National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-287/NTDC-2014/15185-15187
October 20, 2015

Subject: **Decision of the Authority in the matter of Motion for Leave for Review filed by National Transmission & Despatch Company Ltd. (NTDC) against the Authority's Determination dated 23rd April 2015 -** Case No. NEPRA/TRF-287/NTDC-2014

Dear Sir,

This is in continuation of this office letter No. NEPRA/TRF-287/NTDC-2014/6291-6293 dated April 23, 2015 whereby Determination of the Authority in the matter of Petition filed by National Transmission and Despatch Company Ltd. for its Transfer/Wheeling Charges for the FY 2014-15 was sent to the Federal Government for notification in the official Gazette.

2. Please find enclosed herewith subject decision of the Authority along with Annex-I & II (10 pages) in the matter of Motion for Leave for Review filed by NTDC against Determination of the Authority dated April 23, 2015.

3. The Decision is being intimated to the Federal Government for the purpose of notification in the official gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997) and Rule 16(11) of the National Electric Power Regulatory Authority Tariff (Standards and Procedure) Rules, 1998.

Enclosure: As above

20/X/15

(Iftikhar Ali Khan)

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

CC:

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

Decision of the Authority in the matter of the Motion for Leave for Review filed by National Transmission and Dispatch Company Limited (NTDC) against the Authority's determination dated 23rd April 2015.

1. Background.

1.1 Brief facts leading for the disposal of the subject motion for review are that the transfer/wheeling charges of National Transmission and Dispatch Company, hereinafter referred as NTDC were determined by NEPRA , on 23rd April, 2015 and was intimated to the Federal Government for the purpose of notification in the official gazette pursuant to section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 read with rule 16(11) of the NEPRA Tariff (Standards and Procedure) Rules, 1998.

1.2 Being aggrieved with the aforementioned referred determination, the subject review motion has been filed by NTD; ' with a request to review the findings of the Authority in the impugned determination with respect to the following:-

1. Salaries, Wages, & Other benefits including induction Plan
2. Financial Charges for FY 2014-15 vide para # 23.2 of Determination
3. NTDCL Equity Base for FY 2014-15
4. Un-covered Cost for FY 2013-14 vide para # 25.10 of the Determination.

2. Proceedings

2.1 In order to consider the motion for leave of review, it was decided to provide opportunity of hearing to the parties of the proceedings. A hearing for the purpose was fixed on 2nd of June, 2015 for which notices were issued to the petitioner, M/s Anwar Kamal Law Associates (intervener in the original proceedings) and Multan Chamber of Commerce & Industries (being commentators) in the proceedings.. On the date fixed for hearing, only the representatives of petitioners were present and the intervener and commentator did not opt to join the review proceedings meaning thereby that there is no rebuttal whatsoever as to the stance taken by the petitioner in the review motion.

2.2 Notwithstanding non-filing of any objection or non-representation of the intervener and the commentator, the Authority required to petitioner to provide the justifications and any other new or important evidence which was not considered at the time of issuing the determination in question. In response whereof, the petitioner vide its letter No. FD/NTDC/CPC/196-97 dated June 16, 2015 provided the requisite documents.

3. Salaries, Wages, & Other benefits including induction Plan

3.1 The Petitioner submitted that the Authority has determined salaries, wages, post-retirement benefits and leave encashment to the tune of Rs. 4,314 Million through following direction vide para # 19.4.5 of the Determination.

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"In view thereof, after adjusting the amount of Rs 304 million, the salaries, wages, post retirements benefits has been worked out as Rs 4,314 million as against the requested amount of Rs. 5,670 million."

3.2 The above direction is exhibited at below table:

(Rs Million)

Sr. No.	Description	2014-15 Petition	2014-15 NEPRA	Disallowed Amount
a)	Pay & Allowances	3,242	3,242	-
b)	Employee's Benefit	1,072	1,072	-
c)	Pensionary Benefit	1,052	-	1,052
d)	New Hiring	304	-	304
Total		**5,670**	**4,314**	**1,356**

3.3 From aforementioned direction, the Authority has adjusted Rs. 304 Million against new hiring and leaving the balance of Rs 5,366 Million on account of Pay & Allowances and Employees Benefits. NEPRA in its determination worked out an amount of Rs. 4,314 Million under these heads which shows further deduction of Rs. 1,052 Million against pension fund.

4 Deferred Liabilities on account of Post Retirement Benefits for FY 2014-15

4.1 NTDCL filed tariff petition on the basis of proforma Balance Sheet for FY 2014-15 by incorporating the estimated figures of deferred liabilities amounting to Rs. 10,702 Million with an expense of Rs. 1,052 Million for pensioners' benefits. These projections were made keeping in view the deferred liabilities for FY 2012-13 amounting to 9,097 Million and the provisional figures for FY 2013-14 amounting to Rs. 9,800 Million.

4.2 Upon application of IAS-19 (revised), the amount of deferred liabilities according to actuarial estimates in respect of post retirement benefits were surged up and restated from Rs. 9,097 Million to Rs.15,609 Million in FY 2012-13 and Rs. 16,263 Million were reported in the draft accounts for FY 2013-14.

4.3 Resultantly, the corresponding impact of incorporation of revised actuarial estimates gives rise to an incremental claim of Rs. 7,166 million (Rs. 16,263 million - Rs 9,097 million) to be allowed as an expense in Revenue Requirement for FY 2014-15 which was not considered by the Authority. Further, the incremental impact of Rs 1,052 Million as claimed in the preceding paragraph coupled with the differential amount of Rs. 7,166 Million may be determined as an expense in line with true spirit of NEPRA mechanism for determining the tariff on the values for the period for which tariff has been requested.

4.4 The Petitioner submitted that it is pertinent to add it here that the Authority while calculating ROE for FY 2014-15 deducted the amount of deferred liability based on actuarial estimates of Rs. 16,263 Million for FY 2013-14 whereas the corresponding incremental impact of

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pensioner benefits as an expense has not been taken into account for the purpose of Revenue Requirement for FY 2014-15. Contrary to fact that increase in liability on this account has direct impact on the Profit & Loss Account.

4.5 The Authority is therefore requested to also allow the corresponding impact of Rs 7,166 million upto FY 2013-14 and Rs 1.052 million already claimed in the preceding paragraph for FY 2014-15, as an expense in the Revenue Requirement as well, to match the other impact of the transaction by recognizing the corresponding deferred liability as per performa Balance Sheet for FY 2014-15.

5. NTDCL Recruitment Plan for FY 2014-15 vide Para # 19.4.3 & 19.4.5 of Determination

5.1 The Petitioner submitted that with regards to new recruitment against critical posts NTDCL has took financial impact of Rs. 304 Million in the tariff petition which has not been out-rightly accounted for by the Authority in the tariff determination. However, the Authority has allowed NTDC to hire the relevant staff with the objective to provide better service to the end consumers subject to the provision of detailed justifications.

5.2 The Petitioner further apprised that NTDCL hiring plan is under process and recruitment against various positions have been made. NTDC has inducted 95 Juniors Engineers (BPS-17) and 455 Security Staff personnel of different categories (BPS 6 to 16) during FY 2014-15 with incidental cost amounting to Rs. 58.76 million which is requested to be allowed. The detailed induction plan has already been submitted to the Authority.

5.3 While determining the Salaries & Wages for FY 2014-15, the Authority did not allow Rs. 1,052.29 million and Rs. 303.74 million against Pension Fund and Cost of new hiring respectively and had assessed Rs. 4,314 million against requested amount of Rs. 5,670 million. The Authority disallowed these amounts on the basis of lack of documentary evidence and in the absence of audited accounts which the Petitioner has been able to provide at the time of review motion.

5.4 Considering the overall liquidity position in the power sector and in order to ensure that the Petitioner fulfils its legal liability with respect to the post retirement benefits, the Authority in its determinations of XWDISCOs directed to create a separate fund as allowed by IAS - 19. DISCOs are in the process of its compliance as creation of funds would ensure that the Petitioner records it liability more prudently as the funds would be transferred to a separate legal entity. In addition to that these independent funds would generate their own profits, if kept separate from the company's routine operations. The Petitioner may be directed to initiate process for creation of independent post retirement benefits fund at the earliest.

5.5 In the absence of independent post retirement fund actual payments are taken as a base expense for future increases. Once the fund is created the amounts transferred to the fund shall be considered to be allowed as provision for retirement benefits. The Petitioner paid Rs. 441 million and Rs. 863 million for FY 2012-13 and FY 2013-14 against employees benefits.

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The Authority decided to allow Rs. 863 million for FY 2014-15 keeping in view the trend of last two years.

5.6 The submission of the Petitioner with respect to revision of the assessment of Salaries & Wages for FY 2014-15, it has also been observed that the Petitioner originally claimed Rs.304 million against new hiring but in the review motion it claimed Rs. 58.76 million only for which it provided the documentation of hiring as well. Since the petitioner has provided evidence in respect of its claim of Rs.58.74 million against new hiring during FY 2014-15, therefore the Authority decided to accept the same. The petitioner is also directed to justify its future recruitment along with the expansion in transmission network and manpower yardstick being followed.

5.7 Based on the additional information provided by the petitioner during the proceedings, the Authority considered the petitioner's reconsideration request of Salaries & Wages for FY 2014-15 accordingly. Salaries & Wages has been re-assessed as Rs. 5,235.76 million for FY 2014-15 instead of Rs.4,314 million.

5.8 The Petitioner's contention regarding assessment of deferred liabilities to the extent of Post Retirement Benefits for FY 2014-15 is justified for calculating equity base. The Petitioner has provided actuarial report on employees benefits 2014 as conducted by consultant M/s Zahid & Zahid. The revaluation of deferred liabilities has been made accordingly by the petitioner for FY 2011-12 to FY 2013-14. Prior to revaluation provision of post retirements benefits till FY 2012-13 was Rs. 9,097 million. As a result of revaluation liabilities increased by of Rs. 7,166 million in FY 2013-14 over FY 2012-13. The revaluation on this account has reached to Rs. 16,263 million which was taken for calculation of equity base for FY 2013-14. The Authority considered the petitioner's request as valid and reviewed liability amount for calculation of equity base without taking into account of revaluation increase of Rs. 7,166 million.

6. Financial Charges for FY 2014-15 vide para # 23.2 of Determination

6.1 The Petitioner stated that in its tariff petition for FY 2014-15 it requested to allow Rs 2,576 Million on account of markup chargeable to operation whereas NEPRA allowed Rs. 848 Million on the basis of FY 2013-14. The petitioner presented its rationale as per following:

a. That IAS-23 states that: "Borrowing costs that are directly attributable to Acquisition, Construction, or Production of a qualifying Asset form part of the Cost of Asset and therefore should be capitalized. Other borrowing costs are recognized as expense".

b. That the Petitioner manages its investment program through relent loans from GoP as well as from local financial institutions comprising 15-20 years tenure for construction of 500kV/220kV Transmission Lines/Grid Stations for meeting ever expanding transmission system across the country.

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c. That the Markup during the construction period is charged to Projects (as CWIP) in line with IAS 23 and after completion of the project markup on those loans is charged to operations till the full retirement/repayment of loans.

d. That during FY 2013-14 sizeable projects amounting to Rs. 25.73 Billion were completed and transferred to the operation and for FY 2014-15 the petitioner has expected to capitalize Rs 15.87 Billion.

e. That the Authority has allowed interest expenses chargeable to the operation Rs. 848 Million on the basis of past trend of allocation of financial charges to the Profit & Loss Account. It was submitted that setting up a benchmark on the basis of past trend to calculate markup chargeable to the operation may not be rational in the wake of rapid increase in completed assets. Therefore the Authority is requested to allow markup chargeable to the operation in line with corresponding increase in capitalization of assets as witnessed during FY 2013-14.

6.2 Having gone through the petitioner's request it is noted that Rs. 848 million as financial charges for FY 2014-15 that were allowed keeping in view the history of financial charges and based on draft accounts submitted by the Petitioner for FY 2013-14. The Petitioner provided final copy of audited accounts which now indicated that Rs. 1,359 million as financial charges instead of Rs. 848 million for FY 2013-14. Financial charges are to be recovered by the Petitioner on actual basis therefore the change of base expenditure from Rs.848 million to Rs.1359 million is being allowed with the adjustment of over/under financial charges in future petition i.e. FY 2015-16. The Authority decided to allow Rs. 1,359 million as financial charges for FY 2014-15 accordingly.

7. <u>NTDCL Equity Base for FY 2014-15</u>

7.1 The Petitioner submitted that the Authority vide para # 24.2 of Determination allowed ROE to the tune of Rs. 9,375 Million for financial year 2014-15 against the petitioner's requested ROE of Rs 16,218 Million. In this regard it is submitted;

a. That the Authority has calculated ROE by considering the Capital Base of Rs. 71,510 Million (vide para 24.2 & as per Annex-I of Determination) of the financial year 2013-14 against petitioner's requested estimated Capital Base of Rs. 123,708 Million for financial year 2014-15, which is not in line with NEPRA's methodology.

b. That apart from taking capital base for calculating ROE of FY 2013-14 instead of FY 2014-15, it has also been observed that values of Fixed Assets corresponding to each of the year from FY 2012-13 to FY 2014-15 have not been considered accordingly. The value of Fixed Assets for FY 2012-13 was considered against FY 2013-14 and for FY 2013-14 against FY 2014-15 which affected ROE calculation adversely. (Annex-I of Determination)

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c. That even by incorporating NEPRA's determined Investment Plan (PSDP) and capital expenditure Rs. 18,600 Million and 811 Million respectively (vide para # 28.11 & 31.2 of the Determination) the capital base for financial year 2014-15 comes Rs.118,192 Million. Thus, ROE @ 13.11% for the FY 2014-15 comes to Rs.15,495 Million against the determined ROE of Rs. 9,375 Million. (Annex-I of Determination)

d. That the Authority's attention is also invited that as per NEPRA methodology Depreciation, Repair & Maintenance and ROE are to be calculated on the same fixed asset base. Depreciation for FY 2014-15 computed on the basis of proforma Balance Sheet assets of the petition, meaning thereby acknowledging the petitioner's claimed asset base. (para # 22.2 of the Determination). Repair & Maintenance cost for FY 2014-15 has been worked out on asset base of Rs. 127,320 Million without providing basis of calculation. (para # 20.4 of the Determination). While calculating capital base to determine ROE for FY 2014-15, fixed assets have been taken as Rs. 118,210 Million. (Annex-I of the Determination referred)

7.2 Having gone through the submission of the Petitioner it is stated that during FY 2013-14 the Petitioner incurred capital expenditure of Rs. 23.320 billion comparing Rs. 9.757 billion for FY 2012-13, which it could not justify by providing complete details of the investment made either along with petition or at the time of hearing. It is pertinent to mention here that the Petitioner did not file petition for the FY 2013-14 therefore business activities were not assessed by the Authority as well. The Authority did not consider the submission based on draft accounts as the expenditure was extra-ordinary and based its assessment on latest audited accounts i.e. FY 2012-13 without taking into account the un-assessed investment for FY 2013-14. Further against the information direction to provide audited accounts for FY 2013-14, the Petitioner provided final draft accounts showing fixed capital expenditure as per its Cash Flow Statement which shows the same amount with certification of audit firm. The stance of the petitioner in respect of depreciation & repair & maintenance is not substantiated keeping in view the history of allocation and spending thereof.

7.3 In the light of the submission, arguments and evidence provided by the Petitioner, the Authority reconsidered the equity base taking into account the investment made during FY 2013-14 as per final draft accounts submitted by the Petitioner accordingly.

8. <u>Un-covered Cost for FY 2013-14 vide para # 25.10 of the Determination</u>

8.1 The Petitioner submitted that tariff petition for FY 2012-13 determined by NEPRA on 19 July, 2013 was notified by GOP at the end of 1st quarter for FY 2013-14. As per NEPRA norms, the tariff remains effective till the notification of new one. As such despite the reason that NTDCL could not file its tariff petition for FY 2013-14 due to some internal constraints, it has legitimate right to claim un-covered cost for FY 2013-14. Therefore the Authority is humbly requested to allow all such costs incurred to run the business of the company during FY 2013-14.

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8.2 The submission of the petitioner on the ground that it could not file tariff petition for FY 2013-14 cannot be considered a valid reason. The Petitioner is required to file its tariff petition on annual basis and well in time for determination of its tariff.

8.3 In view thereof the claim of un-recovered cost for FY 2013-14 by the Petitioner is not being considered and the earlier decision as at Para 25.10 of the determination for FY 2014-15 dated 23-4-2015 is maintained.

9. Maximum Demand Indicator (MDI)

9.1 The Authority in its determination dated 23-4-2015 had assessed an average MDI of 16,679 MW for FY 2014-15. While deciding upon the motion for leave for review, it was observed that actual average MDI for FY 2014-15 remained at 18,150 MW. Therefore the Authority decided to use the actual average MDI instead of assessed in the determination. Therefore revised Use of System Charge for FY 2014-15 is based on actual MDI i.e. 18,150 MW for FY 2014-15.

10. Decision:

10.1 For the foregoing discussion, the subject motion for leave for review is accepted in terms discussed hereinabove and accordingly, the the annual revenue requirements of the petitioner are modified as under;-

Revenue Requirement

	Rs. Million
GE&A (including CPPA)	5,859
Repair & Maintenance	730
Insurance	119
Depreciation	4,327
Financial Charges	1,359
Return on Equity	12,922
Prior Year Adjustment (PYA) for FY 2012-13	3,610
	28,926
Less: Other Income	(1,320)
Total Revenue Requirement	**27,606**

10.2 Accordingly, the impugned tariff determination dated 23-4-2015 is modified and the National Transmission and Dispatch Company (NTDC) is allowed to charge the revised tariff as provided hereunder:

Use of System Charges

NTDC shall charge its users for provision of transmission and allied services the following two-part tariff i.e. a fixed and variable charge:

Fixed charge (USCF) = Rs. 126.75/kW/month
Variable charge (USCV) = Rs. 0.2792 per kWh X LAL factor.

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Where:

LAL Factor is a factor for Adjustment of Losses and Load imposed on the transmission system by a user. LAL Factor of unity will be applied till benchmarks are defined by NEPRA.

The variable charge shall be applicable to the energy in kilowatt-hours (kWh) recorded during a billing period. Recording of the maximum demand in kW and energy delivered in kWh shall be carried out at meters installed at the delivery metering points i.e. inter-connection point between:

a) NTDC transmission system (NTDC System) and the bulk power consumer.
(b) NTDC system and the transmission system of a special purpose transmission licensee.
(c) NTDC system and the transmission system of another country connected under an arrangement approved by the Federal Government.
(d) NTDC system and a distribution company receiving power in bulk either for sale to its own consumers or on behalf of another distribution company or a BPC located in another distribution company.

AUTHORITY

Khawaja Muhammad Naeem
Member

Himayat Ullah Khan
Member

Syed Masood-ul-Hassan Naqvi
Member

Maj (R) Haroon Rashid
Member

Brig (R) Tariq Saddozai
Chairman

20-10-2015

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National Transmission and Despatch Company
Calculation of Capital Base and Reasonable Return

Annex I

(Rs. Mln)

	Description	Determined 2012-13	Actual 2012-13	Actual 2013-14	Projected 2014-15	Re-Assessed 2014-15
A	**Fixed Assets**					
	a) Original Cost of Fixed Assets in Opertaions	128,352	118,210	143,942	159,810	162,542
	Less: Consumers' Capital Contribution	(55)	(55)	(5,219)	(5,029)	(5,219)
	Accumulated Depreciation	(47,970)	(47,741)	(52,031)	(56,357)	(52,031)
	Assets writen/ Disposed off					
	b) Capital Work in Prgress	51,291	56,850	58,350	79,946	58,350
	Net Operating Fixed Assets	**131,618**	**127,264**	**145,042**	**178,370**	**163,642**
		131,618	**127,264**	**145,042**	**178,370**	**163,642**
B	**Current Assets**					
	a) Stores & Spares (3% of the gross fixed assets in operation)	3,851	3,546	4,318	4,794	4,876
	b) Accounts Receiveables (equal to 30 no. of days outstanding of annual billing)	1,737	1,379	1,630	3,014	2,269
	c) Cash & Bank Balance (1/12th of sum of cash and bank balance whether deposits at the end of each month of the year subject to the maximum of 1/6th of annual operating expenses other than non-cash items)	1,436	1,015	1,231	1,663	1,663
		7,024	**5,940**	**7,180**	**9,471**	**8,808**
C		**138,642**	**133,204**	**152,222**	**187,841**	**172,450**
D	**Less:**					
	b) Foreign Loan - Direct	-				
	c) Foreign Loan - Relent	48,021	55,116	58,911	45,428	58,911
	d) Federal Government Loan	1,424				
	e) Borrowing from Government's approved Organizations/ institutions	5,307	2,862	1,904	-	
	f) Relent loan from GOP					
			-	-	-	
	Local Loans					
	g) Security Deposits by the consumers	62				
	h) Employees Retirement Benefits	7,691	15,609	16,557	17,165	9,097
	i) Dividends payable at the beginning of					
	j) Creditors, accrued and other current liabilities (2/3rd of current assets)	4,683	3,960	4,787	6,314	5,872
	Total	**67,187**	**77,547**	**82,158**	**68,907**	**73,880**
	Capital Base (C-D)	**71,454**	**55,657**	**70,064**	**118,934**	**98,570**
	Reasonable return on Capital Base %	**13.11%**	**13.11%**	**13.11%**	**13.11%**	**13.11%**
	Reasonable return on Capital Base (E*F)	**9,368**	**7,297**	**9,185**	**15,592**	**12,923**

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National Transmission and Despatch Company

Annex-II

ESTIMATION OF TRANSMISSION COSTS

Rs.(Mln)

	Description	Determined 2012-13	Actual 2012-13	Actual 2013-14	Re-Assessed 2014-15
1	**Transmission Costs:-**				
a	General Establishment and Admin (Include CPPA)	4,825	5,575	6,666	5,859
b	Repair & Maintenance	595	512	608	730
c	Insurance	112	103	115	119
d	Depreciation	4,083	3,854	4,290	4,327
	Total Transmission Costs	**9,615**	**10,044**	**11,679**	**11,035**
2	**Financial Charges**		-	-	-
a	Foreign Direct Loan	-	-		
b	Foreign Relent Loan	5,902	3,755	4,885	4,885
c	Central Govt. Loan	**237**	**546**	**385**	385
d	Wapda Bonds	-	-	-	-
e	Local Currency Loan	726		-	-
f	Others	-	4		-
	Total Financial Charges	**6,865**	**4,305**	**5,270**	**5,270**
	Allocated to Work in Progress	(3,137)	(3,556)	(3,911)	(3,911)
	Net Financial Charges	**3,728**	**749**	**1,359**	**1,359**
3	**Total Costs (1+2)**	13,343	10,793	13,038	12,394
4	Other Income	(1,536)	(1,040)	(949)	(1,320)
5	**Net Costs (3-4)**	**11,807**	**9,753**	**12,089**	**11,074**

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