by submitting that allowance of such connections, whether official or unofficial, contributes significantly to increased distribution losses and should be addressed decisively. It is crucial that NEPRA takes a firm stance against all forms of unauthorized connections to safeguard the integrity of the electrical network. Consumers must be billed through metered connections and learn to pay the actual cost of electricity and NEPRA must disallow any Kunda connections at all costs.

8.49. KATI supported K-Electric's request to the extent that it does not result in any increase in industrial tariffs as already we are paying uniform Tariff including cross subsidy and uniform quarterly adjustments and PHL surcharge. NEPRA however should meticulously evaluate and allow necessary cost, and margin for supply business.

8.50. Pakistan Leather Garments Manufacture Exporters Association (PLGMEA) submitted that all organizations account for the risk of default and write-offs on consumer end and KE should be extended the same by way of recovery margins so that the company's operations are not hurt by Karachi's widespread Kunda culture. It has also been stated that variations in the exchange rates and inflationary pressures, both are well out of the control of KE, therefore, it becomes essential that the utility should be allowed quarterly indexations with KIBOR and annual adjustment for working capital requirements so that changes to the rate of return do not adversely affect KE's operational activities and service quality.

8.51. **SHEHRI** in its written comments has raised several issues, a brief of which is as under;

- ✓ NEPRA must vigorously evaluate the possible negative impacts on consumers of a fixed rate
- ✓ Currently, the deferred revenue (consumer funded assets) is not included in the defined Regulatory Asset base, which is not in line with fair business practices. There must be a

POWER REGULATORY NEPRA AUTHORITY NATIONAL ELECTRIC POWER REGULATORY AUTHORITY clear mechanism of consideration of this huge quantum of capital towards the "Regulatory Asset Base", and its positive impact on rationalization of tariff.

- ✓ There is a state within state at K-Electric which is syphoning off its earnings through an organized system of illegal connections, generally called as *'kundas.'* The way this system is thriving is incomprehensible. Statement of achieving the overall recovery ratio of 92.73%, when viewed together with the prevailing load shedding regime where public has to suffer daily load shedding of up to 12 hours per day in many areas on the pre-text of high-loss areas, becomes self-contradictory. This has very serious implication in that it makes the whole of the petition doubtful.

- ✓ Recovery loss must not be built as a cost factor in the tariff and must be tied up with NADRA/K-Electric's effective steps to stop the menace of electrify theft. Rather than penalizing the dutiful customers with this unaccounted-for electricity, NEPRA and K-Electric must devise some other mechanism.

9. The Authority has considered the submissions made by K-Electric in its Petition and during the hearing and comments of stakeholders. On the basis of the pleadings, available record, evidence produced during the course of hearing and afterwards, the issue-wise findings of the Authority are as under;

10. **Issue No. 1: Whether the request to allow Tariff control period of seven years is justified?**

10.1. K-Electric submitted that it was granted an Integrated Multi-Year Tariff for a control period of 7 years that expired in June 2023. Further, to align its MYT structure with ongoing changes in power sector including separation of Distribution and Supply businesses, implementation of CTBCM model, proposed country wide central economic dispatch and for better transparency, KE is filing separate tariffs for Generation, Transmission, Distribution and Supply segments. It also mentioned that new Tariff control period of 7 years FY 2024-30, is in line with the MYT previously allowed by the Authority from FY 2017 to FY 2023. KE during the hearing submitted that Tariff Control period for 7 years provides a greater visibility to KE for its long-term planning & execution of investment plans as KE needs to secure loans from its lenders to implement its investment plan. Moreover, the investment plan for T&D approved by the Authority also covers a span of 7 years i.e. FY 2024-30 and for execution of investment plan, a viable and sustainable tariff for transmission, distribution & supply segment is essential as lenders & shareholders require a clear, long-term outlook on KE's revenues and profitability to provide these loans.

10.2. KE further, submitted that private investment in Pakistan's power sector has occurred only with IPPs and PMLTC (HVDC) in the past, which have been granted tariffs over the life of their assets. Unlike KE, DISCOs / NTDC are government owned entities that are granted shorter control periods or yearly tariffs, however, as their financing arrangements are backed by guarantees from the Government of Pakistan, and hence, a shorter tariff control period does not impact them. KE being a private entity secures borrowing from lenders without a sovereign / government guarantee. When providing financing for projects, financers typically require cashflow projections over the life of the assets which, in KE's case, significantly exceeds the control period of 7 years since KE's long term loans tenure usually span from 10-12 years, while the assets life range from 10-30 years.

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10.3. Moreover, for execution of investment plan, a viable and sustainable tariff for all segments including Transmission, Distribution & Supply segments is essential as lenders and shareholders require a clear, long-term outlook on KE's revenues and profitability to provide these loans & make equity investments. If KE is granted a shorter tariff control period, it would be challenging to provide the necessary long-term projections to financers, thereby making it difficult for them to ensure the viability of the projects. Considering the above, the request to allow a tariff control period for 7 years is justified.

10.4. Mr. Arif Bilvani during the hearing and in his written comments opposed the tariff control period of 7 years and submitted that it should be no more than 4 years tariff with mid-year review. No other Disco has been allowed such a long period of time. The Petitioner becomes lax in fulfilling its commitments and tend to roll over projects on one pretext or other. Even in the allowed period, there must be penal clauses for not undertaking or fulfilling the timely commitments made in the petition.

10.5. The Authority observed that that KE is being allowed a MYT since 2002. K-Electric (the then KESC), was initially allowed a MYT in 2002, for a period of 7 years, in view of its expected privatization. KE was privatized in 2005 to Al-Jomaih Group and re-privatized to Abraaj Group in 2009. With its re-privatization, the applicability of the allowed MYT to KE was enhanced for another period of 07 years till June 2016. Subsequently, upon expiry of the MYT in June 2016, K-Electric was awarded MYT for another control period of seven years, which expired on 30.06.2023.

10.6. The Section 31(3)(i) of the NEPRA Act provides that tariffs should seek to provide stability and predictability for customers. The Authority, in the matter of XWDISCOs, has also allowed MYTs, which are for a period of 05 years. The Authority noted that K-Electric's transmission and distribution investment plan has already been approved by the Authority for a period of seven years from FY 2023-24 to FY 2029-30. Similarly, KE's tariff for its power plants has also been approved for a period of seven years except for BQPS-III, which has an 11-year control period, aligned with its debt servicing period.

10.7. Given the fact that nearly two years of the proposed MYT control period have already passed, a tariff control period of five years, which effectively would result in three years, may not provide the necessary stability and predictability. The Authority also noted that while approving the investment plan of K-Electric, the Authority decided to appoint an independent third-party for evaluation of the allowed investment plan and the allowed amounts would be subject to adjustment in light of 3rd party report. Further, indexation/ exchange rate variations for the approved investment amounts, would be allowed as per the time period allowed for completion of such investments and in case of delay in the completion of the project(s), such variation or any other adjustment may not allowed.

10.8. The Authority observed that KE has been allowed transmission and distribution tariffs for 07 years control periods as well, therefore, to align supply tariff with generation, transmission and distribution tariffs and provide predictability/stability in tariff, the Authority has decided to approve supply tariff of K-Electric for seven years control period from FY 2023-24 to FY 2029-30.

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11. **<u>Issue No. 2: Whether the request for setting up annual references for cost of power (KE Own plants as well external sources), transmission & distribution costs, being pass through for Supply Tariff, along and its monthly and quarterly adjustment mechanism is justified?</u>**

12. **<u>Issue No. 14: Whether the request for actualization of units billed and adjustment of any under or over recovery due to variation in units billed, is justified?</u>**

12.1. KE in the Petition has submitted that for the purpose of the reference year, Power Purchase Price has been forecasted based on:

- ✓ Sent outs calculated on projected growth in base demand;
- ✓ Generation / power purchase mix actualized till Sep. 2023 and remaining estimated considering current sources based on EMO;
- ✓ Tariffs for KE's Generation plants as requested in Generation Tariff petition applicable for FY 2024 with the adjustments for requested degradation factor and part load adjustments;
- ✓ Tariffs for external power purchase as per respective determinations / Agreements;
- ✓ EPP and CPP have been indexed with below fuel prices / macro-economic factors
- ✓ Rs / USD Exchange Rate of PKR 287.1/USD (June 30, 2023) as per National Bank of Pakistan
- ✓ Reference Pakistan CPI of 227.96 (May 2023) as per Pakistan Bureau of Statistics (PBS)
- ✓ Fuel prices for the months July to Sep. have been actualized for tariff computation purposes and prices of Sep. 2023 have been kept constant for remainder of the year;
  - RLNG - SSGC – Rs. 3,993 / mmbtu (September 2023)
  - RLNG - PLL – Rs. 3,326 I mmbtu (September 2023)
  - Indigenous Natural Gas - Rs 1,050 / mmbtu (September 2023)
  - HSD Rs 234 / liter; or Rs. 6,415 / mmbtu (September 2023)
  - Furnace oil - Rs. 161,134 / MTon Rs; or 3,955 / mmbtu (September 2023)
- ✓ Based on expected sent out units for FY 2024, estimated generation mix, tariffs requested for KE plants for FY 2024 onwards and tariffs determined / agreements entered into for external sources, reference Cost of Power comes out as PKR 502,709 million translating into Rs. 26.94/ kWh on per Units served. With requested distribution losses, Power Purchase Price per unit billed comes out to Rs. 31.41/ kWh.

12.2. KE also submitted that transmission & distribution costs are based on revenue requirements filed under their respective petitions based on reference macroeconomic factors of FY 23. Monthly FCA and Quarterly Adjustment mechanisms have been proposed to ensure consistency in adjustment mechanisms across Pakistan as the same is being followed by other DISCOs currently. Since power procurement, billing to & recoveries from consumers and, settlements of payments to other business segments are the responsibility of supply business, in this regard, Costs of Power, Transmission & Distribution charges shall be allowed to be passed through as part of supply tariff.

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Monthly/quarterly variation adjustment mechanism

12.3. KE further submitted that the above reference costs will be adjusted based on actual fuel and power purchase mix, capacity charges and actual fuel prices based on the monthly and quarterly adjustment mechanism including any costs relating to imbalances, under the proposed mechanism of new markets, which shall be settled at the marginal price of the system or any other mechanism approved by NEPRA.

Revised references for next year

12.4. The cost of power purchase will be indexed based on revised references and the variation for the same will be requested. Further, updated tariff table will also be filed applicable for the next year.

Transmission Charges

12.5. Transmission charges shall be passed through on the basis of units served and tariff approved by NEPRA for transmission business. For the purpose of reference tariff, estimated units served for FY 2024 are 18,660 GWh and transmission charges amount to PKR 55,738 million based on base tariff for transmission of Rs 2.99 / kWh as requested in KE's transmission petition FY 2024 - FY 2030. The same will be adjusted based on mechanism proposed in KE's transmission-petition.

Distribution Charges

12.6. Distribution charges shall be passed through on the basis of units billed and tariff approved by NEPRA. For the purpose of reference tariff, estimated Units billed for FY 2024 are 16,004 GWh and distribution charges amount to Rs 61,385 million based on base tariff for distribution of Rs.3.84/kWh as requested in KE's distribution petition for the FY 2024- 2030. The same will be adjusted based on mechanism proposed in KE's distribution petition.

12.7. The Authority observed that at the time of admission of KE's supply tariff petition, KE was allowed an interim tariff, based on the approved quarterly adjustments for the quarter ending March 2023, subject to adjustment, once the final MYT of KE is determined for the control period FY 2024-2030.

12.8. Pursuant thereto, KE filed its monthly FCA requests for the FY 2023-24 and for onward period, with reference FCC of Rs.15.9947/kWh, as per the interim tariff. The Authority provisionally allowed FCAs to KE for the period from Jul. 2023 onward, based on the reference FCC of Rs.15.9947/kWh, as allowed in the interim tariff for the month of March 2023. The Authority while determining the monthly FCAs of KE from July 2023 onward decided that these FCAs are being allowed on provisional basis subject to adjustment, once the Authority determines MYT of KE for the period FY 2024-30. The difference in cost, if any based on the MYT FY 2024-30 would be allowed in future adjustments, after the same is notified.

12.9. KE, subsequently, vide email dated 28.03.2025, submitted its revised cost of generation/ Power purchase price for the FY 2023-24, whereby it has included average fuel cost of Rs.15.9947/kWh on sent out basis, as allowed through interim tariff.

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Power Purchase Price References for FY 24

Description	July	August	September	October	November	December	January	February	March	April	May	June	Total
Units Sentout (GWh)	1,897	1,687	1,667	1,686	1,303	1,070	1,053	1,028	1,285	1,410	1,840	1,841	17,768
Transmission Loss	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Units Served (GWh)	1,872	1,665	1,645	1,664	1,286	1,056	1,039	1,015	1,268	1,392	1,816	1,817	17,537
Distribution Loss	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%	14.24%
Units Billed (GWh)	1,605	1,428	1,411	1,427	1,103	906	891	871	1,088	1,194	1,557	1,559	15,040
Per Unit - Based on Units Served													Rs. / kWh
Fuel Cost Component	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21
Variable O&M	0.54	0.51	0.51	0.62	(0.16)	0.76	0.88	0.56	0.50	0.55	0.60	0.59	0.54
Capacity	6.77	9.35	8.62	10.49	12.75	16.92	15.18	15.58	14.18	12.23	9.12	9.06	11.05
Per Unit - Based on Units Billed													Rs. / kWh
Fuel Cost Component	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90
Variable O&M	0.62	0.59	0.59	0.72	(0.18)	0.89	1.03	0.66	0.58	0.64	0.70	0.69	0.62
Capacity	7.89	10.90	10.05	12.23	14.86	19.73	17.70	18.16	16.54	14.26	10.63	10.57	12.88
													Mln Rs.
Fuel Cost Component	30,336	26,983	26,661	26,969	20,840	17,116	16,845	16,449	20,553	22,561	29,426	29,452	284,190
Variable O&M*	1,002	848	838	1,030	(200)	805	915	573	630	768	1,094	1,080	9,383
Capacity	12,668	15,568	14,179	17,451	16,394	17,875	15,775	15,812	17,987	17,022	16,556	16,469	193,756

Note 1: Actual tariff rates of IPPs have been used. In case any adjustment arise during the verification process, the same would be claimed in the Prior Year Adjustment (PYA) along with pass through periodic costs for FY 2024.

Note 2: Reference tariff rates for own generation are based on generation tariff determination of the Authority. Amounts are computed based on base load capacities of plants. Any impacts arising due to indexations/actualiation of tariff rates, availability, pass through periodic costs, part load operations, degradations, startup cost, etc would be claimed as PYA.

* Includes a negative adjustment of PKR (1.0068) /kWh in the month of November as per the CPPA decision Ref. No. NEPRA/ADG(Tariff)TRF-100/MFPA/191 - 207.

12.10. As previously noted, the Authority approved KE's monthly Fuel Charge Adjustments (FCAs) based on a reference Fuel Cost Component (FCC) of Rs. 15.9947/kWh. It is important to highlight that in its Petition, KE proposed adopting a monthly FCA mechanism similar to that of XWDISCOs, where the reference FCC is adjusted monthly to reflect the allowed Transmission and Transformation (T&T) losses. Accordingly, for determining KE's tariff for FY 2023-24, the reference FCC on a unit sent-out basis amounts to Rs.15.8747/kWh. When adjusted for allowed T&T losses, this translates to Rs.15.9947/kWh on a units-served basis. To maintain consistency and avoid revisions to already determined FCAs, and to ensure no additional burden is placed on consumers, the Authority has decided to allow the reference FCC of Rs.15.9947/kWh on a units-served basis for each month of the FY 2023-24.

12.11. Further, the Authority has been allowing cost of generation for KE's own power plants, according to mechanisms allowed in the MYT for FY 2017 to FY 2023, as KE's tariff under the MYT 2024-30, was not determined by the Authority at that time. Subsequently, the Authority vide decision dated 18.09.2024 determined KE's generation tariff under the new MYT 2024-30.

12.12. As per the new MYT generation tariff, KE's cost of own generation has varied from the cost already allowed to KE during monthly FCAs, therefore, any adjustment based on costs already allowed through monthly FCA's viz a viz actual fuel cost in light of new MYT tariff determination would be allowed in future adjustments, after the same is notified.

12.13. Differential in capacity charges of KE's own power plants, O&M costs and cost of power purchases (other than fuel), as built in tariff for the FY 2023-24 vis a vis cost reworked based on new generation tariff for the FY 2023-24, if any, would be required to be included in the tariff of FY 2024-25 as PYA. Considering the fact that a uniform tariff is applicable in the country along-with uniform quarterly adjustments, the differential amount, if any, would be picked up by the Federal Government, as subsidy, as long as the uniform tariff remains applicable.

12.14. Based on the above discussion, the PPP of K-Electric for the FY 2023-24 has been worked out as under;

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Power Purchase Cost (Mln. Rs.)	528,646
Fuel Cost	**282,059**
Own Generation	118,605
Power Purchases	27,914
CPPA-G	135,540
Variable O&M	**9,383**
Own Generation	3,831
Power Purchases	2,587
CPPA-G	2,965
Capacity Charges	**193,756**
Own Generation	73,596
Power Purchases	16,190
CPPA-G	103,971
Transmission Cost	**43,447**

12.15. The month wise PPP references for the FY 2023-24 are attached as Annex-IV with the instant determination. Here it is pertinent to mention that by the time this new MYT of KE would be notified; almost entire FY 2024-25 would also have lapsed. In view thereof, till the time new PPP references for FY 2024-25 are determined by the Authority and are subsequently notified by the Federal Government, the existing PPP references being allowed for the FY 2023-24 would continue.

12.16. Regarding actualization of sent-outs and allowing consequential under / (over) recovery of costs, KE stated that projected sent out growth is kept at a CAGR of 2.6% with actualization, based on FY 23 sent out as under;

Description	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	CAGR
Average Demand (GWh)	20,833	21,282	21,726	22,066	22,329	22,584	22,826	1.60%
Load shed (GWh)	1,927	1,494	1,307	1,177	1,085	997	925	-
Sent out (GWh)	18,906	19,788	20,419	20,889	21,243	21,587	21,902	2.56%
Units Served (Sent out – after Transmission losses)	18,660	19,531	20,154	20,617	20,967	21,306	21,617	2.49%

12.17. KE has submitted that it has planned investments as well as dedicated consumer funded assets, that will help in addition of 3,251 MW of load in KE's network and growth of 1.4 million customers in the 7-year control period, which will help to serve the growing demand and customer base. According to KE, the projected growth in Base Energy Demand is kept at 2.4% growth rate while considering captive consumers influx and PV disruption. Further, improvement in technical loss is also incorporated to reduce the demand by improvement in the infrastructure. Further, keeping in view reduction in AT&C losses, KE is projecting to increase the number of load shed exempt feeders to 95% by the end of control period, as a result served energy would increase. KE has highlighted that the load shed policy is based on analysis of T&D and recovery ratios of respective feeder. It is essential to acknowledge that various external variables can exert significant influence on consumer behavior and consumer's capacity to meet financial obligations, which not only have an unfavorable impact on recovery ratios but also leads to an increase in electricity thefts. These external factors encompass, but are not limited to, substantial increases in electricity tariffs, political instability, currency depreciation and inflationary pressures, which ultimately lead to a lower number of load shed free feeders.

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12.18. KE stated that revenue requirement for the control period of 7 years i.e., FY 2024 – 2030 has been calculated based on projected units billed. KE is proposing actualization of units billed due to variations in units served at allowed distribution loss each year as allowed to other DISCOs, as the same is based on multiple uncontrollable factors including economic growth, Government policies, incentive packages etc.

12.19. KE further submitted that it shall submit details of under / over recovery after completion of a financial year, and the impact of under / over recovery shall be adjusted in remaining part of next year as prior year cost. KE during the hearing submitted that annual adjustment for actualization of sent out in tariff should be done i.e. in case of higher sent outs, the tariff should be adjusted downwards and in case of lower sent out the tariff should be adjusted upwards similar to the mechanism followed for DISCOs. KE has projected following sales during the MYT control period from FY 2024-30;

Description	Unit	Legend	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Units served	GWh	a	18,660	19,531	20,154	20,617	20,967	21,306	21,617
Distribution Loss	%	b	14.24%	13.93%	13.49%	13.04%	12.72%	12.46%	12.26%
Units billed	GWh	c = (a x (1-b))	16,004	16,810	17,435	17,929	18,300	18,652	18,967

12.20. KE during the hearing submitted that it has considered the historical CAGR growth of 2.4% and incorporated the impact of disruption due to solar influx and increase in demand due to captive onboarding. Taking this into account and projected load shed reduction, sent out CAGR of 2.6% has been projected. It also stated that sent out projections are based on multiple uncontrollable factors such as economic growth, Government policies, incentive packages, technology disruption etc. Considering the above, sent outs are actualized for other power sector entities and NTDC and DISCOs, and hence KE also requested that annual adjustment for actualization of sent out in tariff should be done i.e. in case of higher sent outs, the tariff should be adjusted downwards and in case of lower sent out, the tariff should be adjusted upwards similar to the mechanism followed for DISCOs. Accordingly, a mechanism of over /under recovery due to variation in units sent-out, served & billed is included in Transmission, Distribution & Supply tariff petitions respectively.

12.21. The Ministry of Energy (MoE), Power Division (PD) in its comments/ analysis, vide letter dated 13.12.2024, submitted that overall electricity consumption on KE network fell by 7.2% in FY2023, while consumption in the residential and industrial sectors dropped by 7.9% and 1 .5% respectively. The MoE proposed that assumptions for expected growth in demand both for Investment Plan and tariff petition be revised to account for reduced sales in FY 2023 and 2024. It also submitted that a downward revision in sales and peak demand growth projections will lead to a proportionate decrease in growth-related infrastructure investment, resulting in a drop in capital expenditure associated with new feeders and PMTs.

12.22. Regarding request of KE to actualize sent outs, the Authority noted that as per its previous MYT, K-Electric was allowed a price cap tariff, wherein no actualization of sent-outs, either upward or downward, from the number built in the tariff was allowed. KE had an opportunity to maximize

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its profits through higher sales growth and vice versa. In the new MYT FY 2024-30, K-Electric, in a shift from the earlier regime, has requested actualization of units billed, in line with other DISCOs. In the matter of XWDISCOs, the Authority allows a revenue capped tariff and any under /over recovery of the allowed revenue, due to variation in sales *(based on allowed target of T&D losses and recovery)*, is adjusted either as part of quarterly adjustments and/or through prior year adjustments (PYA). A comparison of KE's targeted sent outs vis a vis actual sent outs, for the MYT control period FY 2017-23 is given hereunder;

	FY 17	FY18	FY19	FY 20	FY 21	FY 22	FY 23	Total
Sent Outs as per Tariff (GWhs)	17,458	18,189	18,952	19,760	20,613	21,504	22,435	138,911
Actual Sent outs (GWhs)	16,673	17,501	17,771	17,755	19,421	19,792	18,359	127,271
% Change	(4.5%)	(3.8%)	(6.2%)	(10.2%)	(5.8%)	(8.0%)	(18.2%)	(8.4%)

12.23. The Authority understands that with the opening up of sector through CTBCM and influx of net metering, risk of utility in terms of switching of consumers has increased, as compared to previous years. The consumers would get more options and potentially greater flexibility, hence reducing their dependence on the utility. With distribution and Supply tariffs being fully regulated and applicable of uniform tariff regime in the country, coupled with increasing consumer independence, K-Electric may have little option/ control to offer any incentives to its consumers in order to increase its demand.

12.24. In view thereof, and considering the fact that the Authority, in the matter of XWDISCOs, allows actualization of sales *(based on allowed target of T&D losses)*, the Authority has decided to allow actualization of units sent out to K-Electric as well, based on allowed target of T&D losses, along-with consequential under / (over) recovery of allowed costs for both its distribution and supply of power function.

12.25. At the same time, the Authority understands that allowing actualization of sent outs may provide incentive to K-Electric, for increased load shed in high loss areas, as its revenues would be protected. Therefore, K-Electric is directed to ensure uninterrupted supply of power to its consumers, as per the applicable documents. This also necessitates a strict monitoring of KE's load shed policy, along-with other performance benchmarks regarding timelines for installation of new connections, SAIFI, SAIDI etc. In case the Authority observes undue load shed by KE or deterioration in other performance benchmarks, the Authority may initiate legal proceedings against KE as per the applicable documents.

13. **<u>Issue No. 05: Whether the requested O&M cost for the FY 2023-24 along-with proposed adjustment mechanism is justified?</u>**

14. **<u>Issue No. 06: Whether the request of KE to not apply any efficiency factor (X factor) while allowing indexation for the O&M cost during the MYT control period is justified?</u>**

14.1. K-Electric submitted that its O&M expenses consist of costs related to salaries & wages of management / non-management staff, outsourced manpower cost, fleet, fuel, third party services, PPEs, tools and uniforms, repair and maintenance expenses that are essential for smooth running of operations of the distribution network and to ensure reliability of electric supply of power to the consumers.

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14.2. For tariff calculation purposes, KE has calculated O&M component (FY 24 and onwards) by taking actual O&M amount of FY 2023 i.e. Rs.25,659 million (including Rs.4,761 million for supply function), indexed to May 2023 CPI and incorporation of projected growth in units billed for FY 2024, which translates to Rs.36,424 million (including Rs.6,758 million for Supply function). KE requested to index this amount for onward years with actual CPI of May each year against the reference CPI of 227.96 as of May 2023, along with incorporating projected growth in units billed to cater for the increase in network capacity and consumer base.

14.3. KE has requested O&M cost of Rs.6,758 million which translates into Rs.0.42/ kWh, as per KE, based on projected units billed for FY 2024.

14.4. According to KE, it has planned extensive capacity enhancement based on projected peak demand and increase in consumer base in the proposed control period. Accordingly, O&M is expected to increase beyond CPI indexation for the proposed control period i.e. FY 2024-30. However, KE has not requested for additional O&M beyond CPI and projected sent-out growth and will target to cover this gap through bringing efficiency wherever possible. In view of the aforementioned, KE requested O&M costs, incorporating growth in units billed along with CPI indexation and requests not to apply any X factor as KE has not asked for any incremental O&M owing to proposed capacity enhancements and increase in consumer base.

14.5. KE also mentioned that at the end of each year adjustment will be requested for any over / (under) recovery of O&M due to variation in units billed in order to allow recovery of CPI indexed projected O&M revenue requirement of that respective year. In case sent out is higher than included in the projected O&M revenue requirements, the benefit will be passed on to the consumers and similarly in case of lower sent out the under-recovery will be adjusted in tariff.

14.6. KE further submitted that it is better than DISCOs in terms of per unit sent out. DISCOs O&M also include 132kV network cost and accordingly if KE's Transmission segment O&M including 220 kV network and system operations is included, the total O&M increases to Rs.1.36 per unit sent out, which is still significantly better than the regional DISCOs (HESCO and SEPCO). K-Electric also stated that as compared to DISCOs, K-Electric carries out 220 kV operations, System Operation and also is responsible for transmission planning and procurement of its power. In addition to above, KE faces significantly higher operational challenges as compared to DISCOs, where due to lack of planning and influx of Katchi Abadis, it has to deal with significant amount of KUNDA connections, carry out several thousand disconnections each month, manage complaints due to frequent, and in many cases, unauthorized/uninformed road cuffing/digging etc., which results in increase in O&M requirements. However, despite these challenges, KE remains resolute in provision of better services to its consumers and requested NEPRA to consider its request for O&M to allow KE to ensure prudent recovery of costs.

14.7. The MoE in its comments stated that K-Electric's proposed base-figure of Rs.30.8 billion for the FY 2024 needs to be assessed against actual expenditure for the FY 2024, which could be lower than the proposed amount. If actual O&M cost for FY 2024 is lower, the same should be used to set base O&M cost for subsequent years. The MoE further submitted that reference CPI of May 2024 (254.78) be set for further indexation for 2025 after review of actual financial results of 2024, as against KE's proposal to use base CPI of 227.96 (May 2023). It further stated that in light

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of NEPRA Guidelines for Determination of Consumer End Tariff (Methodology and Process), 2015, an efficiency factor in the indexation mechanism may be implemented, as the O&M revenue requirement mainly constitutes expenses of fixed nature. K-Electric has proposed that base-figures for each year of the tariff control period should be adjusted for growth in electricity sales for subsequent years, over and above the base number for FY 2024. This may not be allowed since growth in electricity units does not impact expenses of a fixed nature, and base-figures for each year (adjusted by growth in electricity units sold) is to be further adjusted for CPI change (based on the indexation mechanism proposed by K-Electric). KE's actual historical numbers indicate that a 100% of CPI change does not impact the company's O&M cost streams. The Authority may consider historic change in O&M costs as a baseline for indexing, rather than a vanilla linkage to CPI. Therefore, double adjustments (quantity and price) of O&M costs in each year should not be allowed. Instead, to eliminate the impact of quantity growth, the Authority should impose an efficiency factor under the indexation formula.

14.8. The Authority has analyzed submissions of K-Electric and the comments from the stakeholders. The Authority noted that 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 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.

14.9. 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 a greater financial risk in the form 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 are made to the allowed Revenues or OPEX allowances, 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. The Authority in the matter of XWDISCOs also does not make any adjustment in the allowed OPEX except indexation based on change in CPI etc.

14.10. K-Electric has filed its MYT for a control period of seven years i.e. FY 2023-24 to FY 2029-30. Thus, cost for first year of the requested tariff control period i.e. FY 2023-24 is to be assessed, which would be used as reference for future indexation, as per the mechanism prescribed in the instant determination. As mentioned earlier, K-Electric, has calculated O&M component (FY 24 and onwards) by indexing the O&M cost for the FY 2023 i.e. Rs.4,761 million with CPI of May 2023 (Ref. CPI 227.96) and thereafter, incorporating the impact of projected growth in units billed for the FY 2024. KE accordingly requested an amount of Rs.6,758 million as O&M cost for the FY 2023-24.

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14.11. For comparison purposes, KE's O&M cost i.e. both for the distribution and supply functions, for the FY 2022-23 has been compared with XWDISCOs in Punjab Region, based on different cost drivers. The Authority observed that KE is efficient as compared to these DISCOs on cost/ unit sales basis, however for other benchmarks i.e. per consumer, employee, area SqKm, KE is less efficient. The likely reasons for these variations, could be different geographical profile, consumer mix, network conditions and accounting practices. Therefore, before carrying out the benchmarking exercise, the Authority understands that coupling/ grouping of DISCOs needs to done based on similarities in geographical profiles, network conditions, consumer density, consumer mix, performance standards etc., through extensive studies. Once this grouping exercise is completed, then benchmarking exercise for the alike DISCOs should be done to set the efficiency improvement targets.

14.12. The Authority also being cognizant of the fact that FY 2023-24, for which assessment is being made has already lapsed, decided to obtain details of actual O&M cost incurred by the Petitioner for the FY 2023-24 to have a fair assessment of its O&M cost for the FY 2023-24. As per the information submitted by KE, its unaudited O&M cost for the FY 2023-24 is Rs.32,352 billion including Rs.26,416 million for distribution function and Rs.5,936 million for the supply function. This also includes actual CAPEX nature O&M cost as Rs.225 million as reported by KE.

14.13. After adjustment of certain costs items i.e. donations, penalties & fines, CSR related activities, exchange gains/ losses, provision against fatal accident cases, demurrage, detention charges, assets written off etc., which are either typically voluntary and discretionary and are not a mandatory part of KE's business operations, or are imprudent costs, or being considered under separate head and excluding the CAPEX nature O&M, the total O&M cost of the Petitioner for the FY 2023-24 works out as Rs.31,963 million, for both the distribution and supply of power functions, which includes Rs.26,052 million for distribution function and Rs.5,911 million for the supply function.

14.14. The Authority noted that KE's projected O&M cost for supply function, based on actual O&M cost of FY 2022-23, when indexed with NCPI of December 2022, works out as Rs.5,926 million. Thus, KE's actual supply function O&M cost for the FY 2023-24, as per its unaudited accounts i.e. Rs.5,911 million remained lower.

14.15. Considering the above discussion and the fact that previous MYT of KE has ended on 30.06.2023, and any gain/loss of the previous MYT control period may not be carried forward in the new MYT, the Authority has decided to allow O&M cost of Rs.5,911 million to KE for the FY 2023-24, for its supply of power function.

14.16. In case KE's actual O&M cost for the FY 2023-24, once its audited accounts for FY 2023-24 are available, is lower than the amount being allowed for the FY 2023-24, the entire difference shall be passed on to the consumers. For remining control period any saving in O&M cost i.e. difference between O&M cost allowed for the respective year vis a vis actual O&M cost as per the audited accounts for the same year, shall be shared in the ratio of 50:50 between consumers and KE. For future indexation of O&M cost during the MYT control period, the allowed O&M cost or actual O&M cost of the previous year, after excluding therefrom the amount of O&M capitalized, if any, whichever is lower shall be considered as reference to be indexed with NCPI-X factor.

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14.17. 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 with NCPI-X factor. Once the audited account for the previous years 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. KE is also directed to disclose its O&M costs in terms of distribution and supply functions separately in its audited accounts.

14.18. Here it is pertinent to mention that although KE has requested to index O&M costs with CPI for the month of May every year, however, the Authority considering the fact that KE's tariff would be rebased every year, for which KE would submit its Petition by January, therefore, the available NCPI would be of December, has decided to index the O&M cost with NCPI of December. This approach is also in line with the decision of the Authority in the matter of XWDISCOs. The reference NCPI to be used for projecting O&M cost for the FY 2024-25 would be of December 2022 i.e. 196.86. The reference NCPI for the purpose of future indexation every year, would be of NCPI of December last year.

14.19. Any other prudent cost, that may arise in future pursuant to any directions of NEPRA, which is not currently part of KE's O&M, would be considered as pass through only, in case KE's overall O&M cost including cost pursuant to directions of the Authority, exceeds the allowed O&M costs for the relevant year. KE shall provide all the required verifiable documentary evidences along-with proper working/calculations and justifications for such costs.

14.20. On the point of X-Factor, NEPRA determination of Consumer-end-Tariff (Methodology & Process) Guidelines, 2015, states that O&M part of Distribution Margin shall be indexed with CPI subject to adjustment for efficiency gains (X factor). The treatment of applying X-factor is in line with the very spirit of multi-year tariff regime, and also in consistency with the decision of the Authority in the matter of XWDISCOs, wherein X-factor @ 30% of increase in CPI has been levied, from the 3rd year of their tariff control period.

14.21. While assessing O&M costs of KE, the O&M costs as per the unaudited numbers for the FY 2023-24 have been considered, to be adjusted in the remaining MYT control period as per the allowed mechanism. However, as per the benchmarking exercise, KE cost is on higher side as compared to DISCOs, therefore, the Authority considers it appropriate to apply efficiency factor on KE, in order to enforce it to for optimize its overall costs. In view thereof, the Authority has decided to apply X-factor to K-Electric @ 30% of increase in CPI for the relevant year of the MYT control period. The Authority, also in line with XWDISCOs, has decided to implement X-factor from the 3rd year of tariff control period i.e. FY 2025-26, in order to provide KE with an opportunity to improve its operational performance, before sharing such gains with the consumers.

14.22. At the same time, KE has also requested for incorporation of projected growth in units billed, to cater for the increase in network capacity and consumer base. The Authority has allowed a CAPEX of over Rs.136 billion to KE for the tariff control (for Distribution business including AMR & digitization), which not only caters for the projected growth in demand and network capacity but also for rehabilitation of the existing network including technological

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advancements. Therefore, allowing any additional indexation factor would further burden the consumers. Keeping in view of above, KE may have ample opportunities to reduce its existing O&M expenses. In view thereof, the request of KE to allow any further impact of growth in units billed, increase in network capacity and consumer base in its O&M cost is not justified. The Authority therefore has decided not to allow any further impact in O&M cost, except NCPI-X factor indexation, thus, request of KE to allow indexation on account of growth in sent outs is declined.

O&M Adjustment/indexation

Revised O&M = Ref.(O&M) x (1+ (NCPI - X-factor))

- ✓ X-Factor i.e. @ 30% of NCPI, would be effective from 3rd year of tariff control period.
- ✓ Savings in O&M shall be shared with consumers as per the ratio given in the determination.
- ✓ Reference O&M for future years during the MYT control period shall be the allowed O&M cost or actual O&M cost of the previous year, after excluding therefrom the amount of O&M capitalized, if any, whichever is lower. If the actual O&M cost for the previous year, 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. Once the audited accounts for the previous years 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.
- ✓ For remining control period any saving in O&M cost i.e. difference between O&M cost allowed for the respective year vis a vis actual O&M cost as per the audited accounts for the same year, after excluding therefrom the amount of O&M capitalized, if any, shall be shared in the ratio of 50:50 between consumers and KE.

15. **Issue No. 7: Whether the request to allow retail margin @ 1.5% of total revenue, excluding retail margin, recovery loss and working capital, to be adjusted annually is justified?**

15.1. On the issue of retail margin, KE submitted that tariff needs to include an appropriate retail margin in lieu of the activities to be carried out by supply business and risks borne having no asset base and being a separate licensed activity. In Pakistan power sector, the supply business faces the most extreme risks and operational circumstances and accordingly, it is imperative to provide a fair compensation against the high risk of doing business, to ensure the commercial viability of the supply business.

15.2. KE also highlighted that international precedents suggest that regulators in other countries also allow retail margin in tariff on top of retail supply cost to compensate systematic and nonsystematic risks in the retail/ supply business. Moreover, without including retail margin, there would be no EBIT for supply business, which is contrary to regulatory norm, where every licensee is to be allowed a reasonable EBIT corresponding to the risks assumed. Hence it is requested that KE shall be allowed a retail margin component as a part of its supply tariff. The requested retail margin will compensate KE for the retail / supply risks and investments and

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initiatives undertaken that will enable the Company to improve service quality for its growing consumer base.

Reference for FY 2024

15.3. KE calculated retail margin as per below formula:

Legend	Retail Margin
A	Cost of Power - EPP
B	Cost of Power - CPP
C	Transmission revenue requiepment
D	Distribution revenue requirement
E	Supply O&M
F = Sum(A:E)	Total Revenue excluding retail margin, recovery loss and WP
G = F * 1.5%	Retail Margin

15.4. KE has requested the Authority to allow a retail margin of 1.5% that shall be applied on total revenue requirement excluding retail margin, recovery loss and working capital which comes out to PKR 9,399 million translating into PKR 0.5873 / kWh.

Revised references for next year

15.5. KE submitted that projected retail margin requirement for the next year based on projected references will be filed with annual reference setting request prior to the close of financial year.

Annual Adjustment mechanism

15.6. KE further submitted that after each year end, the retail margin shall be actualized based on actualized references and any impact of under/over recovery shall be allowed in next year. KE during the hearing presented following international precedents regarding retail margins;

Company Name	Retail margin	Comments
Utility Regulator Northern Ireland ("Uregni") - Northern Ireland		The **retail margin** allowed by Uregni is **in addition to allowance for operating expenses** which includes items such as salaries, rent & rates, legal fees, IT costs, **bad debt** and corporate overhead charges.
Power NI	2.2% of forecast Turnover	
Independent Pricing and Regulatory Tribunal ("IPART") - Australia		The **retail margin allowed** by both IPART & TERP is **in addition to cost allowed for providing services to customers** including billing, revenue collection, customer enquiries and advise, distribution network services cost and retail operating and maintenance costs allowance, plus any pass-through costs.
AGL	5.7% of EBITDA	
Origin Energy	5.7% of EBITDA	
Tasmanian Electricity Pricing Regulation ("TERP") - Australia		
Aurora Energy	5.25% of total costs	
Independent Competition and Regulatory Commission - Australia		The **retail margin allowed** by ICRS is in **addition to costs allowed for wholesale electricity costs** such as energy purchase cost, network costs which comprise of T&D costs and retails costs which includes operating costs, smart meter costs and compliance costs.
ActewAGL	5.6% of total cost	
Queensland Competition Authority (QCA) - Australia		QCA has **allowed retail margin in addition to wholesale electricity costs** which includes energy purchase cost, network costs and retails operating costs which include the costs associated with customer administration, call centres, corporate overheads, billing and revenue collection, IT systems, regulatory compliance, and customer acquisition and retention costs (CARC).
Ergon Retail	5.7% of total Cost	

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Company Name	Retail margin	Comments
Maharashtra Electricity Regulatory Commission (MERC) – Mumbai (India)		Currently, MERC allows a RoE upto 17.5% on equity, however, MERC has proposed new tariff policy which includes revisiting its existing provisions of retail supply business RoE, acknowledging the fact that the gross fixed assets in the supply business are much lower than the wire business. Thus, the commission has proposed common Supply Margin of 5.00 INR Paisa/kWh across all distribution licensees.
Maharashtra State Power Generating Company Limited (MSPGCL) / Tata Power Company Limited - Generation Business (TPC-G) / Adani Electricity Mumbai Limited (AEML)	5 paisa INR / kWh[1]	(1 INR = PKR 3.43 - as at July 12th, 2024)

[1] https://merc.gov.in/wp-content/uploads/2024/03/EM_Draft-MERC-MYT-Regulations-2024.pdf

15.7. KE in support provided following links;

- (uregni.gov.uk)
- (nsw.gov.au)
- (economicregulator.tas.gov.au)
- (act.gov.au)
- (qca.org.au)
- https://merc.gov.in/wp-content/uploads/2024/03/EM Draft-MERC-MYT-Regulations-2024.pdf

15.8. The MoE in its analysis submitted that KE has set retail margin for the supply business at 1.5% of total revenue. There is no sound logic for setting the retail margin based on a percentage of the total revenue of the supply business which includes capacity payments, energy payments (that are highly variable), the use of system charge (transmission cost) and distribution margin (distribution cost). Additionally, KE Shareholders are already compensated through a return on Regulatory Asset Base. Adding a retail margin to the supply business increases the burden on consumers without any corresponding improvement in service. Instead of a percentage of revenue, the Retail Margin should instead be estimated based on the actual cost of operating the supply business (costs that are largely fixed in nature and can capture economies of scale) and any costs incurred to improve service quality and efficiency. The supply business should only recover costs until supply function is legally separated from the rest of KE.

15.9. The Authority has analyzed the submissions of KE and comments provided by different stakeholders. The Authority observed that KE in its previous MYT also requested retail margin of 3% on turnover to be included in the tariff for next control period. The Authority at that time decided that KE has been allowed an overall RoE of 16.67%, in which risk associated with retail business has been taken into account, thus, allowing separate retail margin of 3% is not justified. Hence KE was not allowed any separate retail margin.

15.10. Moreover, MEPCO in its MYT for the period FY 2021-25 also requested retail margin @ 1.5% of the PPP invoiced to the Supply Business. The Authority in the matter decided as under;

"The Authority observed that the Petitioner has been allowed return on its Rate Base as per the Authority's approved WACC and the same has been included as part of the Petitioner's Distribution function revenue requirement. Although, the function of sale of electric power traditionally being performed by the Distribution Licensees has been amended under Section

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21(2)(a) of the Amended Act, however, the amended Act, also under proviso to Section 23E(1), provides that holder of a Distribution license on the date of coming into effect of the Amendment Act, shall be deemed to hold a license for supply of electric power for a period of five years from such date. Thus, all existing Distribution Licensees have been deemed to have Power Supplier Licenses, to ensure distribution licensees earlier performing both the sale and wire functions, would continue to do so. Hence, practically there is no change in the overall nature of operations or functions being performed by the existing DISCOs, therefore, allowing any separate margin to the Petitioner for its Supply function, considering the fact that it has been allowed return on its overall rate base, does not merit consideration."

15.11. The Authority also observed that Section 31(3) of the NEPRA Act states;

(a) *the tariffs should allow licensee, the recovery of any and all cost prudently incurred to meet the demonstrated needs of their customers*

(c) *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;*

15.12. KE has been allowed a WACC based return on its overall Regulatory Asset Base (RAB), including assets for supply function i.e. vehicles, software, land & buildings, computers etc., along-with depreciation charge, as part of KE's distribution function revenue requirement. Here it is pertinent to mention that K-Electric itself requested to allow the entire amount of return as part of its distribution function revenue requirement.

15.13. Being a regulated activity, besides allowing return on total rate base, the Petitioner has also been allowed its prudently incurred cost for both its distribution and supply functions. Therefore, adding a separate supply margin would mean allowing double benefit.

15.14. As per Section 21(2)(a) of the NEPRA Act, sale of electric power to consumers has been removed from the scope of a 'Distribution Licensee' and transferred to 'Electric Power Supply Licensee'. Proviso to Section 23E (1), provided that holder of a Distribution license on the date of coming into effect of the amended Act, shall be deemed to hold a license for supply of electric power for a period of five years from such date. Subsequently, the Authority also issued SoLR license to KE vide decision dated 19.01.2024. Thus, practically there is no change in the overall nature of operations or functions being performed by existing distribution licensees.

15.15. In practice, the functions of supply and distribution are highly interdependent, especially for a vertically integrated utility like K-Electric, therefore, allowing any separate margin to the Petitioner for its supply function, considering the fact that it has already been allowed return on its overall rate base, does not seem justified.

15.16. In view of the above discussion, the Authority has decided not to allow any retail margin to the Petitioner for its supply function. However, the Authority may consider this issue going forward, once public owned DISCOs get privatized.

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16. **Issue No.09: Whether the request to allow working capital inclusive of closing receivable amount (excluding PSC) as at June 2023, to be actualized at each year end, with quarterly indexations for changes in KIBOR and annual adjustments for changes in working capital requirements is justified?**

17. **Issue No.10: Whether the request to also allow working capital cost owing to systematic lag in recovery of FCA, quarterly tariff adjustments and annual adjustment for over/ under recovery (excluding working capital adjustment) is justified?**

17.1. For the supply business, KE has requested cost of Working Capital (WC) of Rs.2.07/kWh i.e. Rs.33,119 million, based on working capital requirement of Rs.132,953 million. KE while justifying its request submitted that while it has to incur significant cost of working capital on outstanding amounts government entities including TDS receivables, energy dues from Public Sector Consumers (PSCs), tax refunds etc., it has currently not requested for working capital on these amounts as these are separately being taken up with government. Moreover, trade debts as at June 30, 2023 pertaining to customers other than PSC have been included as receivable in computation of WC requirement. In this regard, KE submitted that within the MYT 2017-23, NEPRA allowed KE to claim actual write off of bad debts in lieu of recovery loss, subject to fulfilment of certain conditions and has also acknowledged the working capital requirements due to delay and/or non-payment of bills leading to cash flow issues. Accordingly, KE requested to allow to include claims of actual write off of bad debts for billing made till FY 2023, in the next control period based on criterion defined by NEPRA in the MYT 2017-23 and also consider the unrecovered amount for the MYT 2017-23 in this regard i.e. closing receivable amount (excluding PSC) at June 2023 as WC requirement in the next tariff control period, which will be actualized at each year end.

KE also proposed the following mechanism for adjustment of WC at each year end;

Legend	Working Capital Components	Annual Adjustments
A	Revenue receivable (based on 30 days), any additional impact due to time taken for tariff variation.	Revenue to be actualized (as per given formula) to account for variation between actual & projected costs
B	Closing receivable FY 23	To be actualised each year end based on recoveries during the year
C	Cash & bank (1/6th of O&M expense)	-
D = A + B + C	Current Assets	
E	Energy Purchase Price (EPP) payables (based on 30 credit period days)	Costs to be actualized (as per given formula) to account for variation between actual & projected costs
F	Capacity Purchase Price (CPP) payables (based on weighted average credit period days)	
G	Payable to transmission network (based on 30 credit period days)	
H	Payable to distribution network (based on 30 credit period days)	

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Legend	Working Capital Components	Annual Adjustments
I =Sum (E:H)	Total Payables	
J	Service connection deposits	To be actualized as per Financial Statements
K	Long term deposits	
L = I + J + K	Total current liabilities	
M = D – L	Net Working capital requirement	
N	Cost of debt (3 month KIBOR + short term spread i.e., 2%)	
O = M x N	Cost of working capital	
P	Projected Units billed	
Q = O / P	Working capital per unit billed	

17.2. In addition, KE requested that working capital cost shall also be allowed on the systematic lag in recovery of FCA, quarterly tariff adjustments and annual adjustment for over / under recovery (excluding WC adjustment) in line with Strategic Directive 77 of the National Electricity Plan 2023-27 ("NP"). KE further requested for indexation of WC component with KIBOR at start of each quarter.

WC (Rev)	=	WC (Ref) * CoB (Rev)/ CoB(Ref)
Where		
WC (Rev)	=	Revised Working capital component of tariff.
WC (Ref)	=	Reference Working capital component of tariff.
CoB (Ref)	=	Reference Cost of borrowing; 3 month KIBOR(Rev)+ 2% which comes out to 24.91% as at 30.6.2023
KIBOR (Rev)	=	The revised 3 month KIBOR as published by State Bank of Pakistan available at the start of each quarter i.e., it July, jst October, 1st January, and April
KIBOR (Ref)	=	The reference 3 month KIBOR of 22.91% as of 30th June 2023

17.3. KE also submitted that projected WC requirement for the next year based on projected references along with updated KIBOR will be filed with annual reference setting request prior to the close of financial year. In addition to the aforementioned, KE has requested that in case of any additional WC requirement which may arise as a result of any changes to the regulatory framework including requirement of security cover under the Market Commercial Code once CTBCM is implemented, KE would request NEPRA to adjust the reference working capital requirement accordingly.

17.4. The MoE in its analysis of KE petitions submitted on the issue of working capital that there is potential for double counting since the same component is also included in the generation, transmission and distribution tariffs. Working Capital needs to be calculated on a consolidated basis. The working capital is calculated arbitrarily, and needs to be actualized based on actual amounts borrowed which are available in the quarterly, and annual financial statements. It also opined that there is no reason to keep 2 months of O&M expenses in cash. The MoE highlighted that as per latest available information, KE had short term borrowings of Rs.94.4 billion, utilizing the same as a baseline, and a working capital interest rate of 3MKibor+0.5%, the working capital component reduces to Rs.0.87/kWh.

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17.5. The Authority has analyzed the submissions of KE and comments provided by different stakeholders. The Authority observed that in the matter of XWDISCOs, it only allows them to retain LPS amount to the extent of supplementals charges and any amount over and above supplemental charges is adjusted back. Here it is also pertinent to mention, that the Federal Government, in exercise of power under Section 31(8) of NEPRA Act, has levied a finance cost surcharge on all consumers including K-Electric, to finance circular debt's financing cost.

17.6. While working out the amount of current assets and current liabilities, the multiplying factors as assumed by KE for various tariff components have been adopted except that cash requirement has been restricted to 15 days requirement of O&M expenses (allowed or actual whichever is lower). Further, KE in its WC requirements also included an amount of Rs.142,938 million on account of opening receivables as at 30.06.2023 (excluding PSC). Since, the WC requirement is being assessed against the revenue requirement under the new MYT control period i.e. FY 2024-30, therefore, the Authority understands that any receivables pertaining to the previous MYT do not qualify for inclusion in the WC requirements for the FY 2023-24 and onwards. Hence, the receivables as of 30.6.2023 being relevant to the previous MYT period have been excluded. Here it is also submitted that the Authority in the previous MYT FY 2017-23, allowed KE to claim actual write-offs against doubtful receivables, after fulfilment of the criteria prescribed in the MYT determination. The claim of KE's write-offs raised by K-Electric is under consideration of the Authority through separate proceedings.

17.7. The cost of working capital has been worked out @ 3 months KIBOR+1% spread. The spread of 1% shall be considered as maximum cap, subject to downward adjustment only in case actual spread is lower. Further, while working out the working capital requirements for FY 2023-24, the revised Power Purchase cost, transmission, distribution & supply margins as allowed by the Authority, have been considered.

17.8. It is also important to mention that KE also accounted for the amount of receipt against deposit works while working out the WC requirement of its supply function. Since this amount primarily relates to the distribution network business, therefore, the same has been adjusted as part of WC requirement for distribution function instead of supply function. However, amount of Rs.15,395 million on account of security deposits for FY 2023-24, being related with supply business has been adjusted as part of supply function WC, as adjusted by KE itself, subject to actualization based on audited accounts.

17.9. Further, as per NEPRA (Alternative & Renewable Energy) Distributed Generation and Net Metering Regulations, 2015 ("Net Metering Regulations, 2015"), in case the kWh supplied by Distributed Generator exceed the kWh supplied by Distribution Company, the net kWh shall be credited against Distributor Generator's next billing cycle for future consumption, or shall be paid by the Distribution Company to the Distributed Generator quarterly. However, as per practice, the payments are not made by DISCOs to DGs on quarterly basis and thus, retain certain amounts for the excess units supplied by DGs. In view thereof, the Authority has decided to adjust the amount retained by KE for the excess units supplied by DGs, against its working capital requirement at the time of true up, every year.

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17.10. In view of the above discussion, KE's cost of WC has been worked out as negative Rs.1,244 million. The same is allowed to KE for the FY 2023-24 as detailed below;

Supply of Power			
Description	**Credit Period**	**Factors**	**FY 24**
Current Assets			
Trade debt (30 days of Revenue Receivable)		6/73	49,986
Cash & Bank balance (15 days of O&M Expenses)		4%	243
Total Current Assets			**50,229**
Current Liabilities			
EPP	30.00	0.08	23,954
CPP	15.78	0.04	8,379
Transmission	30.00	0.08	3,571
Distribution	30.00	0.08	4,133
Total Liabilities			**40,037**
Net Working capital requirement			10,192
Cost of debt local			23.91%
Working Capital Cost			2,437
Security Deposit			15,395
Cost/Profit on S.D			3,681
Net Working capital requirement			**(1,244)**

17.11. Regarding request of KE to allow lag in recovery of FCA, quarterly tariff adjustments and annual adjustment for over/under recovery, 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..."

17.12. 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."

17.13. 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. Further, the clause does not obligate the adjustment to be done in fifteen days, rather, says that the Authority "may" do the same. The Supreme Court of Pakistan in its judgment dated 22.05.2018 clarified the period of seven days for determination of monthly FCA as under;

"a) In future, the time fixed in terms of provisions of second proviso to Section 31(4) of Act XL Of 1997 for claiming tariff revision on the basis of fuel price fluctuation shall be four (04) months with reference to the bill/notified tariff of any particular month;

b) For filing refund claims by consumers, which are based upon downward fluctuation of fuel price, we find that a period of two (02) months is reasonable for the purpose of processing and granting such refunds relatable to the bill of a particular month; and

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c) The above timeframe would apply for future billing/refunds, etc. However; fuel price adjustment surcharge already imposed and recovered/claimed on the basis of fuel price fluctuation having been permitted by the NEPRA in the past shall be paid/cleared by the appellants/consumers within a period of one (01) month."

17.14. Thus, the Supreme Court of Pakistan interpreted the period of 7 days in the matter of FCA, keeping in view the facts that the Authority while determining the monthly FCAs follows due process of law which, inter alia, involves conduct of public hearing, publishing of notices in newspapers, individual notices to concerned stakeholders, due diligence of data provided by the Petitioner etc.

17.15. For processing of tariff petition, the NEPRA Act clause 31(6) states as under:

"The time frame for determination by the Authority on tariff petition shall not exceed four months after the date of admission of the tariff petition:

Provided that this time frame shall commence after the applicant has complied with all requirements of rules and regulations and the Authority has admitted the tariff petition."

17.16. The above referred clause is also directory in nature, whereby no consequential penalty is provided in case the time period of 4 months is exceeded. In view thereof, interest or mark-up or any such cost for any delay in processing of the tariff adjustment/ petitions etc., beyond the time period prescribed in the Act, is not allowed, as strict compliance to the time period provided in the Act may hinder the regulatory process, which would not only be in contradiction to the directions of the Honorable Courts but may also compromise the due diligence process of the Authority. However, the Authority would endeavor to decide the Petitions/ adjustment requests etc., expeditiously after fulfillment of all legal requirements and directions of the superior courts.

Adjustment Mechanism Working capital (Supply)

Revised cost of working capital = Working capital requirement as per given formula x Cost of debt on allowed parameters

- ✓ Working capital requirement for future years 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 WC current cost and WC PYA, **OR** Actual average Receivables for the Financial Year (excluding opening receivables).
- ✓ Lower of allowed Cash & bank balance (15 days of allowed O&M) **OR** actual Cash & Bank Balances.

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Current Liabilities

- ✓ Payables pertaining to allowed EPP cost (30 days), allowed CPP (including net metering purchases), with actualization of mix (payable days) of external power purchases, allowed transmission charges (30 days) & allowed Distribution Charges (30 days).
- ✓ Actualization of the aforementioned heads shall be based on allowed costs after accounting for the impacts of allowed adjustments.
- ✓ All heads based on allowed days to be actualized after incorporating the impact of allowed adjustments, if any.
- ✓ The working capital requirement shall be adjusted for the following;
  - Average Security deposits from consumers available with KE as per the audited financial statements.
  - Average of net outstanding amounts payable by KE (balances which are payable only) to net metering consumers at the end of each month during the year.
- ✓ For the purpose of 3-Month KIBOR, the actual weighted average KIBOR of finance cost incurred by KE for WC shall be considered. Similarly, for the purpose of spread, actual spread incurred by KE shall be considered. In case actual spread is lower than 1% cap, the same shall be adjusted downward only. No upward adjustment of spread is allowed.
- ✓ In case KE's overall working capital for its all functions for the year, as per its financial statements, is lower than the overall working capital amount allowed by the Authority, the working capital requirement shall be adjusted downward to the extent of actual amount. However, in case of excess amount, no upward adjustment shall be allowed.
- ✓ Any under/over recovery of the allowed cost of working capital shall also be adjusted as part of PYA next year.
- ✓ KE is directed to ensure disclosure of its overall working capital requirement for the year in its audited financial statements.

18. <u>Issue No.15: Whether the requested Other Income and the proposed adjustment mechanism is justified??</u>

18.1. KE has requested specific items in other income/ expense to be actualized each year considering their unpredictable nature like;

- ✓ exchange gain/ loss (excluding exchange loss/gain on loans/borrowings/hedging instruments)
- ✓ expenses incurred based on directives of NEPRA / GoP
- ✓ Demurrage
- ✓ Detention charges
- ✓ Miscellaneous income

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- ✓ Service connection income / new connection income; and
- ✓ Collection income (E-Duty rebate, TV License fee, Municipal Utility Charges etc.)

18.2. Furthermore, donations, LD recovered from suppliers and contractors, provision for fatal accidents, interest income on deposits, other interest income, liabilities written back / assets written off, penalties, scrap sales, return on bank deposits, and markup income/recovery etc. are proposed to be excluded from tariff workings and actualization. Further, Late Payment Surcharge (LPS) is proposed to be adjusted on receipt basis from allowed working capital requirement on opening receivables.

18.3. The MoE in its written comments submitted that all these streams of other income relate to the "distribution business" and all gains, or cash inflow, whether on disposal, scrap sales, markup income, return on bank deposits, etc., must be actualized on the basis of actual proceeds received, and adjusted in tariff.

18.4. The Authority has analyzed the submissions of KE and the comments of stakeholders and has decided to adjust "Other Income" every year based on the audited accounts of K-Electric, with treatment for various items as mentioned hereunder;

Donations

18.5. KE submitted that donations are not related directly to regulated activities of KE. These are typically voluntary and discretionary and are not a mandatory part of KE's business operations, therefore, these should be funded from the Company's own expenses and not from consumers.

18.6. The Authority understands that these are voluntary/ discretionary payments and not mandatory part of KE's business operations, therefore, no such cost should be passed on to the consumers. Accordingly, while working out the O&M cost of KE for the FY 2023-24, the amount of donations have not been included as part of O&M costs.

LD recovered from suppliers and contractors;

18.7. Regarding LDs, KE submitted that allowing LDs to be passed through in tariffs will reduce the incentive for KE to manage its contracts efficiently.

18.8. The Authority has decided to allow KE 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 IPPs/ captive suppliers as per their approved PPAs shall be adjusted in tariff. Further, LDs charged by KE on its fuel suppliers, shall be passed through in tariffs for such power plants, where KE has been allowed capacity charges, despite non-availability of plant on such fuel.

Gain / loss on sales of Property plant and equipment;

18.9. KE submitted that returns in tariff are based on the original cost of PPE rather than the revalued amounts, therefore no loss/gain due to revaluation is passed on to the consumer in tariff. Due to this fact, KE shall be allowed to retain gain / loss on sale of PPE. Furthermore, depreciation rates used in the tariff for depreciation component also excludes the scrap value implying that any

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residual value realized on sale is not accounted for in the tariff computations. Moreover, this would also incentivize KE to manage its assets efficiently as it would encourage KE to optimize its asset portfolio, sell underutilized or obsolete assets and timely reinvest in more productive assets.

18.10. The Authority has considered the submission of K-Electric and has decided that any gain on sales of Assets, based on historical cost, after accounting for the salvage value, if any, shall be passed on to the consumers as part of other income, as all assets are financed through tariff whereby, KE is allowed to recover their cost through depreciation. Moreover, K-Electric is also allowed O&M cost to efficiently maintain such assets.

18.11. The Authority also noted that in addition to RAB used for working out the RoRB, KE has certain assets which are classified under assets held for sale/ investment property, which are not part of KE's RAB for the FY 2023-24 e.g. Land for Datang coal power plant, plot located at Gulistan-e-Johar etc. The Authority has decided not to adjust any gain on sale of such assets, as part of other income, if K-Electric has not been allowed any return or depreciation on such assets either in the current MYT or in the previous MYTs. However, if KE has been granted return or depreciation on such assets, any gain on sale of such assets shall to be adjusted as part of other income. K-Electric is directed to disclose the amount of gain/ loss on sale of all assets, both on historical cost and on revalued amounts, if applicable, in its audited financial statements and shall also substantiate that it has not been allowed any return or depreciation previously on such assets, which are not part of RAB.

Interest income / Return on Bank deposits

18.12. KE submitted that interest income is not derived from primary operations / regulated activities of KE. It relates from KE's financial management and cash optimization strategies. It reflects how the company manages its liquidity and excess funds, which is separate from the cost of providing electricity. Therefore, KE shall be allowed to retain interest income on deposits.

18.13. The Authority understands that KE's submissions merit consideration, therefore, 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 K-Electric. However, interest income on deposits and return on bank deposits, excluding interest income on amount allowed to KE for RoRB and Depreciation, shall be passed on to the consumers as part of other income.

18.14. KE further submitted that it has to maintain significant balances in its MCA accounts, which is a binding obligation as per the underlying agreements. KE accordingly requested that income from these accounts shall be allowed to KE to be retained as no adjustment in working capital component has been requested on account of cash stuck under such MCA arrangements.

18.15. The Authority noted that while calculating other income of KE for the FY 2023-24, interest income on MCA has not accounted for as part of other income, thus, no further adjustment on account of MCA balances as part of working capital is required. It is however, pertinent to mention that since KE is being allowed to retain income from MCA, and no adjustment in this regard is being made in Other Income, therefore, any supplemental charges billed by CPPA-G to

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KE, shall not be adjusted against the amount of LPS. KE is directed to disclose interest income on its MCA account separately in its financial statements.

Other interest Income

18.16. KE submitted that this includes interest income from delays in TDS payments and such income should be excluded from tariff calculations, as KE incurs finance costs due to borrowings made to cover payments while awaiting receipts of TDS payments. These arise due to KE's financial management decisions and performance to which the consumer shall not be exposed, therefore, these are requested to be excluded from tariff workings.

18.17. The Authority observed that KE shall not be allowed any cost arising out on account of delay in tariff determinations/ adjustments and consequently delay in release of TDS claims of KE by the GoP. Therefore, any interest earned by KE from the GoP on account of delay in release of TDS shall also not be captured through other income. However, any other income, service connection income / new connection income etc., and collection income (E-Duty rebate, TV License fee, Municipal Utility charges etc.) shall be adjusted as part of other income.

Gain / loss on hedging instruments;

18.18. KE has submitted that under the proposed cost of foreign debt mechanism, KE has not requested any exchange gain / loss on hedged loans amounts (hedge item) except for hedging cost incurred to enter into hedging arrangements being a prudent cost. Gain / loss on hedging instruments offset the aforementioned gain / loss on hedging item, therefore, gain/ loss on hedging instruments shall be excluded from tariff workings to offset the gain/ loss recorded on hedged item.

18.19. The Authority observed that KE has been allowed hedging cost for foreign loans, the impact of which has been included in the tariff, to be borne by the consumers. Therefore, any gain on hedging instruments shall be adjusted as part of Other Income. However, any loss on such account shall not be passed on to consumers and shall be borne by KE, as KE is required to manage the hedge efficiently. Exchange gain/loss, on any other account, would not be accounted for, as part of other income.

Liabilities written back / Assets written off/ Scrap Sales;

18.20. KE submitted that these arise due to KE's financial management decisions and performance to which the consumer shall not be exposed, therefore, these are requested to be excluded from tariff workings.

18.21. Regarding assets written off, the Authority considers request of KE reasonable and has decided that assets written off would be KE'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 KE has already been allowed cost in the tariff, the same shall be included as part of other income.

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Penalties/ Demurrage/ Detention charges

18.22. KE has submitted that penalties are typically the result of non-compliance or breaches of regulatory or contractual obligations. They are not directly related to the operational costs of KE. These are meant to hold the company accountable for failing to meet specific standards or regulations.

18.23. Since penalties are incurred to hold the company accountable for failing to meet specific standards or regulations, therefore, passing on these costs to the consumers would undermine the purpose of penalties. Hence, no such cost shall be passed on to the consumers. Accordingly, while working out the O&M cost of KE for the FY 2023-24, the amount of penalties has not been included as part of O&M costs.

18.24. Regarding demurrages / detention charges, the Authority considers that these are not prudent costs and as per practice does not allow any such costs, while processing the fuel cost components of generation companies. In view thereof, the Authority has decided not to include the demurrage / detention charges as part of O&M cost of K-Electric.

Late Payment Surcharge

18.25. KE in its working has not included Late Payment Surcharge as part of Other Income. K-Electric submitted that in case of delayed payment by consumers, suppliers are paid by KE from its own sources. It further mentioned that benefit of cost received from one person may not be passed on to all consumers.

18.26. The Authority observed that in the matter of XWDISCOs, it has allowed them to retain the late payment surcharge to the extent of supplemental charges billed by CPPA-G to each DISCO, on account of delayed payments to CPPA-G. On the same analogy, the Authority has decided to allow KE to retain late payment surcharge to the extent of supplemental charges billed to KE from its power procurement sources, if any, except supplemental charges billed by CPPA-G. Any amount in excess of such supplemental charges shall be included as part of other income. In case, the supplemental charges exceed the amount of late payment surcharge, no adjustment shall be allowed to KE for such excess supplemental charges.

18.27. Based on the above discission, the total Other Income of KE for the FY 2023-24 for both its Distribution and Supply Functions, based on its un-audited accounts for the FY 2023-24 has been worked out as Rs.11,336 million including amortization of deferred revenue. Accordingly, Other Income for Supply function works out as Rs.6,240 million, subject to adjustment, once audited accounts of KE for the FY 2023-24 are available. The amount of Rs.6,240 million has been adjusted, while working out the total revenue requirement of KE for its Supply function for the FY 2023-24.

Other income adjustment/indexation

18.28. Other Income for future years would be based on actual Other Income as per the last available financial statements, after making adjustments for different heads as discussed above. The same shall be trued up as part of PYA, based on the audited accounts for the respective year during the

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MYT control period. KE is directed to ensure that all required disclosures are properly reflected in its financial statements in order to work out the correct amount of other income.

19. Issue No. 17: Whether the request to share additional income from regulated business in the ratio of 50:50 between KE and consumes is justified?

20. Issue No. 18: Whether the request to retain income which is not part of regulated activities e.g. income from K-Solar, is justified?

20.1. KE has submitted that any income / revenue which is not part of regulated activities e.g. income from K-Solar, shall not be passed through / form part of Tariff. Further, in case if Regulatory Asset Base is simultaneously used for regulated business as well as any other activity without impacting consumer services, the additional income shall be shared in the ratio of 50:50 between KE and consumers.

20.2. The Authority noted that since KE is being allowed Return and Depreciation on its total RAB, therefore, any additional income that arises, based on usage of such RAB for any activity other than regulated business, should logically be shared with the consumers. However, passing on the benefit of such income 100% to the consumers of KE, would not incentivize KE to enter into any such activity. Therefore, the Authority has decided to allow sharing of such gains, if any, in the ratio of 80:20 between Consumers and KE. Here it is pertinent to mention that since presently uniform tariff regime is applicable in the country, therefore, any additional income would be adjusted in KE's tariff as part of Other Income, thus, lowering KE's tariff and consequently would reduce the GoP subsidy towards KE. In view thereof, KE is directed to separately disclose such income in its audited financial statements.

20.3. Regarding income from K-Solar, the Authority has decided that same shall not be adjusted, however, in case KE's RAB or any other resource is used by K-Solar, the financial impact of same shall be reported by KE separately, so that same is adjusted from KE's Revenue or benefit is passed on to consumers.

21. Issue No.16: Whether the request to allow Corporate Tax, WPPF and WWF as pass through costs is justified?

21.1. KE in its Petition has submitted that currently, corporate tax and WPPF / WWF on overall company level are pass through items within the MYT 2017-23. KE has proposed that considering that legal structure will remain the same, corporate tax and WPPF / WWF shall be passed through to consumers in Supply Tariff. However, going forward, in case of any change in legal structure whereby a corporate tax and WWF / WPPF is separately levied on distribution business, same shall be passed through as done in case of other private entities.

21.2. Regarding WWF, WPPF and Corporate tax, the Authority observed that KE 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:

> [1][3. Establishment of fund.--
>
> (1) 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; [2][* * *]
>
> [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, [4][* * * *] 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:

> (d) "profits" in relation to a company means such of the "net profits" as defined in section 87-C of the Companies Act, 1913 (VII of 1913)*, as are attributable to its business, trade, undertakings or other operations in Pakistan.

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

> ***Remuneration of managing agent.***
>
> ***87C. (1) Where 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 defined in the agreement of management.***
>
> ***(2) Any stipulation for remuneration additional to or in any other form than the remuneration specified 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 on or after the date specified by the [1][Federal Government] in the Official Gazette in this behalf is not less than [2][five] lakh of rupees shall pay to the Fund in respect of that year a sum equal to two per cent [3][* *] of its total income [* * *][* * *].

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

> [4]( ) "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.]

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21.3. Since these costs have not been included as part of the allowed O&M cost of K-Electric, therefore, in case KE 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, the WWF/WPPF payments are allowed as pass through items, as per their PPAs. Similarly, KE in its previous MYT was allowed such costs as pass through.

21.4. In view thereof, the Authority has decided to allow corporate tax to KE as pass through, to the extent of current tax paid after netting off all adjustable taxes (without the impact of deferred tax) subject to provision of verifiable documentary evidences, and shall be allowed through adjustment in tariff on annual basis as part of PYA.

21.5. Regarding WWF and WPPF, the Authority has also decided to allow these costs as pass through, on actual payment basis, as part of annual PYA, subject to provision of verifiable documentary 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 consider to review its decision for KE as well.

22. <u>Issue No.23: What would be the mechanism for adjustment of cost of open access, cross subsidy, keeping in view the opening of the markets?</u>

22.1. KE has submitted that the units served for the purpose of tariff shall include both, units served for regulated consumers as well as units served for non-regulated consumers and units served adjustment and revenue requirement for Distribution segment to be passed on to Supply business shall be calculated accordingly.

22.2. KE further submitted that Rule 5 (2)(c) of the Eligibility Criteria Rules 2023 notified by the Government of Pakistan and Strategic Directive 88 of the NP recommends Use of System Charges (UoSC) which includes wheeling charges, open access costs and cross subsidy to be recovered on uniform basis as the prevailing policy for applicable tariff is currently uniform across the country, and subject to determination by Authority and these will be deducted at actual while calculating the revenue requirement for regulated consumers in supply business.

22.3. In addition to wheeling charges, KE submitted that it is important to highlight that any bilateral contract between a BPC and a Competitive Supplier must ensure grossing up of BPC demand to account for the allowed level of technical losses as determined by NEPRA for KE's Distribution segment such that the total demand to be served by the Competitive Supplier for the respective BPC is inclusive of the allowed losses determined by NEPRA for KE's distribution network. Any shortage or excess energy (imbalances) shall be recovered / adjusted from BPCs/Competitive Supplier as per the applicable provisions of the regulatory framework and passed on to regulated consumers. Moreover, in case wheeling of power involves another DISCO / NTDC network, KE as part of its CTBCM Evaluation & Integration Plan currently under NEPRA approval, has already requested clarity from NEPRA on treatment of losses in such cases.

22.4. Further, KE stated that cost of open access and cross subsidy or other charges recovered from consumers pursuant to open access costs determined by NEPRA shall be recovered from consumers as per the applicable framework and be adjusted as part of supply business tariff adjustments.

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22.5. The Authority noted that any charges to be recovered by KE 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 KE.

23. Issue No. 20: Whether the request to allow for adjustment for additional costs/revision required in tariffs pursuant to unbundling, is justified?

23.1. KE has submitted that if there is any legal unbundling in future, KE will file for one-time adjustment for additional costs /revision required in tariffs pursuant to unbundling with NEPRA for determination along with rationale.

23.2. The Authority would consider this request of KE, once any such cost is incurred. Allowing or disallowing any such cost would be decided after carrying out the required due diligence and regulatory proceedings, keeping in view the principles of prudency.

24. Issue No. 19: Whether there is any cost/ benefit analysis of the requested tariff on domestic consumers, industrialization and economic growth?

24.1. KE during the hearing submitted that pursuant to Uniform tariff policy, the applicable tariff for consumers is based on the tariff of XWDISCOs and incorporates the element of socio-economic policy etc. Hence, KE tariff does not have any direct link with industrialization and economic growth.

24.2. A cost reflective tariff for KE with appropriate returns comparable with other private sector investors is necessary to ensure continued efficiency and performance improvements

24.3. Despite challenging operating environment, through investments of USD 4 billion into the infrastructure since privatization, KE has improved generation efficiency and reduced T&D loses which has resulted in decrease in tariff requirements by PKR 113 billion (Generation efficiency annual impact of improvement from c. 30% in FY05 to 42.2% in FY23) and PKR 155 billion (T&D losses reduction annual impact of improvement from 34.2% in FY 05 to 15.3% in FY23).

24.4. In addition, pre- privatization KE was being provided annually PKR 10 billion as operational subsidy which has been completely eliminated. Hence, privatization and investments into KE has financially benefited the exchequer.to explain the issue during the hearing.

25. Issue No. 21: Whether the request to allow unrecovered cost pertaining to MYT 2017-23, to be included in the quarterly tariff adjustments to be filed is justified?

25.1. KE has requested that that any unrecovered cost pertaining to MYT 2017-23 shall be included as unrecovered cost in the quarterly tariff adjustments to be filed.

25.2. The Authority considers that any cost pertaining to MYT 2017-23, if subsequently allowed to KE by the Authority, would be allowed as part of PYA in the MYT Tariff of FY 2024-30. Here it is pertinent to mention that the Authority vide decision dated 02.08.2024, allowed negative adjustment of Rs.6,690 million for the quarter Apr. to Jun. 23 and decided that same will be adjusted in the new MYT of K-Electric for the period from FY 2023-24 to FY 2029-30.

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Accordingly, the negative amount of Rs.6,690 million has been adjusted in the instant determination as PYA.

26. Issue No. 22: Whether the terms and conditions of Tariff (for supply of power specific to each consumer category) as proposed are justified?

26.1. KE during the hearing submitted that Terms & conditions of KE's tariff were last updated in November 5, 2021 to ensure alignment with XWDISCOs. KE submitted to align terms & conditions with XWDISCOs.

26.2. Considering Uniform tariff regime in the Country, the Tariff terms & conditions of KE shall be aligned with XWDISCOs. Accordingly, the tariff terms & conditions for K-Electric have been attached with the instant determination.

27. Issue No. 25: Whether there will be any claw back mechanism or not?

27.1. KE during the hearing submitted that NEPRA has already proposed a mechanism to claw-back the savings pertaining to T&D loss at the end of each year in investment plan approval. Furthermore, KE has already requested to actualize cost of debt, working capital balances as per standard limits, sent out and other income (excluding certain specific items) annually. Moreover, KE has also proposed to share the gains beyond the CAP proposed in recovery loss mechanism. KE requests that it be allowed to retain O&M gains as it is already amongst the DISCOs with low O&M cost per unit.

27.2. The Authority understands that sharing mechanism for any savings is provided under each head separately, therefore, no such mechanism is separately required.

28. Issue No. 03: Whether the request to allow stamp duty/taxes on purchase of Power / Furnace oil / Gas / RLNG / HSD etc. payable to Federal or Provincial Government, which are not of a passthrough nature like input sales tax or claimable nature like withholding income tax, as pass through in tariff to enable KE recovery of prudent cost is justified?

28.1. KE has requested that in case of imposition of any stamp duty/taxes on purchase of Power /Furnace oil / Gas / RLNG / HSD etc. payable to Federal or Provincial Government, which is not of a pass-through nature like input sales tax or claimable nature like withholding income tax, shall also be considered as pass through in tariff to enable KE recovery of prudent cost. Accordingly, stamp duty/taxes shall be considered as part of the power purchase/ fuel cost (furnace oil/ Gas/ RLNG / HSD cost).

28.2. In case any taxes/ duty is imposed by the Federal/ Provincial government on purchase of Power / Furnace oil / Gas / RLNG / HSD etc., which is neither adjustable like input sales tax nor claimable like withholding income tax etc., and beyond KE's control, the Authority would consider to deliberate such costs, once these are incurred by KE and shall decide the matter based on the principle of prudency and after following the due regulatory process.

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29. Issue No. 04: Whether the request to include units exported by consumer, above the units consumed in a month, in total sent out at applicable tariff rate and the related power purchase cost be also included as power purchase cost is justified?

29.1. KE submitted that at present, it purchases the following from the net metering consumers in accordance with NEPRA (Alternative and Renewable Energy) Distributed Generation and Net Metering Regulations, 2015:

- ✓ Units / power exported by consumer, above the units consumed in a month, which are carried forward to next period for adjustment against future consumption till the end of the quarter. These are required to be purchased at the applicable tariff rate and are currently not included in the sent out used for tariff variations determination; and
- ✓ Excess units / power at the end of quarter. These are purchased at notified National Average Power Purchase Price and are currently included in the sent out used for tariff variations determination.

29.2. KE has requested to include the surplus power purchased at applicable tariff rate from net metering consumers, as per (i) above, in total sent out and the related power purchase cost be also included in order to align the proposed MYT with actual power purchases.

29.3. The Authority noted that as per Net metering Regulations 2015, amended from time to time, the Regulation 14, states that the kWh supplied by a Distributed Generator during peak hours shall be net off against the kWh supplied by a Distribution Company during peak hours and the kWh supplied by a Distributed Generator during off peak hours shall be net off against the kWh supplied by a Distribution Company during off peak hours. Further, in case the kWh supplied by Distributed Generator exceed the kWh supplied by Distribution Company, the net kWh shall be credited against Distributor Generator's next billing cycle for future consumption, or shall be paid by the Distribution Company to the Distributed Generator quarterly. Although units supplied in excess by a Net Metering Consumer are credited against Distributed Generator's next billing cycle for future consumption, however, the excess units supplied by the Distributed Generator in any month are sold to other consumers in real time, therefore, the request of the Petitioner to consider the excess units supplied by a Distributed Generator as part of total sent out and the related power purchase cost to be also included in order to align with actual power purchases seems justified. Accordingly, the Authority has decided that excess units exported after Net Metering, shall be treated in same manner as of XWDISCOs and as being done presently in case of K-Electric.

30. Issue No. 11: Whether the request to charge LPS linked with KIBOR and spread on energy dues outstanding on Government entities, is justified?

30.1. KE requested that owing to delayed payments by government entities, KE has to incur significant working capital cost. In this regard, KE, at various forums, including the Honorable Courts of Pakistan has raised the issue of non-payment of energy dues by Government and related entities and is also in continuous engagement with relevant departments in this regard, in addition to continuous engagement with GoP and Government of Sindh (GoS) on release of outstanding dues. However, despite these efforts, there have been delays from various Government

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departments and entities, which have seriously constrained and continue to strain the working capital position of Company, and hence, KE should be compensated for the same accordingly.

30.2. Despite above issues, KE is not requesting cost of working capital pertaining to Government entities under the proposed MYT for supply considering that these are being separately taken up with Government.

30.3. In this regard, KE had earlier requested NEPRA to allow to include a mechanism in agreements with GoS entities to enable KE to charge Late Payment Surcharge on outstanding energy dues hiked with KIBOR plus a spread agreed among the parties. However, NEPRA did not allow the same and directed to charge LPS as per Tariff terms which is one time charge of 10% that does not fully compensate for the actual cost incurred due to delays / non-payment by the consumers.

30.4. Considering the situation of outstanding receivables from Government entities and departments, KE requested NEPRA to re-consider KE's request and allow KE to charge LPS linked with KIBOR and spread on energy dues outstanding on Government entities, so that KE can cover its working capital cost from that LPS.

30.5. KE also highlighted that the matter of delayed / non-payment of TDS to KE is being pursued separately by KE with GoP and a draft TDS Agreement has been initialed between KE and the GoP to streamline the payment of KE's TDS claims, which also includes a mechanism for mark-up on delayed payments of TDS by GoP. KE remains in continuous engagements with GoP for execution of the TDS Agreement, however, if the TDS Agreement does not materialize, KE would request NEPRA to allow the same in tariff as it is a legitimate cost of business.

30.6. As per the notified tariff terms and conditions, KE shall ensure that bills are delivered to consumers at least seven days before the due date, if any bill is not paid by the consumer in full within the due date, a Late Payment Surcharge (LPS) of 5% may be levied for next three (03) days after the due date, and thereafter 10% LPS may be charged on the amount billed excluding Govt. taxes and duties etc.

30.7. Further, the Authority approved the following amendments in the CSM dated 23.05.2024, as under;

Sr.#	Description
I.	**CHARGING OF MARKUP:** If the request for installment of the current month's bill is made then: i. There shall be no markup or LPS if first installment is paid within the due date. ii. The remaining installments shall be paid with markup @ 14% (per annum) on pro-rata basis. iii. This facility of installment shall be allowed only one time in any financial year. iv. The request for extension in due date for payment of bill shall be made before the due date. v. The DISCO shall generate computerized bills upon allowing installments and extensions in due date.

30.8. KE is therefore directed to charge LPS or markup on delayed payments as per the notified tariff terms & conditions and relevant clauses of CSM.

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31. **Issue No. 12: Whether the requests that upon implementation of CTBCM and proposed central dispatch, any imbalances relevant to demand of KE consumers (i.e., regulated consumers) or dispatch of generation in KE system to meet the demand of CPPA-G system, which shall be settled at the marginal price of the system or any other mechanism prescribed by NEPRA, be allowed as pass-through in tariff under the Cost of Power, is justified?**

31.1. KE has submitted that recovery of Open Access Cost from eligible consumers/BPCs opting for open market is necessary as the generation capacity for serving such eligible consumers/BPCs is already installed/committed and allowing eligible consumers / BPCs to procure power through bilateral contracts or directly from the market without any mechanism for recovery of generation capacity costs, would ultimately burden the regulated consumers.

31.2. In view of the above, KE understands that cost of open access charge will be determined as directed in the National Electricity Policy 2021 and would be recovered from BPCs opting for competitive markets and reduced from revenue requirement of regulated consumers.

31.3. Moreover, as per the CTBCM design, any imbalances (i.e., energy drawn beyond the bilateral contract are to be settled at the prevailing marginal price of the system for that particular hour. Accordingly, KE requests that upon implementation of CTBCM and proposed central dispatch, any imbalances relevant to demand of KE consumers (i.e. regulated consumers) or dispatch of generation in KE system to meet the demand of CPPA-G system, which shall be settled at the marginal price of the system or any other mechanism prescribed by NEPRA, be allowed as pass-through in tariff under the Cost of Power.

31.4. The Authority has decided to accept the request of KE to allow settlement of imbalances, if any, as per mechanism prescribed by the Authority and any such cost/ benefit to be treated as pass-through in tariff.

32. **Issue No. 25: Whether KE's request to allow cost of SBLC provision on actual basis, with a cap of 1.5% on SBLC amount, to its existing as well upcoming power purchases, is justified?**

32.1. KE has requested that as part of payment security, SBLC is required to be provided for purchase of power from its existing IPPs including SNPC, STDC, FPCL and Lucky. Furthermore, it will also have to provide SBLCs in future to upcoming power sources pursuant to new Power purchase agreements. Accordingly, cost of SBLC provision may be allowed on actual basis, with a cap of 1.5% on SBLC amount to allow prudent recovery of cost.

32.2. KE also submitted that it has also provided payment security in the form of escrow arrangement to its existing IPPs and is expected to provide similar arrangement to CPPA and other upcoming IPPs in future under their respective power purchase agreements. Accordingly, KE requests that expenses incurred in this regard may also be allowed on actual basis to KE.

32.3. The Authority in line with its decision for other entities has decided to allow cost of SBLC to KE, which shall be capped 1% of the SBLC amount, subject to downward adjustment based on actual cost. KE shall provide all the required verifiable documentary evidences along-with proper working/calculations and justifications for such costs.

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33. <u>Issue No. 13: Whether the proposed mechanism of monthly, quarterly and annual adjustments of various tariff components including retail margin, recovery loss, working capital, impact of actual vs allowed T&D losses, other income etc. is justified?</u>

33.1. According to KE, base tariff for supply consumers will include Cost of Power (EPP, CPP and others), transmission and Distribution network charges and supply tariff components. Annual revision and filing of tariff table will be done prior to the end of fiscal year which will set the basis for reference for calculation of monthly and quarterly variations to be recovered as follows:

<u>Monthly Variation</u>

- ✓ Monthly Fuel Charge Adjustment - to account for changes in Fuel cost, on monthly basis as compared to Reference fuel cost i.e. projected fuel cost requirement of corresponding month (on units served)

<u>Quarterly Variations</u>

33.2. These include unrecovered costs as given below:

- ✓ Adjustment to recover/ pass on actual Cost of Power (less fuel), Distribution, Transmission and Supply charges based on actual units billed for the month as compared to Reference cost i.e. projected Cost of Power, Distribution, Transmission and Supply charges of corresponding quarter;
- ✓ Impact of Distribution losses on FCA, not covered in Monthly FCA;
- ✓ Impact of Cost of open access & cross subsidy charge;
- ✓ Impact of other adjustments and passthrough items such as Corporate tax, WPPF and WWF (to be claimed in the quarter in which payment made);
- ✓ Impact of annual adjustment of unrecovered cost pertaining to Transmission, distribution and Supply business, to be computed on annual basis and claimed in Q1 of subsequent Fiscal year; and (based on audited accounts)
- ✓ Impact of any amount of FCA not passed on to consumers as per NEPRA/ GoP directives.
- ✓ Adjustment for recovery of costs from BPC consumers under open market including open access cost and cross subsidy.

<u>Annual Adjustments</u>

33.3. These include Annual adjustments pertaining to the following:

- ✓ Adjustment for over / under recovery of retail margin and recovery loss components due to actualization of revenue and revision in recovery loss target for each year.
- ✓ Adjustment for over / under recovery due to actualization of working capital requirement based on standard credit period at each year end.
- ✓ Adjustment for over / under recovery due to variation in sales mix on account of category wise rates, T&D losses, units billed, other income and other expenses which are proposed

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to be pass through at actual in tariff and sharing of other income to be adjusted annually through annual adjustments.

33.4. Actual Sent outs at actual loss may be considered instead of allowed loss target.

33.5. During hearing KE submitted that to ensure recovery of all prudent cost and return the excess recoveries made if any, quarterly and annual Adjustment mechanism proposed by KE includes adjustments to account for:

- ✓ quarterly variation in KIBOR to timely recover working capital cost;
- ✓ impact of distribution losses on quarterly basis on FCA as allowed in previous MYT;
- ✓ variation in revenue requirement of recovery loss and retail margin due to actualization of revenue;
- ✓ variation between projected and actual units billed considering these are beyond KE's control;
- ✓ variation in working capital costs due to annual adjustments and actualization of current assets / liabilities balances at year end to account for any over / under recovery;
- ✓ sharing / passthrough of other income / expense incurred during the year;
- ✓ changes in recovery loss target due to variation sales mix beyond KE's control; and
- ✓ annual adjustment due to variation in transmission & distribution losses should be done annually considering seasonal variations.

33.6. The submissions of KE have been analyzed. The Authority has prescribed adjustment mechanism under each head of Revenue Requirement as mentioned in the instant determination. For remaining heads, the adjustment mechanism is as under;

Periodic Adjustment Mechanisms

Monthly Fuel Charges Adjustment

Formula

Fuel charges/cost adjustment= Actual FCC - Ref. FCC

Where:

- Fuel Charge/ Cost adjustment is the difference between actual and reference fuel cost component
- Actual fuel cost component (FCC) for a particular month is worked out by dividing fuel cost of all power plants of KE's basket including external power purchases, which were operated in the month, including impact of any previous adjustments and PPA/PPAA/SLA factors, if applicable, by their total generation sent out during the month.
- Reference fuel cost component is the fuel cost component for the corresponding month projected for the purpose of tariff determination.

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- The fuel charge/ cost adjustment determined by the Authority shall be shown separately in the bills of consumers and the billing impact shall be worked out on the basis of consumption billed to the consumers in the respective month.
- For the purpose of calculation of monthly FCAs, the actual fuel cost component shall be adjusted up-to the allowed level of T&T (Transmission) loss target on accumulative basis for the year.
- The impact of Monthly references vis a vis recovery of annual average rate in schedule of tariff would be allowed as part of PYA along-with impact of T&T losses, if required based on allowed target.

Quarterly Adjustment

The quarterly adjustments, include variation of;

i. **Capacity Charges**

ii. **Transmission Charges**

iii. **Variable O&M**

iv. **Distribution losses impact of FCA**

Formula for adjustment

Quarterly PPP (Adj.) = PPP(Actual) (excluding Fuel cost)-PPP(Recovered) (excluding Fuel cost)

Where;

- PPP(Actual) is the cost other than fuel cost, as determined by the Authority for KE's own power plants and transmission network, plus cost of power purchases (excluding fuel cost) from external sources, based on the Authority's approved rates, including cost invoiced by CPPA-G to KE, adjusted for any cost disallowed by the Authority.
- PPP(Recovered) is the amount recovered based on reference rate in Rs./kWh, other than fuel cost, as per the tariff determination that remained notified during the period based on allowed level of T&T Losses.
- Impact of Distribution losses on FCA = Monthly FCA allowed (Rs./kWh) x (Units served allowed as per FCA x allowed % of Distribution losses)

  Where;

  Monthly FCA allowed (Rs./kWh) is the FCA allowed by the Authority for the respective month.
- Distribution Loss % is percentage of Distribution losses that remained notified during the period.

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- The sum of amounts so worked for each month of the Quarter shall be divided by the Projected units to be sold for the period in which recovery of the quarterly adjustment is to be made, as determined by the Authority, to work out Rs./kWh Quarterly adjustment.
- KE basket means KE own Generation including external power purchases
- For the purpose of assessing recovery of PPP, the impact of units sold on marginal cost, under any incentive / incremental consumption / winter package etc., as notified from time to time, shall be dealt with as per the mechanism provided in the relevant determination of such incentive / incremental consumption package.

PYA adjustment

- Under / Over Recovery of allowed Distribution & Supply Costs / allowed PYA / allowed Quarterly adjustments.
- Annual adjustment due to actualization of tariff components as mentioned under the relevant head in the instant determinations
- Adjustment for FCA not passed on to certain categories.
- Any variance due to change in Sales Mix.
- Corporate tax, WWF, WPPF.
- Cost of open access and cross subsidy charge.
- Cost relating to MYT FY 2017-23, if allowed subsequently.
- Stamp duty / taxes on Fuel & power purchases, if allowed by the Authority.

34. **Issue No.08: Whether the request to allow recovery loss based on yearly recovery loss % targets, to be adjusted annually due to change in sales mix, and variation in amounts billed to consumers along-with the floor and cap mechanism is justified?**

34.1. KE submitted that the recovery losses are genuine and legitimate cost of power supply businesses and should be considered while setting cost reflective tariffs. This has also been endorsed by National Electricity Policy 2021 promulgated by GoP which clearly states in subsection 5.3.2: "So as to ensure and put in place efficient tariff structures for sufficient liquidity in the power market, the target for losses and collections shall be revisited by the Regulator, in order to align the same with the current market realities. These targets shall be reflected in the determinations of the Regulator. Moreover, timely recovery of bad debt that is prudent shall be allowed by the Regulator with the incorporation of facilitative provisions in the regulatory framework as per industry practices and procedures".

34.2. KE believes that the most viable regulatory measure is a recovery gap allowance approach, encouraging improvement over time. In the absence of this approach, tariff is not cost reflective and may result in solvency issues for the supply business. Further, it is imperative to note that, unlike other XWDISCOs, KE is not financially supported by the government, therefore, non-provision of recovery gap allowance, which is a genuine cost of business reflected in the form of provision for doubtful debts in the financial statements, would significantly impact its ability to meet its service obligations. To improve the recovery of outstanding dues, KE follows a disconnection policy and regular reviews of receivable balances with rigorous follow ups through different means including SMS reminders, follow-up calls or disconnections. With targeted recovery initiatives and introduction of various recovery schemes for collections from non-paying consumers as listed above, KE's recovery ratio has improved over the current control period from 88.5%in FY 2016 to 92.76% in FY 2023.

34.3. Since KE is not financially supported by the GoP, unlike XWDISCOs, and non-provision of recovery gap allowance will significantly impact KE's ability to achieve future targets and execute its investments plans, therefore, keeping in view the ground realities and socioeconomic environment in which KE operates, KE requests the Authority that the tariff should be based on the allowed recovery loss trajectory and KE should be compensated for legitimate costs related to recovery loss. In view of the environment in which KE operates and the challenges that it faces, KE requested NEPRA to have a realistic assessment of the benchmarks.

34.4. In view thereof, KE, for the purpose of calculation of base tariff, requested that Recovery loss component shall be included based on amounts actually billed to consumers (including taxes paid on billing basis) and year on year recovery loss % for the next control period of FY 2024 to FY 2030.

34.5. KE further submitted that recovery loss % being requested, notionally assumes 100% recovery from Public Sector Consumers. Although there are delays in recovery from PSC consumers coupled with delays in release of Tariff Differential Subsidy (TDS) by the Government, the same is not being requested as it is separately being taken up with Government entities and departments. In case, the agreements with Government to streamline payment modalities do not materialize, KE reserves the right to request NEPRA for adequate compensation due to nonpayment/delay in payments by Government entities.

34.6. KE mentioned that recovery ratio % for the proposed control period as given below, has been projected assuming macroeconomic factors under a stable economy and a projected sales mix.

Recovery loss target for each year

- ✓ KE proposes following recovery loss % targets to be taken as measure of KE's performance for the proposed control period FY 2024— FY 2030:

Category	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Residential, Commercial and others	87.25%	88.12%	88.87%	89.74%	90.59%	91.40%	92.22%
Industry	100%	100%	100%	100%	100%	100%	100%
PSC	100%	100%	100%	100%	100%	100%	100%
Overall Recovery Ratio	92.76%	93.20%	93.64%	94.12%	94.58%	95.08%	95.48%
Recovery Loss	7.24%	6.80%	6.36%	5.88%	5.42%	4.97%	4.52%

- ✓ The above recovery loss percentages have been projected based on the sales mix given below:

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Category	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Residential, Commercial and others	57%	57%	57%	57%	58%	58%	58%
Industry	36%	36%	37%	37%	36%	36%	36%
PSC	7%	7%	6%	6%	6%	6%	6%
Total	100%	100%	100%	100%	100%	100%	100%

Recovery loss target revision Mechanism due to change in sales mix

✓ KE stated that current projected trajectory of Recovery loss as given above is based on current consumer mix and growth assumed therein. In case, if the sales mix changes due to any reason including lower industrial sales or moving out of BPCs, the overall recovery loss will be impacted. Since the same is uncontrollable for KE, therefore, any gain or loss arising due to change in sales mix shall be adjusted in tariff to ensure recovery of prudent cost by KE. In this regard and as illustrated below, proposed mechanism for revision of yearly Recovery losses targets is given, which will be calculated annually as part of annual adjustments:

Description	Legend	Unit	Amount Billed	Amount Recovered	Recovery Loss	Comments
Allowed Recovery Loss						
Residential, Commercial and others	A	PKR Mln	406,116	356,812	87.25%	Projected Revenue
Industry	B	PKR Mln	259,414	261,223	100.00%	
PSC	C	PKR Mln	49,316	49,659	100.00%	
Total	D = A +B +C	PKR Mln	714,846	667,695	7.24%	
Allowed Recovery Loss						
Residential, Commercial and others	E	PKR Mln	492,645	429,839	87.25%	Actual Revenue
Industry	F	PKR Mln	189,479	189,479	100.00%	
PSC	G	PKR Mln	75,792	75,792	100.00%	
Total	H = E + F + G	PKR Mln	757,916	695,110	8.29%	Revised Recovery Loss target

Reference for FY 2024

✓ Considering the reference revenue requirement and Recovery loss target for FY 2024, KE requested an amount of PKR 46,063 million on account of recovery loss, translating into PKR 2.8783/ kWh for the year FY 2024. As per KE, the same which would be adjusted based on actual consumer revenue including revenue from wheeling consumers' and revised recovery loss targets for each year.

Revised references for next year

✓ Projected recovery loss requirement will be provided for next year based on projected references with annual reference setting request prior to the close of financial year.

Annual Adjustment mechanism- *(Cap and floor mechanism)*

34.7. KE further stated that in view of the current worsening economic situation due to drastic change in macroeconomic factors such as hyperinflation (inflation above 20%), economic slowdown (GDP growth below2%), abnormal variations in exchange rates (currency depreciation higher

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than 7-8%), political instability, unrest and increase in tariff and imposition of additional taxes that results in consumer tariff increase beyond CPI), significantly impacts the propensity of the consumers to pay. Similarly, force majeure situations such as COVID-19 also impact the operational performance significantly.

34.8. All these external factors/events (referred to as extreme uncontrollable events) result in unavoidable operational and financial implications beyond absolute control of KE which makes the supply business segment unviable. Hence, to ensure viability of supply business and to restrict the risk exposure (in case of extreme uncontrollable events) and windfall gain, cap and floor mechanism is being proposed.

34.9. The floor is the maximum amount of recovery loss that KE should be exposed to, given the extreme impact of uncontrollable factor. The floor is proposed to be equivalent to retail margin being petitioned i.e. 1.5% from the recovery loss target requested for that year. For example, the floor for FY 24 would be 8.7%. In case actual recovery loss is greater than the floor, the difference between actual recovery loss and the floor would be allowed as an unrecovered cost.

34.10. The cap is the maximum amount of recovery gain that KE should be allowed to retain in case of favorable macro-economic factors. The cap is proposed to be the same as retail margin i.e. 1.5% from the recovery loss target requested for that year. For example, the cap for FY 24 would be 5.7%. In case actual recovery loss is lower than the cap, the difference between actual recovery and the cap would be deducted as an over recovery of cost. No adjustment would be required if actual recovery loss is between or equal to the floor and cap with the risk of gain / loss with KE.

34.11. Through this mechanism, it is proposed that the upside returns and downside risks of operating the supply business are managed whereby in case KE beats the recovery ratio target, the benefits are capped to the limit of 1.5% (equivalent to retail margin) denoted as return ceiling. Similarly, in case an unforeseen / external event hampers the recovery efficiency of KE, the downside risk is also limited up to 1.5% of the allowed recovery loss target for the relevant year denoted as risk floor.

34.12. KE requested that under / over recovery of recovery loss component due to actualization of references and abovementioned cap and floor adjustment, at each year end, for the year ended shall be calculated and included in Annual Adjustments.

34.13. The MoE in its comments submitted that drop in Recovery Ratio in FY24 should not mean that all gains made in previous years can be nullified since investment in infrastructure has been made during the previous MYT. The Recovery Ratio dropped in FY24 to 92.8% and does not recover to FY22 levels until FY29. The Recovery Ratio should be estimated through a high watermark of either FY22 or FY23. Using High Watermark of FY23 with a Recovery Ratio of 96.7% as benchmark, Recovery Loss allowance reduces to Rs.1.41 / kWh (from Rs.2.88/kWh). Increase in commercial losses should be benchmarked against efficient DISCOs to arrive at reasonable targets. In addition, the Authority should set specific commercial loss reduction targets for KE while simultaneously reducing the doubtful debt write-off cap through the control period. Given the technological context of today, the Authority may also consider revisions to the consumer service manual that could allow better customer identification (similar to the 'Know Your Customer' procedures prescribed for the banking sector) and facilitate the association of an

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electricity connection with an individual instead of a property or premises. Distribution companies including KE also need to be given adequate legal recourse to address electricity theft, delayed bill payment and illegal electricity connections.

34.14. The submissions of K-Electric have been analyzed.

34.15. The Authority noted that in previous MYT 2017-23, K-Electric was not allowed any provision on account of recovery loss, rather was allowed actual write-offs, after fulfilment of a prescribed criteria. An analysis of KE's actual recovery ratios during the previous MYT suggest that KE has not been able to achieve a recovery ratio of 100% in any year, as detailed below;

Actual Recovery ratios as reported by K-Electric in Previous MYT

Category	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Domestic, Commercial & Others	83.30%	83.20%	86.80%	89.50%	91.30%	91.00%	91.90%	87.24%
Industry	99.40%	99.70%	100.00%	100.30%	94.90%	100.30%	100.30%	99.94%
PSC	80.80%	98.40%	89.60%	88.00%	88.20%	98.10%	110.40%	100.82%
Overall Recovery Ratio (%)	**88.50%**	**90.60%**	**91.00%**	**92.60%**	**92.10%**	**94.90%**	**96.70%**	**92.76%**

34.16. Even if recovery from PSC is assumed @100%, still the recovery ratio remains below 100%, as depicted hereunder;

Description	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Recovery ratio assuming PSC 100%	91.03%	90.76%	92.26%	93.92%	93.34%	95.04%	95.82%	92.71%

34.17. KE's actual recovery on average during the MYT period, as reported by KE and reproduced hereunder, remained at 92.9% i.e. short by 7.10%, having a total impact of around Rs.122.77 billion;

PKR Million

FY	Revenue Billed	Recovered	Recovery Gap	Recovery Ratio	Write-offs	Provision Expense
FY 17	168,845	150,849	17,996	89.3%	6,195	14,313
FY 18	181,974	166,019	15,954	91.2%	3,371	13,843
FY 19	188,376	175,525	12,851	93.2%	4,050	13,223
FY 20	204,863	189,683	15,180	92.6%	7,492	13,964
FY 21	261,618	247,375	14,243	94.6%	16,040	15,743
FY 22	309,664	295,518	14,146	95.4%	14,489	19,330
FY 23	410,776	378,373	32,404	92.1%	16,264	29,190
Total	1,726,116	1,603,343	122,773	92.9%	67,902	119,605

34.18. On the other hand, the write-off claims submitted by KE are around Rs.76 billion, including additional claims. This figure represents around 4.4% of the revenue billed. Consequently, KE has absorbed a financial burden of approximately Rs.43 billion, based on these write-off claims. The actual amount could be higher, subject to the final determination of the write-off claim by the Authority.

34.19. The Authority also considering the fact that FY 2023-24 has already lapsed and FY 2024-25 is almost 10 months gone, also obtained KE's actual recovery ratios for the FY 2023-24 and FY 2024-25. As submitted by KE its actual recovery for the FY 2023-24 remained at 91.50%, whereas FY 2024-25 is expected to close at 90.50%. The financial impact of under recovery of 8.50% for FY 2023-24 and 9.50% for FY 2024-25, as reported by KE, is around Rs.40 billion and Rs.57 billion

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respectively. The Authority noted that return allowed to KE for its distribution function is around Rs.21.6 billion, meaning thereby that effectively KE would be incurring losses for the first 02 years of MYT, if no recovery loss is allowed to KE. This may compromise the financial viability of the company, which is neither in the interest of the consumers nor power system as whole.

34.20. The Authority also noted that in case of XWDISCOs, although no recovery loss has been allowed, however, it is also a fact that the Federal Government under Section 31(8) of NEPRA Act has the power to levy surcharges, to offset the inefficiencies of XWDISCOs arising from high losses and under-recoveries. However, no such option is available with K-Electric as it can only charge the regulated tariff.

34.21. The Authority further observed that recently formulated National Electricity Policy 2021 ("NEP"), also envisages that target for collections needs to be revisited and aligned with the current market realities, as mentioned below;

"The distribution segment is the interface of the entire sector with the consumers of electricity. The financial viability of the entire sector is premised on the efficient operations of the distribution system and timely recoveries from consumers. The existing operations have resulted in non-recovery of costs determined by the Regulator (in addition to operational costs over and above the revenue requirement determined by the Regulator), leading to accumulation of circular debt, thus threatening the sustainability of the entire sector.

So as to ensure and put in place efficient tariff structures for sufficient liquidity in the power market, the target for losses and collections shall be revisited by the Regulator, in order to align the same with the current market realities. These targets shall be reflected in the determinations of the Regulator. Moreover, timely recovery of bad debt that is prudent shall be allowed by the Regulator with the incorporation of facilitative provisions in the regulatory framework as per industry practices and procedures."

34.22. International precedents also suggest that 100% billing recovery is generally not mandated. Instead, regulators allow for reasonable bad debt provisions and encourage utilities to improve collection efficiency through performance targets and incentives. While high recovery rates are desirable, regulators balance this with the realities of consumer behavior, economic conditions, and operational challenges, allowing for flexibility in recovery targets.

34.23. Regarding mechanism to allow recovery of bad debts, the Authority observes that the relevant provisions of the NE Policy and NE Plan regarding the targets for collections and recovery of bad debts are as under:

NE Policy

"5.3.2 So as to ensure and put in place efficient tariff structures for sufficient liquidity in the power market, the target for losses and collections shall be revisited by the Regulator, in order to align the same with the current market realities. These targets shall be reflected in the determinations of the Regulator. Moreover, timely recovery of bad debt that is prudent shall be

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allowed by the Regulator with the incorporation of facilitative provisions in the regulatory framework as per industry practices and procedures."

NE Plan

"SD 31 DISCO's shall initiate the process to reduce the bad debt on account of permanently disconnected consumers through mobilization of recovery initiatives, comprising of representatives from respective local & provincial governments / entities and law enforcement agencies. Accordingly, following procedure shall be adopted for claiming of write-off:

a) the claim shall be applicable for the default amount of a permanently disconnected consumer that may not be recovered through all efforts possible;

b) the age of such non-recovery is over three (3) years.

Provided further, in case the recoveries of bad debt from the respective defaulters may not be retrieved, the DISCOs shall claim for write-offs from the Regulator within six (6) months from the declaration of receivables as bad debt."

34.24. Further, the clause 6.1.3 of the NE Policy provides as under:

"The National Electricity Plan shall provide guidelines, implementation mechanisms and tools for the realization of the policy goals for the power sector. It will entail high level tasks, timelines and responsibilities of respective sector entities to meet policy directives. Pursuant to the National Electricity Plan, the Government may issue specific frameworks to facilitate implementation in a particular sub-sector. <u>Any provision of the National Electricity Plan that is inconsistent with the National Electricity Policy shall be void</u>." (Emphasis Added)

34.25. From the reading of the above provisions, it is clear that the NE Policy only required the regulator to incorporate facilitative provisions in the regulatory framework as per industry practice and procedure for timely recovery of bad debt. Therefore, the policy laid down a broad principle but left the finer detail regarding mode and manner of recovery of bad debts for the regulator to decide.

34.26. The NE Plan while restricting the clear provision of the NE Policy, provided that for recovery of bad debts, DISCOs shall claim write offs from the regulator. This *prima facie* is a clear inconsistency between the NE Policy and NE Plan and as per clause 6.1.3 of NE Policy, the strategic directive 31 to the extent of limiting the mode and manner of recovering bad debt by way of claiming write off from the regulator is void.

34.27. It may also be considered that determination of tariff is the exclusive domain of the Authority as per the NEPRA Act. This legal position has been settled by superior courts in numerous judgements. Further, section 14A(4) of the NEPRA Act provides that NE Plan, as approved by the Federal Government has to be in accordance with the NE Policy as approved by CCI. As per the provisions of NEP, those provisions of the NE Plan will be applicable which are not inconsistent with the NE Policy. Therefore, it is the sole prerogative of the Authority to decide the nature of the facilitative provision regarding recovery of bad debts in the regulatory framework as per the Act and NE Policy.

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34.28. Further the NE Policy does not require write off mechanism as a mean to recover bad debts. Similarly, without prejudice to the above, the NE Plan does not require the company to write off the bad debt to be a pre-condition for setting recovery targets at less than 100%, nor does it require write off for upward or downward adjustment after the respective period. The NE Policy only requires that a facilitative provision of "timely" recovery of bad debt that is "prudent" may be incorporated in the regulatory framework "as per industry practices and procedures".

34.29. Furthermore, it can also be argued that SD 31 is an enabling provision to address the writing-off the amount of existing bad debts, only for XWDISCO, and it no way impinge upon the right and obligation of the Authority under NEP to provide facilitative provisions in the regulatory framework for recovery of bad debts. This is further strengthened with the conjunctive reading of the SD 26 of the NE Plan with clause 5.3.5 of the NE Policy, which provides that a strategic roadmap shall be signed between XWDISCOs and MOE for recovery of bad debt through write off.

34.30. In view of the above discussion, and to ensure sufficient liquidity in the power market, and to align the collection targets with current market realities, the Authority has decided to allow recovery loss to K-Electric as per the following targets for the MYT control period from FY 2023-24 to FY 2029-30;

Recovery Targets for K-Electric during the MYT Control period						
FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
93.25%	93.60%	94.40%	95.19%	95.70%	96.10%	96.50%

34.31. The detailed mechanism for allowing recovery loss / bad debt allowance (Provision for impairment against debts considered doubtful for the year) during the MYT Control period and its actualization shall be as follows:

I. For the purpose of allowing recovery loss in the reference tariff:

the allowed recovery loss percentage shall be applied on the determined revenue (or billed revenue, if available) for the respective financial year. The calculated recovery loss amount will be made part of the determined revenue requirement.

II. At the end of each financial year, the recovery loss amount will be reconciled for adjustment with the actual recovery loss amount/bad debt allowance (Provision for impairment against debts considered doubtful for the year), as detailed below;

<u>For the purpose of annual adjustment:</u>

(a) At the end of each financial year, the gross amount billed to consumers during the year, excluding billing made to hook / unmetered connections, if any, as reported in the audited financial statements (referred to as **Consumer Revenue**) shall be considered, and following adjustments shall be made in that amount:

- Include billing which is due to be recovered from consumers during the year including any amount which was previously deferred on GoP / NEPRA directives or any court order;

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- Exclude billing which is not due to be recovered from consumers during the year including any deferment on GoP / NEPRA directives or any court order; and
- Excludes taxes, duties, surcharges or fees etc., which are not part of KE's revenue.

(b) The allowed recovery loss percentage shall be applied to the Consumer Revenue worked out as per (a) above to calculate the maximum recovery loss amount to be allowed subject to adjustment as given below;

(c) Actual recovery loss ratio of KE due to non-recovery of bills from consumers during the year, calculated based on Consumer Revenue worked out as per (a) above, and gross amount collected from consumers including collection from hook / unmetered connections, as reported in the audited financial statements shall be considered. Provided that, while calculating the gross amount collected, recovery from Public Sector Consumers (PSC) shall be taken as 100% and accordingly corresponding adjustments (positive or negative) for the PSC recovery shall be made. The actual recovery loss ratio shall be applied on Consumer Revenue worked out as per (a) above to calculate the actual recovery loss for the year (**Actual Recovery Loss**).

(d) In addition, provision for impairment against debts considered doubtful (excluding any provision for PSC billing and billing made to hook / unmetered connections) as reported in KE's audited financial statements for the year shall also be considered.

III. KE shall be liable to reflect each of the above required information, including billing made to hook / unmetered connections, if any, separately in its annual audited financial statements.

IV. The lower of the amount of (b), (c) and (d) above shall be compared with the recovery loss amount allowed in the reference tariff and required adjustments shall be made, subject to a cap based on allowed percentage recovery loss target. For clarity purposes, if the amount of recovery loss allowed in reference tariff is higher than the lower of (b), (c) and (d), the difference shall be deducted as part of PYA. Similarly, if the amount of recovery loss allowed in reference tariff is lower than the lower of (b), (c) and (d), the difference shall be allowed as part of PYA.

V. In addition to the adjustments as explained in (e), in case KE outperforms the allowed yearly recovery target, the entire impact of such operational efficiency shall be passed on to the consumers and KE should not be allowed to retain any such gains. These gains shall be adjusted as part of annual adjustment. No adjustment shall be allowed to KE in tariff for non-achievement of yearly allowed recovery targets.

35. Here it is pertinent to mention that for the purpose of assessment of KE's Supply of Power Tariff for the FY 2023-24, the information as submitted by KE has been relied upon. In case of any variation, error, omission or misstatement/ misrepresentation observed at a later stage, KE shall be held responsible for the consequences arising out of such misstatement/ misrepresentation,

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under NEPRA Act and its Rules & Regulations, and any adjustment will be made accordingly, if required.

Order

36. 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 2023-24, to the extent of its supply function is summarized as under;

Description	Unit	Supply Allowed
Setouts	GWHs	**17,768**
K.E System		7,471
Power Purchase		1,758
CPPA-G		8,538
T&T loss	[%]	0.75%
Distribution loss	[%]	13.90%
Total T&D loss	[%]	14.55%
Total T&D loss	[GWh]	2,584
Units Sold	[GWh]	**15,183**
Power Purchase Cost	Rs. Mln	**528,646**
Fuel Cost		**282,059**
Own Generation		118,605
Power Purchases		27,914
CPPA-G		135,540
Variable O&M		**9,383**
Own Generation		3,831
Power Purchases		2,587
CPPA-G		2,965
Capacity Charges		**193,756**
Own Generation		73,596
Power Purchases		16,190
CPPA-G		103,971
Transmission Cost		**43,447**
Wire Business Cost		**50,284**
Supply Margin		**34,681**
O&M Cost		5,911
Working Capital		(1,244)
Recovery Loss		36,253
Gross Margin		**40,921**
Other Income		(6,240)
Net Margin		**34,681**
Prior Year Adjustment (PYA)		**(6,690)**
Total Revenue Requirement		**606,920**
Average Tariff		
Power Purchase excluding Transmission Cost	Rs./kWh	**31.96**
Transmission Cost	Rs./kWh	**2.86**
Distribution Cost	Rs./kWh	**3.31**
Supply Margin	Rs./kWh	**2.28**
Prior Year Adjustment (PYA)	Rs./kWh	**(0.44)**
Total Average Tariff	**Rs./kWh**	**39.97**

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37. The Petitioner shall be responsible;

- ✓ to provide supply services within its service territory on a non-discriminatory basis to all the consumers who meet the eligibility criteria laid down by the Authority.
- ✓ To make its system available for operation by any other licensee, consistent with applicable instructions established by the system operator.
- ✓ To follow the performance standards laid down by the Authority for distribution and transmission of electric power, including safety, health and environmental protection instructions issued by the Authority or any Governmental agency [or Provincial Government;
- ✓ To develop, maintain and publicly make available, with the prior approval of the Authority, an investment program for satisfying its service obligations and acquiring and selling its assets.
- ✓ 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.

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

38.1. A summary of the directions passed in this determination by the Authority are reproduced hereunder. The Authority hereby directs the Petitioner to;

i. To disclose its O&M costs in terms of Transmission, Distribution and Supply functions separately in its Audited accounts.

ii. To disclose the amount of gain/ loss on sale of all assets, both on historical cost and on revalued amounts, if applicable, in its Audited financial statements and shall also substantiate that it has not been allowed any return or depreciation previously on such assets, which are not part of RAB.

iii. To disclose interest income on its MCA account separately in its financial statements.

iv. To ensure disclosure of all relevant information required for adjustments/ true ups as provided in determination.

v. To ensure that all required disclosures are properly reflected in its financial statements in order to work out the correct amount of other income.

vi. To take all possible measures to facilitate consumers in terms of complaint handling, connection provision as per CSM and establish one window solutions.

vii. To separately disclose the amount of IDC capitalized every year in its financial statements, and to accordingly adjust its RAB and depreciation for the year, after excluding therefrom the impact of IDC. To disclose its RAB for each segment of business i.e. Generation, Transmission and Distribution including support functions, separately in its audited accounts.

38.2. To submit its annual adjustment / indexation requests by February every year, so that adjustment / indexation for the next year is determined in timely manner.

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38.3. The determination of the Authority along-with Annexure-I, I-A, II, III, IV and V is hereby intimated to the Federal Government in terms of section 31(7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

AUTHORITY

Rafique Ahmed Shaikh Member	Amina Ahmed Member
Engr. Maqsood Anwar Khan Member	Waseem Mukhtar Chairman

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Periodic Adjustment Mechanisms

Monthly Fuel Charges Adjustment

Formula

Fuel charges/cost adjustment= Actual FCC - Ref. FCC

(based on T&T Loss adjusted units)

Where:

- Fuel Charge/ Cost adjustment is the difference between actual and reference fuel cost component
- Actual fuel cost component (FCC) for a particular month is worked out by dividing fuel cost of all power plants of KE's basket including external power purchases, which were operated in the month, including impact of any previous adjustments and PPA/PPAA/SLA factors, if applicable, by their total generation sent out during the month.
- Reference fuel cost component is the fuel cost component for the corresponding month projected for the purpose of tariff determination.
- The fuel charge/ cost adjustment determined by the Authority shall be shown separately in the bills of consumers and the billing impact shall be worked out on the basis of consumption billed to the consumers in the respective month.
- For the purpose of calculation of monthly FCAs, the actual fuel cost component shall be adjusted up-to the allowed level of T&T (Transmission) loss target on accumulative basis for the year.
- The impact of Monthly references vis a vis recovery of annual average rate in schedule of tariff would be allowed as part of PYA along-with impact of T&T losses, if required based on allowed target.

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Quarterly Adjustment

The quarterly adjustments, include variation of;

i. **Capacity Charges**
ii. **Transmission Charges**
iii. **Variable O&M**
iv. **Distribution losses impact of FCA**
Formula for adjustment

Quarterly PPP (Adj.) = PPP(Actual) (excluding Fuel cost)-PPP(Recovered) (excluding Fuel cost)

Where;

- PPP(Actual) is the cost other than fuel cost, as determined by the Authority for KE's own power plants and transmission network, plus cost of power purchases (excluding fuel cost) from external sources, based on the Authority's approved rates, including cost invoiced by CPPA-G to KE, adjusted for any cost disallowed by the Authority.

- PPP(Recovered) is the amount recovered based on reference rate in Rs./kWh other than fuel cost, as per the tariff determination that remained notified during the period based on allowed level of T&T Losses.

- Impact of Distribution losses on FCA = Monthly FCA allowed (Rs./kWh) x (Units served allowed as per FCA x allowed % of Distribution losses)

  Where;

  Monthly FCA allowed (Rs./kWh) is the FCA allowed by the Authority for the respective month.

- Distribution Loss % is percentage of Distribution losses that remained notified during the period.

- The sum of amounts so worked for each month of the Quarter shall be divided by the Projected units to be sold for the period in which recovery of the quarterly adjustment is to be made, as determined by the Authority, to work out Rs./kWh Quarterly adjustment.

- KE basket means KE own Generation including external power purchases

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Annex-II

Karachi Electric Company Limited (K-Electric)
Estimated sales Revenue on the basis of New tariff

	Tariff Category	Fixed Charges (Rs/kW/M)	Varible Charges (Rs/kWh)	Sales	Fixed Charges (Rs/Con/M)-Rs. Mln	Fixed Charges (Rs/kW/M) -Rs. Mln	Variable Charges (Rs/kWh) -Rs. Mln	Total Revenue Rs. Mln
	Residential - A1							
Life Line	Up to 50 Units		8.13	6	-	-	49	49
Life Line	51 to 100 Units		11.92	41	-	-	485	485
Protected	001 - 100 Units		17.38	1,065	-	-	18,512	18,512
Protected	101 - 200 Units		19.85	244	-	-	4,846	4,846
Non-Protected	001 - 100 Units per month		29.48	167	-		4,913	4,913
Non-Protected	101 - 200 Units per month		35.96	806			28,975	28,975
Non-Protected	201 - 300 Units per month		40.15	1,181	-	-	47,406	47,406
Non-Protected	301 - 400 Units per month		45.04	685	-	-	30,827	30,827
Non-Protected	401 - 500 Units per month		47.25	412	-	-	19,473	19,473
Non-Protected	501 - 600 Units per month		48.67	286	-	-	13,918	13,918
Non-Protected	601 - 700 Units per month		49.81	203	-	-	10,089	10,089
	Above 700 Units per month		54.73	496	-	-	27,162	27,162
	Temporary Residential		64.98	28	-	-	1,850	1,850
TOU	Time of Day (TOD) - Peak		53.89	226			12,198	
TOU	Time of Day (TOD) - Off-Peak		47.57	1,087	-	-	51,711	63,908
	Subtotal			**6,933**	**-**	**-**	**272,415**	**272,415**
	Commercial - A2							
	For peak load requirement up to 20 kW							
	For Sanctioned Load up to 5 kW		44.70	681	-	-	30,446	30,446
	For Sanctioned Load exceeding 5 kW	500	47.02	9	-	35	408	443
	Temporary Commercial		60.71	30	-	-	1,838	1,838
	Time of Day (TOD) - Peak	500	51.08	210			10,732	
	Time of Day (TOD) - Off-Peak		42.41	917		3,763	38,884	53,380
	EVCS (Electric Vehicle Charging Station)		51.66	0.1		-	3	3
						-	-	-
	Subtotal			**1,847**	**-**	**3,798**	**82,311**	**86,109**
	General Services - A3		49.75	467	-	-	23,240	23,240
	Industrial					-	-	
	B1 Up to 25 kW (400/23 volts)		36.24	9	-	-	340	340
	B1 Upto 25 kW (Peak) (at 400 / 230 volts)		42.18	36		-	1,515	1,515
	B1 Upto 25 kW (Off Peak) (at 400 / 230 volts)		35.49	179	-	-	6,341	6,341
	B2 - 6-500 kW(400 volts)	500	36.17	2	-	6	68	74
	B2 - TOD (Peak)	500	42.12	240	-		10,097	
	B2 - TOD (Off-Peak)		32.85	1,267	-	3,687	41,616	55,400
	B3 - For All Loads up to 5000 kW (at 11.33 kV)	460	36.44	7	-	10	267	277
	B3 - TOD (Peak)	460	42.12	454	-		19,143	
	B3 - TOD (Off-Peak)		33.68	2,297	-	5,095	77,358	101,596
	B4 - For All Loads (at 66,132 kV & above)	440	35.87	9	-	8	325	333
	B4 - TOD (Peak)	440	42.12	123	-		5,175	
	B4 - TOD (Off-Peak)		33.40	649	-	1,364	21,686	28,224
	B5 - TOD (Peak) (220 kV)		42.12	3	-		147	
	B5 - TOD (Off-Peak)	340	32.57	16	-	127	518	792
	Temporary Industrial		47.69	18	-	-	869	869
	Subtotal			**5,310**	**-**	**10,296**	**185,464**	**195,760**
	Single Point Supply for further distribution						-	
	C1(a) Supply at 400 Volts - Peak Load		50.84	-	-	-	-	-
	C1(b) Supply at 400 Volts - Peak Load	500	48.07	4	-	5	208	213
	Time of Day (TOD) - Peak		53.76	3	-		138	
	Time of Day (TOD) - Off-Peak	500	44.99	12	-	37	525	700
	C2 Supply at 11 kV	460	48.01	28	-	29	1,339	1,368
	Time of Day (TOD) - Peak		53.76	77	-		4,149	
	Time of Day (TOD) - Off-Peak	460	43.47	350	-	555	15,231	19,934
	C3 Supply above 11 kV		-				-	-
	Time of Day (TOD) - Peak		53.76	9	-		469	
	Time of Day (TOD) - Off-Peak	440	43.20	43	-	197	1,841	2,507
	Temporary at 400 volts		53.50	1	-	-	49	49
	Temporary at 11 kV		53.50	1	-	-	79	79
	Subtotal			**528**	**-**	**823**	**24,027**	**24,850**
	Agricultural Tube-Wells - Tariff D				-	-	-	
	Agricultural Tube-Wells (Sindh & Balochistan) D-1	200	37.34	12	-	-	443	443
	AGR Time of Day (TOD) - Peak		37.98	6	-		217	
	AGR Time of Day (TOD) - Off-Peak	200	37.14	23	-	34	839	1,090
	Subtotal			**40**	**-**	**34**	**1,498**	**1,533**
	Public Lighting - Tariff G		51.35	59	-	-	3,014	3,014
	Grand Total			**15,183**	**-**	**14,951**	**591,969**	**606,920**

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ANNEX-III

SCHEDULE OF ELECTRICITY TARIFF
FOR K-ELECTRIC LIMITED

A-1 GENERAL SUPPLY TARIFF - RESIDENTIAL

	Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
	a)	For Sanctioned load less than 5 kW			
Protected	i	Up to 50 Units - Life Line	-	8.13	
Protected	ii	51 - 100 Units - Life Line	-	11.92	
Protected	iii	001 - 100 Units	-	17.38	
Protected	iv	101 - 200 Units	-	19.85	
Unprotected	v	001- 100 Units	-	29.48	
Unprotected	vi	101- 200 Units	-	35.96	
Unprotected	vii	201- 300 Units	-	40.15	
Unprotected	viii	301- 400 Units	-	45.04	
Unprotected	ix	401- 500 Units	-	47.25	
Unprotected	x	501- 600 Units	-	48.67	
Unprotected	xi	601- 700 Units	-	49.81	
Unprotected	xii	Above 700 Units	-	54.73	
	b)	For Sanctioned load 5 kW & above			
				Peak	Off-Peak
		Time Of Use	-	53.89	47.57

As per Authority's decision only protected residential consumers will be given the benefit of one previous slab.

As per Authority's decision, residential life line consumer will not be given any slab benefit.

Under tariff A-1, there shall be minimum monthly customer charge at the following rates even if no energy is consumed:

a) Single Phase Connections: Rs. 75/- per consumer per month

b) Three Phase Connections: Rs. 150/- per consumer per month

A-2 GENERAL SUPPLY TARIFF - COMMERCIAL

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
a)	For Sanctioned load less than 5 kW	-	44.70	
b)	For Sanctioned load 5 kW & above	500	47.02	
			Peak	Off-Peak
c)	Time Of Use	500	51.08	42.41
d)	Electric Vehicle Charging Station	-	51.66	

Under tariff A-2(a), there shall be minimum monthly charges at the following rates even if no energy is consumed:

a) Single Phase Connections: Rs. 175/- per consumer per month

b) Three Phase Connections: Rs. 350/- per consumer per month

Fixed Charges shall be billed based on 50% of Sanctioned Load or Actual MDI for the month which ever is higher. In such case there would be no minimum monthly charges even if no energy is consumerd.

A-3 GENERAL SERVICES

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh
a)	General Services	-	49.75

Under tariff A-3, there shall be minimum monthly charges at the following rates even if no energy is consumed:

a) Single Phase Connections: Rs. 175/- per consumer per month

b) Three Phase Connections: Rs. 350/- per consumer per month

B INDUSTRIAL SUPPLY TARIFFS

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
B1	Upto 25 kW (at 400/230 Volts)	-	36.24	
B2(a)	25-500 kW (at 400 Volts)	500	36.17	
B3(a)	For all loads upto 5000 KW (at 11,33 kV)	460	36.44	
B4(a)	For all loads upto 5000 KW (at 66,132 kV)	440	35.87	
	Time Of Use		Peak	Off-Peak
B1(b)	Upto 25 kW (at 400/230 Volts)	-	42.18	35.49
B2(b)	25-500 kW (at 400 Volts)	500	42.12	32.85
B3(b)	For All Loads up to 5000 kW (at 11,33 kV)	460	42.12	33.68
B4(b)	For All Loads (at 66,132 kV & above)	440	42.12	33.40
B5	For All Loads (at 220 kV & above)	420	42.12	32.57

For B1 & B1 (b)consumers there shall be a fixed minimum charge of Rs. 350 per month.

For B1 & B1 (b)consumers there shall be a fixed minimum charge of Rs. 350 per month.

Fixed Charges shall be billed based on 50% of Sanctioned Load or Actual MDI for the month which ever is higher. In such case there would be no minimum monthly charges even if no energy is consumerd.

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ANNEX-III

SCHEDULE OF ELECTRICITY TARIFF
FOR K-ELECTRIC LIMITED

C - SINGLE-POINT SUPPLY

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
C -1	For supply at 400/230 Volts			
a)	Sanctioned load less than 5 kW	-		50.84
b)	Sanctioned load 5 kW & up to 500 kW	500		48.07
C -2(a)	For supply at 11,33 kV up to and including 5000 kW	460		48.01
C -3(a)	For supply at 132 and above, up to and including 5000 kW			
	Time Of Use		Peak	Off-Peak
C -1(c)	For supply at 400/230 Volts 5 kW & up to 500 kW	500	53.76	44.99
C -2(b)	For supply at 11,33 kV up to and including 5000 kW	460	53.76	43.47
C -3(b)	For supply at 132 kV up to and including 5000 kW	440	53.76	43.20

Fixed Charges shall be billed based on 50% of Sanctioned Load or Actual MDI for the month which ever is higher.

D - AGRICULTURE TARIFF

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh	
D-1	For all Loads	200		37.34
	Time of Use		Peak	Off-Peak
D-2	For all Loads	200	37.98	37.14

Note:- The consumers having sanctioned load less than 5 kW can opt for TOU metering.

E - TEMPORARY SUPPLY TARIFFS

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh
E-1(i)	Residential Supply	-	64.98
E-1(ii)	Commercial Supply	-	60.71
E-2 (i)	Industrial Supply	-	47.69
E-2 (ii)	Bulk Supply		
	(a) at 400 Volts	-	53.50
	(b) at 11 kV	-	53.50

For the categories of E-1(i&ii) and E-2 (i&ii) above, the minimum bill of the consumers shall be Rs. 50/- per day subject to a minimum of Rs.500/- for the entire period of supply, even if no energy is consumed.

F - SEASONAL INDUSTRIAL SUPPLY TARIFF

125% of relevant industrial tariff

Note: Tariff-F consumers will have the option to convert to Regular Tariff and vice versa. This option can be exercised at the time of a new connection or at the beginning of the season. Once exercised , the option remains in force for at least one year.

G- PUBLIC LIGHTING

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh
	Street Lighting	-	51.35

Under Tariff G, there shall be a minimum monthly charge of Rs.500/- per month per kW of lamp capacity installed.

H - RESIDENTIAL COLONIES ATTACHED TO INDUSTRIAL PREMISES

Sr. No.	TARIFF CATEGORY / PARTICULARS	FIXED CHARGES Rs/kW/M	VARIABLE CHARGES Rs/kWh
	Residential Colonies attached to industrial premises	-	51.35

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K-Electric Limited
Power Purchase Price References for FY 24

Description	July	August	September	October	November	December	January	February	March	April	May	June	Total
Units Sentout (GWh)	1,897	1,687	1,667	1,686	1,303	1,070	1,053	1,028	1,285	1,410	1,840	1,841	**17,768**
Transmission Loss	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	**0.75%**
Units Served (GWh)	1,882	1,674	1,654	1,673	1,293	1,062	1,045	1,021	1,275	1,400	1,826	1,828	**17,635**
Distribution Loss	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	**13.90%**
Units Billed (GWh)	1,621	1,442	1,424	1,441	1,113	914	900	879	1,098	1,205	1,572	1,573	**15,183**

Per Unit - Based on Units Served — **Rs. / kWh**

Fuel Cost Component	15.99	15.99	15.99	15.99	15.99	15.99	15.99	15.99	15.99	15.99	15.99	15.99	**15.99**
Variable O&M	0.53	0.51	0.51	0.62	(0.15)	0.76	0.88	0.56	0.49	0.55	0.60	0.59	**0.53**
Capacity	6.73	9.30	8.57	10.43	12.68	16.83	15.09	15.49	14.10	12.16	9.07	9.01	**10.99**
Transmission	2.44	2.46	2.32	2.31	2.65	2.23	2.17	2.46	2.64	2.64	2.52	2.62	**2.46**

Fuel Cost Component	30,109	26,781	26,461	26,767	20,684	16,988	16,718	16,326	20,399	22,391	29,205	29,231	**282,059**
Variable O&M	1,002	848	838	1,030	(200)	805	915	573	630	768	1,094	1,080	**9,383**
Capacity	12,668	15,568	14,179	17,451	16,394	17,875	15,775	15,812	17,987	17,022	16,556	16,469	**193,756**
Transmission	4,600	4,120	3,838	3,862	3,427	2,367	2,271	2,510	3,364	3,699	4,602	4,788	**43,447**

It is clarified that PPP is pass through and its monthly references would continue to exist irrespective of the financial year, unless the reference are revised and notified by the GoP

Annex-V

TERMS AND CONDITIONS OF TARIFF (FOR SUPPLY OF ELECTRIC POWER TO CONSUMERS BY LICENSEES)

PART-I

GENERAL DEFINITIONS

The Company, for the purposes of these terms and conditions, means K-Electric engaged in the business of distribution/supply of electricity within the territory mentioned in the licence granted to it for this purpose.

1. "Month or Billing Period", unless otherwise defined for any particular tariff category, means a billing month of 31 days or less reckoned from the date of last meter reading.
2. "Minimum Charge", means a charge to recover the costs for providing customer service to consumers even if no energy is consumed during the month.
3. "Fixed Charge" means the part of sale rate in a two-part tariff to be recovered on the basis of "Billing Demand" in kilowatt on monthly basis.
4. "Billing Demand" means the 50% of the sanction load or Actual maximum demand recorded in a month, whichever is higher, except in the case of agriculture tariff D2 where "Billing Demand" shall mean the sanctioned load.
5. "Variable Charge" means the sale rate per kilowatt-hour (kWh) as a single rate or part of a two-part tariff applicable to the actual kWh consumed by the consumer during a billing period.
6. "Maximum Demand" where applicable, means the maximum of the demand obtained in any month measured over successive periods each of 30 minutes' duration except in the case of consumption related to Arc Furnaces, where "Maximum Demand" shall mean the maximum of the demand obtained in any month measured over successive periods each of 15 minutes' duration.
7. "Sanctioned Load" where applicable means the load in kilowatt as applied for by the consumer and allowed/authorized by the Company for usage by the consumer.
8. "Power Factor" means the ratio of kWh to KVAh recorded during the month or the ratio of kWh to the square root of sum of square of kWh and kVARh,.
9. Point of supply means metering point where electricity is delivered to the consumer.
10. Peak and Off Peak hours for the application of Time Of Use (TOU) Tariff shall be the following time periods in a day:

	* PEAK TIMING	OFF-PEAK TIMING
Apr to Oct (inclusive)	6:30 PM to 10:30 PM	Remaining 20 hours of the day
Nov to Mar (inclusive)	6:00 PM to 10:00 PM	-do-

* To be duly adjusted in case of day light time saving

11. "Supply", means the supply for single-phase/three-phase appliances inclusive of both general and motive loads subject to the conditions that in case of connected or sanctioned load 5 kW and above supply shall be given at three-phase.
12. "Consumer" as defined in NEPRA Act.
13. "Charitable Institution" means an institution, which works for the general welfare of the public on no profit basis and is registered with the Federal or Provincial Government as such and has been issued tax exemption certificate by Federal Board of Revenue (FBR).
14. NTDC means the National Transmission and Despatch Company.
15. CPPA(G) means Central Power Purchasing Agency Guarantee Limited (CPPA)(G).

16. The "Authority" means "The National Electric Power Regulatory Authority (NEPRA)" constituted under the Regulation of Generation, Transmission and Distribution of Electric Power Act.

GENERAL CONDITIONS

1. "The Company shall render bills to the consumers on a monthly basis or less on the specific request of a consumer for payment by the due date.
2. The Company shall ensure that bills are delivered to consumers at least seven days before the due date. If any bill is not paid by the consumer in full within the due date, a Late Payment Charge of 10% (ten percent) shall be levied on the amount billed excluding Govt. tax and duties etc. In case bill is not served at least seven days before the due date then late payment surcharge will be levied after 7^{th} day from the date of delivery of bill.
3. The supply provided to the consumers shall not be available for resale.
4. In the case of two-part tariff average Power Factor of a consumer at the point of supply shall not be less than 90%. In the event of the said Power factor falling below 90%, the consumer shall pay a penalty of two percent increase in the fixed charges determined with reference to maximum demand during the month corresponding to one percent decrease in the power factor below 90%.

PART-II

(Definitions and Conditions for supply of power specific to each consumer category)

A-1 RESIDENTIAL

Definition

"Life Line Consumer" means those residential consumers having single phase electric connection with a sanctioned load up to 1 kW.

The lifeline consumers to include residential Non-Time of Use (Non-ToU) consumers having maximum of last twelve months and current month's consumption $\leq$100 units; two rates for $\leq$ 50 and $\leq$100 units will continue.

"Protected consumers" mean Non-ToU residential consumers consuming $\leq$ 200 kWh per month consistently for the past 6 months.

Residential Non-ToU consumers not falling under the protected category would be categorized under "Un-protected consumer category".

1. This Tariff is applicable for supply to;
   i) Residences,
   ii) Places of worship,
2. Consumers having sanctioned load less than 5 kW shall be billed on single-part kWh rate i.e. A-1(a) tariff.
3. All new consumers having sanctioned load 5 kW and above shall be provided T.O.U metering arrangement and shall be billed on the basis of tariff A-l(b) as set out in the Schedule of Tariff.
4. All existing consumers having sanctioned load 5 kW and above shall be provided T.O.U metering arrangement and converted to A- 1(b) Tariff by the Company.

A-2 COMMERCIAL

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1. This tariff is applicable for supply to commercial offices and commercial establishments such as:
   i) Shops/Flower Nurseries/Cold Storage
   ii) Hotels, Hostels and Restaurants,
   iii) Petrol Pumps and Service Stations,
   iv) Compressed Natural Gas filling stations,
   v) Private Hospitals/Clinics/Dispensaries,
   vi) Places of Entertainment, Cinemas, Theaters, Clubs;
   vii) Guest Houses/Rest Houses,
   viii) Office of Lawyers, Solicitors, Law Associates and Consultants etc.
   ix) Electric Vehicle Charging Stations (EVCS)
2. Electric Vehicle Charging Stations shall be billed under A-2(d) tariff i.e. Rs./kWh for peak and off-peak hours. For the time being, the tariff design is with zero fixed charges, however, in future the Authority after considering the ground situation may design its tariff structure on two part basis i.e. fixed charges and variable charges.
3. The Electric Vehicle Charging Station shall provide "charging service" to Electric Vehicle shall provide charging service to Electric Vehicles as per the applicable tariff for EVCS plus Rs.24.44/kWh as margin for EVCS. The EVCS shall be billed by DISCOS under A-2(d) tariff. However, monthly FCAs either positive or negative shall not be applicable on EVCS.
4. Consumers under tariff A-2 having sanctioned load of less than 5 kW shall be billed under a Single-Part kWh rate A-2(a)
5. All existing consumers under tariff A-2 having sanctioned load 5 kW and above shall be billed on A-2(b) tariff till such time that they are provided T.O.U metering arrangement; thereafter such consumers shall be billed on T.O.U tariff A-2(c).
6. The existing and prospective consumers having load of 5 kW and above shall be provided T.O.U metering arrangement and shall be billed under tariff A-2(c).

A-3 GENERAL SERVICES

1. This tariff is applicable to;
   i. Approved religious and charitable institutions
   ii. Government and Semi-Government offices and Institutions
   iii. Government Hospitals and dispensaries
   iv. Educational institutions
   v. Water Supply schemes including water pumps and tube wells other than those meant for the irrigation or reclamation of Agriculture land.

Consumers under General Services (A-3) shall be billed on single-part kWh rate i.e. A-3(a) tariff.

B INDUSTRIAL SUPPLY

Definitions

1. "Industrial Supply" means the supply for bona fide industrial purposes in factories including the supply required for the offices inside the premises and for normal working of the industry.

2. For the purposes of application of this tariff an "Industry" means a bona fide undertaking or establishment engaged in manufacturing, value addition and/or processing of goods.

3. This Tariff shall also be available for consumers having single-metering arrangement such as;

   i) Poultry Farms

   ii) Fish Hatcheries, fish farms, fish nurseries & Breeding Farms and

   iii) Software houses

Conditions

An industrial consumer shall have the option, to switch over to seasonal Tariff-F, provided his connection is seasonal in nature as defined under Tariff-F, and he undertakes to abide by the terms and conditions of Tariff-F and pays the difference of security deposit rates previously deposited and those applicable to tariff-F at the time of acceptance of option for seasonal tariff. Seasonal tariff will be applicable from the date of commencement of the season, as specified by the customers at the time of submitting the option for Tariff-F. Tariff-F consumers will have the option to convert to corresponding Regular Industrial Tariff category and vice versa. This option can be exercised at the time of obtaining a new connection or at the beginning of the season. Once exercised, the option will remain in force for at least one year.

B-1 SUPPLY AT 400 VOLTS THREEPHASE AND/OR 230 VOLTS SINGLE PHASE

1. This tariff is applicable for supply to Industries having sanctioned load upto 25 kW.
2. Consumers having sanctioned load upto 25 kW shall be billed on single-part kWh rate.
3. Consumers under tariff B-1 having sanctioned load of less than 5 kW shall be billed under a Single-Part kWh rate. However, B-1 consumers having sanctioned load of less than 5 kW may opt for ToU meter
4. The existing and prospective consumers having load of 5 kW and above shall be provided T.O.U metering arrangement and shall be billed under tariff B1(b).

B-2 SUPPLY AT 400 VOLTS

1. This tariff is applicable for supply to Industries having sanctioned load of more than 25 kW up to and including 500 kW.
2. All existing consumers under tariff B-2 shall be provided T.O.U metering arrangement by the Company and converted to B-2(b) Tariff.
3. All new applicants i.e. prospective consumers applying for service to the Company shall be provided T.O.U metering arrangement and charged according to the applicable T.O.U tariff.

B-3 SUPPLY AT 11 kV AND 33 kV

1. This tariff is applicable for supply to Industries having sanctioned load of more than 500 kW up to and including 5 MW and also for Industries having sanctioned load of 500 kW or below who opt for receiving supply at 11 kV or 33 kV.
2. The consumers may be allowed extension of load beyond 5MW upto 7.5MW from the DISCO's owned grid station subject to availability of load in the grid and capacity in the 11kV existing dedicated feeder. In such a case the consumer will bear 100% grid sharing charges including transmission line charges and 100% cost of land proportionate to load. While allowing extension in load, the DISCOs shall ensure that no additional line losses are incurred and additional loss, if any, shall be borne by the respective consumers.

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3. If, for any reason, the meter reading date of a consumer is altered and the acceleration/retardation in the date is up to 4 days, no notice shall be taken of this acceleration or retardation. But if the date is accelerated or retarded by more than 4 days, the fixed charges shall be assessed on proportionate basis for the actual number of days between the date of the old reading and the new reading.
4. The supply under this Tariff shall not be available to a prospective consumer unless he provides, to the satisfaction and approval of the Company, his own Transformer, Circuit Breakers and other necessary equipment as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively pays to the Company for all apparatus and equipment if so provided and installed by the Company. The recovery of the cost of service connection shall be regulated by the Eligibility Criteria laid down by the Authority read with Consumer Service Manual (CSM).
5. All existing consumers under tariff B-3 shall be provided with a T.O.U metering arrangement by the Company and converted to B-3(b) tariff.
4. All B-3 Industrial Consumers shall be billed on the basis of T.O.U tariff given in the Schedule of Tariff.

B-4 SUPPLY AT 66 kV, 132 kV AND ABOVE

1. This tariff is applicable for supply to Industries for all loads of more than 5MW receiving supply at 66 kV, 132 kV and above and also for Industries having load of 5MW or below who opt to receive supply at 66 kV or 132 kV and above.
2. If, for any reason, the meter reading date of a consumer is altered and the acceleration/retardation in the date is up to 4 days, no notice shall be taken of this acceleration or retardation. But if the date is accelerated or retarded by more than 4 days, the fixed charges shall be assessed on proportionate basis for the actual number of days between the date of the old reading and the new reading.
3. If the Grid Station required for provision of supply falls within the purview of the dedicated system under the Eligibility Criteria laid down by the Authority read with CSM, the supply under this Tariff shall not be available to such a prospective consumer unless he provides, to the satisfaction and approval of the Company, an independent grid station of his own including Land, Building, Transformers, Circuit Breakers and other necessary equipment and apparatus as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively, pays to the Company for all such Land, Building, Transformers, Circuit Breakers and other necessary equipment and apparatus if so provided and installed by the Company. The recovery of cost of service connection shall be regulated by Eligibility Criteria laid down by the Authority read with CSM.
4. All existing consumers under tariff B-4 shall be provided with a T.O.U metering arrangement by the Company and converted to B-4(b) tariff
5. All B-4 Industrial Consumers shall be billed on the basis of two-part T.O.U tariff.

B-5 SUPPLY AT 220 kV AND ABOVE

1. This tariff is applicable for supply to Industries for all loads of more than 5000 kW receiving supply at 220 kV and above and also for Industries having load of 5000 kW or below who opt to receive supply at 220 kV.
2. If, for any reason, the meter reading date of a consumer is altered and the acceleration/retardation in the date is up to 4 days, no notice shall be taken of this acceleration or retardation. But if the date is accelerated or retarded by more than 4 days, the fixed charges shall be assessed on proportionate basis for the actual number of days between the date of the old reading and the new reading.

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3. If the Grid Station required for provision of supply falls within the purview of the dedicated system under the NEPRA Eligibility Criteria, the supply under this Tariff shall not be available to such a prospective consumer unless he provides, to the satisfaction and approval of the Company, an independent grid station of his own including Land, Building, Transformers, Circuit Breakers and other necessary equipment and apparatus as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively, pays to the Company for all such Land, Building, Transformers, Circuit Breakers and other necessary equipment and apparatus if so provided and installed by the Company. The recovery of cost of service connection shall be regulated by NEPRA Eligibility Criteria.
4. All the new industrial consumers shall be billed on the basis of ToU tariff B-5 given in the Schedule of Tariff.

C BULK SUPPLY

"Bulk Supply" for the purpose of this Tariff, means the supply given at one point for self-consumption to mix-load consumer not selling to any other consumer such as residential, commercial, tube-well and others.

General Conditions

If, for any reason, the meter reading date of a consumer is altered and the acceleration/retardation in the date is up to 4 days no notice will be taken of this acceleration or retardation. But if the date is accelerated or retarded by more than 4 days the fixed charges shall be assessed on proportionate basis for actual number of days between the date of old reading and the new reading.

C-I SUPPLY AT 400/230 VOLTS

1. This Tariff is applicable to a consumer having a metering arrangement at 400/230 volts, having sanctioned load of up to and including 500 kW.
2. Consumers having sanctioned load less than 5 kW shall be billed on single-part kWh rate i.e. C-I(a) tariff'.
3. All new consumers having sanctioned load 5 kW and above shall be provided with a T.O.U metering arrangement and shall be billed on the basis of Time-of-Use (T.O.U) tariff C-1(c) given in the Schedule of Tariff.
4. All the existing consumers governed by this tariff having sanctioned load 5 kW and above shall be provided with a T.O.U metering arrangements.

C-2 SUPPLY AT 11 kV AND 33 kV

1. This tariff is applicable to consumers receiving supply at 11 kV or 33 kV at one-point metering arrangement and having sanctioned load of more than 500 kW up to and including 5 MW.
2. The consumers may be allowed extension of load beyond 5MW upto 7.5MW from the DISCO's owned grid station subject to availability of load in the grid and capacity in the 11kV existing dedicated feeder. In such a case the consumer will bear 100% grid sharing charges including transmission line charges and 100% cost of land proportionate to load. However, only such consumers be allowed extension of load beyond 5MW upto 7.5MW whose connection is at least three (3) years old. While allowing extension in load, the DISCOs shall ensure that no additional line losses are incurred and additional loss, if any, shall be borne by the respective consumers.

The supply under this Tariff shall not be available to a prospective consumer unless he provides, to the satisfaction and approval of the Company, his own Transformer, Circuit Breakers and other necessary equipment as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively pays to the Company for all

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apparatus and equipment if so provided and installed by the Company. The recovery of the cost of service connection shall be regulated by the Eligibility Criteria laid down by the Authority read with CSM.

4. All new consumers shall be provided with the TOU metering arrangement and shall be billed on the basis of tariff C-2(b) as set out in the Schedule of Tariff.
5. Existing consumers governed by this tariff shall be provided with T.O.U metering arrangement and converted to C-2(b).

C-3 SUPPLY AT 66 kV AND ABOVE

1. This tariff is applicable to consumers having sanctioned load of more than 5000 kW receiving supply at 66 kV and above.
2. If the Grid Station required for provision of supply falls within the purview of the dedicated system under the Eligibility Criteria laid down by the Authority read with CSM, the supply under this Tariff shall not be available to such a prospective consumer unless he provides, to the satisfaction and approval of the Company, an independent grid station of his own including Land, Building, Transformers, Circuit Breakers and other necessary equipment and apparatus as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively, pays to the Company for all such Land, Building, Transformers, Circuit Breakers and other necessary equipment and apparatus if so provided and installed by the Company. The recovery of cost of service connection shall be regulated by Eligibility Criteria laid down by the Authority read with CSM.
3. Existing consumers governed by this tariff shall be provided with T.O.U metering arrangement and converted to C-3(b).
4.
5. All new consumers shall be provided TOU metering arrangement and shall be billed on the basis of tariff C-3(b) as set out in the Schedule of Tariff.

D AGRICULTURAL SUPPLY

"Agricultural Supply" means the supply for Lift Irrigation Pumps and/or pumps installed on Tube-wells intended solely for irrigation or reclamation of agricultural land or forests, and include supply for lighting of the tube-well chamber.

Special Conditions of Supply

1. This tariff shall apply to:
   i) Reclamation and Drainage Operation under Salinity Control and Reclamation Projects (SCARP):
   ii) Bona fide forests, agricultural tube-wells and lift irrigation pumps for the irrigation of agricultural land.
   iii) Tube-wells meant for aqua-culture
   iv) Tube-wells installed in a dairy farm meant for cultivating crops as fodder and for upkeep of cattle.
2. If, for any reason, the meter reading date of a consumer is altered and the acceleration/retardation in the date is up to 4 days, no notice shall be taken of this acceleration or retardation. But if the date is accelerated or retarded by more than 4 days, the fixed charges shall be assessed on proportionate basis for the actual number of days between the date of the old reading and the new reading.

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3. The lamps and fans consumption in the residential quarters, if any, attached to the tube-wells shall be charged entirely under Tariff A-1 for which separate metering arrangements should be installed.

4. The supply under this Tariff shall not be available to consumer using pumps for the irrigation of parks, meadows, gardens, orchards, attached to and forming part of the residential, commercial or industrial premises in which case the corresponding Tariff A-1, A-2 or Industrial Tariff B-1, B-2 shall be respectively applicable.

D-1 This tariff is applicable to all Reclamation and Drainage Operation pumping under SCARP related installation.

1. Consumers having sanctioned load less than 5 kW shall be billed on single-part kWh rate i.e. D-1(a) tariff given in the Schedule of Tariff.
2. All new consumers having sanctioned load 5 kW and above shall be provided TOU metering arrangement and shall be charged on the basis of Time-of- Use (T.O.U) tariff D-1(b) given in the Schedule of Tariff.
3. All the existing consumers having sanctioned load 5 kW and above shall be provided T.O.U metering arrangements and shall be governed by D-1(a) till that time.

D-2 Time of Use for all loads

1. This tariff is applicable to consumers falling under Agriculture Supply excluding SCARP related installations.
2. Consumers having sanctioned load less than 5 kW shall be billed on single-part kWh rate i.e. D-2(a) tariff given in the Schedule of Tariff.
3. All new consumers having sanctioned load 5 kW and above shall be provided TOU metering arrangement and shall be charged on the basis of Time-of- Use (T.O.U) tariff D- 2(b) given in the Schedule of Tariff.
4. All the existing consumers having sanctioned load 5 kW and above shall be provided T.O.U metering arrangements and shall be governed by D-1 till that time.

E -1 TEMPORARY RESIDENTIAL/COMMERCIAL SUPPLY

Temporary Residential/Commercial Supply means a supply given to persons temporarily on special occasions such as ceremonial, religious gatherings, festivals, fairs, exhibitions, political gathering, marriages and other civil or military functions. This also includes supply to touring cinemas and persons engaged in construction of house/buildings/plazas of single phase loads. A temporary electric power supply connection for the construction shall be provided by Distribution company initially for a period of six months which is further extendable on three month basis up to completion of the specific job/project for which the temporary connection was obtained. However, there is no minimum time period for provision of temporary connection. The temporary connection for illumination, lighting, weddings, festivals, functions, exhibitions, political gatherings or national and religious ceremonies, civil or military functions etc., testing of industrial equipment or any other emergent requirement of temporary nature, can be provided for specific time period not exceeding two weeks. The sanctioning officer shall ensure that the temporary connection will be utilized for temporary purpose only.

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Special Conditions of Supply

1. This tariff shall apply to Residential and Commercial consumers for temporary supply.
2. Ordinarily the supply under this Tariff shall not be given by the Company without first obtaining security equal to the anticipated supply charges and other miscellaneous charges for the period of temporary supply.

E -2 TEMPORARY INDUSTRIAL SUPPLY

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"Temporary Industrial Supply" means the supply given to an Industry for the bonafide purposes mentioned under the respective definitions of "Industrial Supply", during the construction phase prior to the commercial operation of the Industrial concern.

SPECIAL CONDITIONS OF SUPPLY

1. Ordinarily the supply under this Tariff shall not be given by the Company without first obtaining security equal to the anticipated supply charges and other miscellaneous charges for the period of temporary supply.
2. Normally, temporary connections shall be allowed for a period of 3 months, which may be extended on three months' basis subject to clearance of outstanding dues.

F SEASONAL INDUSTRIAL SUPPLY

"Seasonal Industry" for the purpose of application of this Tariff, means an industry which works only for part of the year to meet demand for goods or services arising during a particular season of the year. However, any seasonal industry running in combination with one or more seasonal industries, against one connection, in a manner that the former works in one season while the latter works in the other season (thus running throughout the year) will not be classified as a seasonal industry for the purpose of the application of this Tariff.

Definitions

1. "Year" means any period comprising twelve consecutive months.
2. All "Definitions" and "Special Conditions of Supply" as laid down under the corresponding Industrial Tariffs shall also form part of this Tariff so far as they may be relevant.

Special Conditions of Supply

1. This tariff is applicable to seasonal industry.
2. Fixed Charges per kilowatt per month under this tariff shall be levied at the rate of 125% of the corresponding regular Industrial Supply Tariff Rates and shall be recovered only for the period that the seasonal industry actually runs subject to minimum period of six consecutive months during any twelve consecutive months. The condition for recovery of Fixed Charges for a minimum period of six months shall not, however, apply to the seasonal industries, which are connected to the Company's Supply System for the first time during the course of a season.
3. The consumers falling within the purview of this Tariff shall have the option to change over to the corresponding industrial Supply Tariff, provided they undertake to abide by all the conditions and restrictions, which may, from time to time, be prescribed as an integral part of those Tariffs. The consumers under this Tariff will have the option to convert to Regular Tariff and vice versa. This option can be exercised at the time of obtaining a new connection or at the beginning of the season. Once exercised, the option will remain in force for at least one year.
4. All seasonal loads shall be disconnected from the Company's Supply System at the end of the season, specified by the consumer at the time of getting connection, for which the supply is given. In case, however, a consumer requires running the non-seasonal part of his load (e.g., lights, fans, tube-wells, etc.) throughout the year, he shall have to bring out separate circuits for such load so as to enable installation of separate meters for each type of load and charging the same at the relevant Tariff.
5. Where a "Seasonal Supply" consumer does not come forward to have his seasonal industry re-connected with the Company's Supply System in any ensuing season, the service line and equipment belonging to the Company and installed at his premises shall be removed after expiry of 60 days of the date of commencement of season previously

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specified by the consumer at the time of his obtaining new connection/re-connection. However, at least ten clear days notice in writing under registered post shall be necessary to be given to the consumer before removal of service line and equipment from his premises as aforesaid, to enable him to decide about the retention of connection or otherwise. No Supply Charges shall be recovered from a disconnected seasonal consumer for any season during which he does not come forward to have his seasonal industry re-connected with the Company's Supply System.

G PUBLIC LIGHTING SUPPLY

"Public Lighting Supply" means the supply for the purpose of illuminating public lamps used in public playground and public parks, the supply under this tariff shall also be applicable for lamps.

Definitions

"Month" means a calendar month or a part thereof in excess of 15 days.

Special Conditions of Supply

The supply under this Tariff shall be used exclusively for public lighting installed on roads or premises used by General Public.

H RESIDENTIAL COLONIES ATTACHED TO INDUSTRIES

This tariff is applicable for one-point supply to residential colonies attached to the industrial supply consumers having their own distribution facilities.

Definitions

"One Point Supply" for the purpose of this Tariff, means the supply given by one point to Industrial Supply Consumers for general and domestic consumption in the residential colonies attached to their factory premises for a load of 5 Kilowatts and above. The purpose is further distribution to various persons residing in the attached residential colonies and also for perimeter lighting in the attached residential colonies.

"General and Domestic Consumption", for the purpose of this Tariff, means consumption for lamps, fans, domestic applications, including heated, cookers, radiators, air-conditioners, refrigerators and domestic tube-wells.

"Residential Colony" attached to the Industrial Supply Consumer, means a group of houses annexed with the factory premises constructed solely for residential purpose of the bonafide employees of the factory, the establishment or the factory owners or partners, etc.

Special Conditions of Supply

The supply under this Tariff shall not be available to persons who meet a part of their requirements from a separate source of supply at their premises.

NOTE

The above tariff terms and conditions are applicable for FY 2024. All the amendments in tariff terms and conditions issued for the subsequent period would remain applicable during that period

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