

## Press Release

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*For immediate release*

### **SECP Notified Electric Power Generation Industry (Cost Accounting Records) Order 2015**

ISLAMABAD, September 23: The Securities and Exchange Commission of Pakistan (SECP) has notified the Electric Power Generation Industry (Cost Accounting Records) Order, 2015 (“Cost Order”) for the companies engaged wholly or partially in generation of electric power energy in Pakistan under the licenses granted by the National Electric Power Regulatory Authority (NEPRA) of Pakistan.

The purpose of the Cost Order is to introduce cost reporting regulatory framework for power sector companies in order to bring transparency and to increase public confidence, in view of the fact that power sector is central to the public policy. The Vision 2025 of Pakistan also takes into account power sector as major pillar of progress.

It may be mentioned here that the Cost Order is not Independent Power Producers (IPPs) specific but is for all current and prospective power producers and there can be no special treatment for IPPs as they have similar operations as other power producers. Similar orders have been issued for the Chemical Fertilizer Industry, Sugar Industry, Cement Industry, and the Vegetable Ghee and Cooking Oil Companies. Previously, the Transparency International Pakistan (TIP) had also approached SECP and stressed the need for conducting cost audit of IPPs under the applicable laws.

Cost accounting is not just done to determine final product price but it has multiple benefits for individual companies, sector as whole and regulators. NEPRA’s Uniform System of Accounts Rules, 2009 (USoA) cannot replace the Cost Order. The SECP Cost Order pertains only to the cost components of the companies, whereas, USoA Rules cover the whole financial reporting structure (i.e. complete accounts) of the NEPRA Licensee(s) of which cost is one component. The SECP Cost Order will facilitate and support compliance of NEPRA USoA Rules, 2009.

In SECP's view, the issuance of Cost Order would provide a legal framework within which NEPRA would be enabled to determine prudence of costing claimed by the generation companies while seeking tariff. Further, by introducing these and similar initiatives in the oversight of generation companies, the power purchaser would be in a stronger position to determine whether billing by the company has been done in a transparent and fair manner, which will be a great service for the general public in the current scenario. Moreover, transactions between the power purchasers and the IPPs are all backed by the Government of Pakistan sovereign guarantees, which should not be unduly called on.

The SECP earlier held various roundtables and other consultations with industry experts, representatives of NEPRA, GENCOs and other power generation companies to address any of the concerns on applicability of the Cost Order. This Cost Order is based on the feedback received in the consultation process.

It is pertinent to mention that a few IPPs and their advisory council requested further time for giving comments on the Draft Electric Power Generation Industry (Cost Accounting Records) Order, 2015. However, Commission had already held stakeholder's conferences in Islamabad on October 4, 2012, Lahore on December 27, 2012 and in Karachi on March 26, 2013. Independent Power Producer Advisory Council (IPPAC) also participated in the Islamabad conference and thereafter it was requested that similar conferences be held at Lahore and Karachi which were duly organized.

Cost accounting by its nature is useful for all manufacturing concerns including power generation. Cost accounting is not just done to determine final product price but has multiple benefits both for the company and the sector. SECP is of the view that cost audit reporting is necessary to foster efficiency and ensure accuracy of financial reporting. From the regulatory perspective cost audit is a tool to independently verify financial information disseminated to the shareholders. For companies, it can serve as an important tool for effective enterprise governance and competitiveness.

The SECP, as a regulator strives to frame regulations in the interest of the industry and all other stakeholders, including the public.