



# National Electric Power Regulatory Authority

## Islamic Republic of Pakistan

2nd Floor, OPF Building, G-5/2, Islamabad,  
Ph: 051-9206500, 9207200, Fax: 9210215  
E-mail: registrar@nepra.org.pk

**Registrar**

No. NEPRA/R/LAD-10/ 9842 - 44

August 12, 2013

Chief Executive Officer  
Tribal Area Electricity Supply Company (TESCO)  
213-WAPDA House  
Shami Road, Sakhi Chashma  
Peshawar

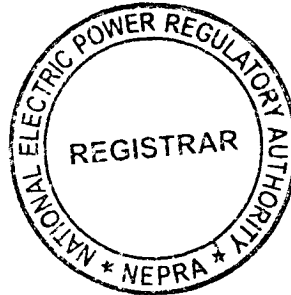
**Subject: Grant of Distribution Licence No. 22/DL/2013  
Licence Application No. LAD-10  
Tribal Areas Electricity Supply Company Ltd.**


Please refer to your application *vide* letter no. 1264-65/CEO/TESCO/Dist: Licnese/E-64, dated 10.02.2007 to NEPRA for grant of a Distribution Licence.

2. Enclosed here is Distribution Licence No. 22/DL/2010, granted by the Authority to Tribal Areas Electricity Supply Company Limited (TESCO). The Licence is granted to you pursuant to Section 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997). Further, the determination of the Authority in the subject matter is also attached.

3. Please quote above mentioned Distribution Licence No. in your future correspondence with the Authority.

**Enclosure: As above**



  
(Syed Safer Hussain)

CC (along with enclosures):

1. Secretary, Ministry of Water and Power, Government of Pakistan, Islamabad
2. Chief Executive Officer, Peshawar Electric Supply Company (PESCO), WAPDA House, Sakhi Chashma, Shami Road, Peshawar

**National Electric Power Regulatory Authority  
(NEPRA)  
Islamabad – Pakistan**

**DISTRIBUTION LICENCE**

**No. 22/DL/2013**

In exercise of the Powers conferred upon the National Electric Power Regulatory Authority (NEPRA) under Section 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, the Authority hereby grants a Distribution Licence to:

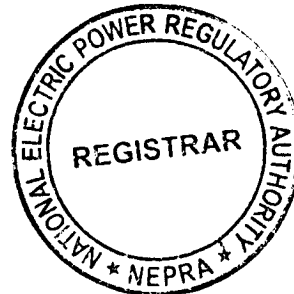
**TRIBAL AREAS ELECTRICITY SUPPLY COMPANY LIMITED**

**Incorporated under the Companies Ordinance 1984  
Under Certificate of Incorporation  
No. L-12028 of 2002-2003, dated July 03, 2002**

to engage in distribution of electric power and to make sales of electric power to the consumers in the Service Territory and Concessional Territory subject to and in accordance with the terms and conditions of this Licence.

Given under my hand this 12<sup>th</sup> day of August Two Thousand & Thirteen and expires on 11<sup>th</sup> day of August Two Thousand & Thirty Three

  
Registrar



*P.*

## Article-1

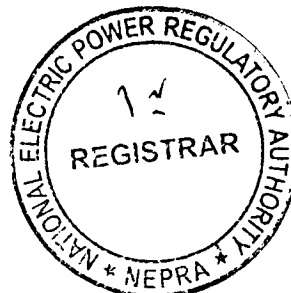
Save as expressly provided otherwise the provisions of the National Electric Power Regulatory Authority Licensing (Distribution) Rules 1999 (hereafter referred to as "Rules"), as amended from time to time, shall apply to this Licence.

## Article-2 Definitions

2.1 Unless there is anything repugnant in the subject or context and save as expressly defined hereafter, words and expressions used in this Licence bear the respective meanings given thereto in the Act or in the Rules.

2.2 Subject to Article 2.1:

- (i). "Act" means the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997;
- (ii). "Authority" means the Authority constituted under Section 3(1) of the Act;
- (iii). "Concession Territory" means the territory outside the Service Territory of the licensee defined by the administrative/geographical boundaries as delineated in Schedule-I to this Licence;
- (iv). "Licensee" means Tribal Areas Electricity Supply Company Limited and shall include its permitted successors and assigns;
- (v). "Small Power Producer" means owner of a generation facility of below 100 MW gross capacity, who was engaged in generation and sale of electric power as on 22<sup>nd</sup> April, 2000 and who has not signed any power purchase agreement with WAPDA or KESC or an implementation agreement with the Government of Pakistan.

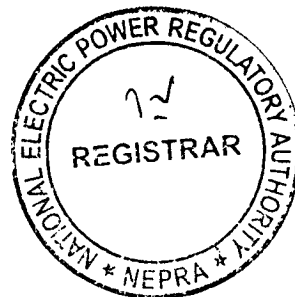


**Article-3**  
**Grant of Licence**

3.1 This Licence is granted to the licensee to engage in the distribution business within the Service Territory. All disputes relating to the Service Territory shall be decided by the Authority.

3.2 (i) The Service Territory of the Licensee shall extend up to eight Km on either side or tail end points of its existing 11 KV distribution system as shown in Schedule-I to this Licence. This Service Territory shall stand extended on expansion of the Licensee's 11 KV distribution system within its Concession Territory as indicated in Article 3.2(iii) below; Provided that the Service Territory shall not include the following:

- (a). area in use of the Armed Forces for defence purposes for which an authorization by the Authority for distribution of power purchased at one or more points for consumption within its own area has been provided. The Authority shall issue such an authorization on a case to case basis. Appropriate compensation to the licensee as determined by the Authority shall be provided in such cases where applicable;
- (b). areas in the use of housing colonies, plazas/complexes, and other bulk purchasers, at the option of the organizations or bodies representing the occupiers or owners thereof, which were already operating their own distribution systems within the said areas on the date of issue of this Licence;
- (c). an area restricted to three meters on either side of the Small Power Producer's distribution system as set out in the generation Licence issued to a Small Power Producer where the Small Power Producer opts to apply for a distribution licence.

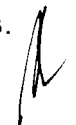
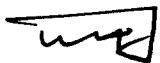


3.2 (ii) Without the prior approval of the Authority the Licensee shall not change or alter the arrangement, as it existed on the date of the issuance of this Licence, for the supply of electric power to the areas referred to in clauses (a) and (b) of Article 3.2 (i);

3.2 (iii) The Concession Territory of the licensee shall comprise the area defined in Schedule-I. The Licensee shall have the first right of refusal of distribution services within its Concession Territory. The Licensee shall plan its distribution system expansion within its Concession Territory. An area where the Licensee is, despite the request of the owners or occupiers thereof, unable to supply electric power under the Authority's approved terms and conditions within one year, shall at the option of owners or occupiers, stand excluded from the Concession Territory. All disputes relating to Concession Territory shall be decided by the Authority.

3.3 (i) The Licensee shall provide to the Authority digitized plotting of its distribution system on the maps within two years of the issuance of the Licence in the case of 11 KV distribution system including its sub-transmission network and within three years of issuance of the Licence in the case of low tension distribution system. The Authority may extend the time required for reasons to be recorded in writing. The Licensee shall within 90 days of issuance of this Licence provide to the Authority an updated map showing the 11 KV distribution system on a 1:50000 scale accurate maps preferably those prepared by the Survey of Pakistan, clearly demarcating the extension made after the system as shown in the maps included in Schedule-I of this Licence. The Licensee shall also on the first day of July of every year provide to the Authority with an updated map showing 11 KV distribution system clearly demarcating the extension(s) made in the immediately preceding year.

3.3 (ii) The Licensee shall furnish quarterly progress report in this regard to the Authority until completion of the digitization process.



**Article-4**  
**Licence Fee**

After the grant of the Generation Licence, the Licensee shall pay to the Authority the Licence fee, in the amount and manner set out in the National Electric Power Regulatory Authority (Fees) Rules, 2002.

**Article-5**  
**Term and Renewal**

4.1 The term of this Licence shall be twenty (20) years from the date of its issuance.

4.2 Unless suspended or revoked earlier, the Licensee may within ninety (90) days prior to the expiry of the term of the Licence, apply for renewal of the Licence under the National Electric Power Regulatory Authority Licensing (Application and Modification Procedures) Regulations, 1999 as amended or replaced from time to time.

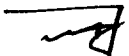
**Article-6**  
**Tariff**

6.1 The licensee shall charge only such tariff as is approved by the Authority from time to time.

6.2 Pending a new tariff determination by the Authority, the tariff notified by the Federal Government shall apply to the Service Territory of the Licensee, provided that, no later than ninety days following the grant of the Licence, the Licensee shall file a petition before the Authority for determination of tariff for bulk-power consumers within its Service Territory.

6.3 The petition referred to in Article 6.2 shall include a statement of use of system charges and connection charges.

6.4 The Licensee shall participate in such measures as may be directed by the Authority from time to time for development of a competitive power market structure.



**Article-7**  
**Exclusivity**

Subject to the provisions of Section 22 of the Act the Licensee shall, during the term of this License, have the exclusive right to provide distribution service, make sales of electric power, make schemes and engage in incidental activities in the Service Territory, as per provision of Article 3.2(i).

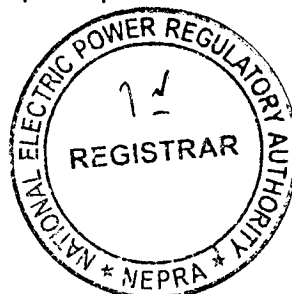
**Article-8**  
**Bulk Power Consumers**

Bulk Power Consumer means, for the purpose of this Licence, in respect of and within the Service Territory, a consumer who receives or purchases at one premises one MW or more power at any voltage level; Provided that the Authority reserves power to itself to review this threshold for this Licence after three years from the issuance of this Licence; Provided further that an existing consumer of a Small Power Producer with any connected load at the time of application for a Generation Licence by the Small Power Producer is also declared to be Bulk Power Consumer so long as it remains a consumer of the said Small Power Producer.

**Article-9**  
**Use of system and obligation to offer terms**

9.1 The Licensee shall, within ninety days following the date of issue of the Distribution Licence, if and to the extent not covered in or comprising part of the tariff, prepare and submit to the Authority for approval, statements in a form approved by the Authority setting out the basis upon which the use of system charges and connection charges in each case, as part of the distribution business, shall be calculated (hereinafter referred to as the "charges statement") in all cases in such manner and with such details as shall be necessary to enable any licensee seeking to become a second-tier supplier in respect of the Service Territory to make a reasonable estimate of the charges which may be payable by such person for the use of system.

9.2 The Charges statement shall include such details and shall set out the methods by which and the principles on which the use of systems



charges and connection charges will be calculated, keeping in view the characteristics of the distribution system.

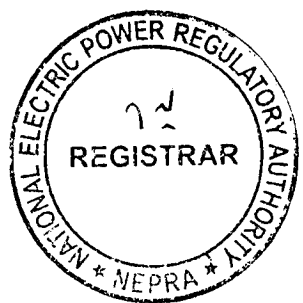
9.3 If, and to the extent not covered in or comprising part of or determined through or under the tariff, the use of system charges and connection charges shall be calculated on a basis which reflects the costs prudently incurred or to be incurred, less any gains achievable through efficiencies, in the provision, procurement, installation, operation or maintenance of the facilities for use of system or the connection including, without limitation, in respect of any works, extension, replacement or reinforcement of the distribution system or any parts thereof, as the case may be, together with a reasonable return on the capital represented by such costs.

9.4 The Licensee shall, on request for second-tier supply to enter into an agreement for use of system and connection to the system with any second-tier supplier on terms and conditions specified in the second-tier supply authorization, subject to Section-22 of the Act.

9.5 In the event of any dispute between the Licensee and another Licensee seeking to become a second-tier supplier in respect of the terms of the agreement referred to in Article 9.4 the dispute may be referred by either party for resolution to the Authority. The decision taken by the Authority on any such referral as aforesaid shall be binding on the other licensee and the licensee shall forthwith enter into an agreement with the other licensee seeking to become a second-tier supplier on the terms settled by the Authority.

*N.*

*[Handwritten mark]*





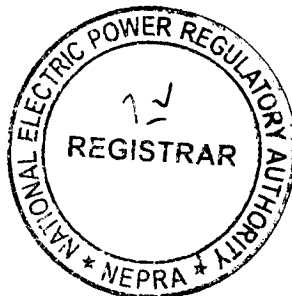
**Article-10**

**Investment programs, acquisition and disposal of assets**

10.1 The Licensee shall not, except under a prior authorization acquire whether on ownership basis, lease, hire-purchase or other mode of possession or use, any tangible or intangible asset of a nature or value inconsistent with or which is not expressly or by necessary implication stated in the Licensee's investment program approved by the Authority in accordance with its rules and regulations provided that until such time the Licensee's investment program is approved by the Authority in accordance with Rule 17(1), the licensee may acquire assets required for the operation and maintenance of the distribution system or assets of a value not exceeding ten per cent of the figure of the approved investment program of the Licensee for that year.

10.2 The Licensee shall not except under a prior authorization, sell or dispose in any manner any of the tangible assets comprised in the distribution system or any intangible assets accruing or likely to accrue to the Licensee from the distribution business or the second-tier supply business in a manner inconsistent with or which is not expressly stated in the Licensee's investment program approved by the Authority in accordance with its rules and regulations, provided that until such time the Licensee's investment program is approved by the Authority in terms of Rule 17(1), the Licensee may dispose or sell assets of a value not exceeding ten per cent of the figure specified in the approved investment program of the Licensee for that year.

10.3 The Licensee shall not assume any responsibility for any encumbrance in relation to any asset unless the ownership thereof vests in the Licensee.



**Article-11**  
**Compliance with Performance Standards**

The Licensee shall comply with the relevant provisions of the National Electric Power Regulatory Authority Performance Standards (Distribution) Rules 2005 as amended from time to time.

**Article-12**  
**Compliance with Environmental Standards**

The Licensee shall conform to the Environmental standards as may be prescribed by the relevant competent Authority.

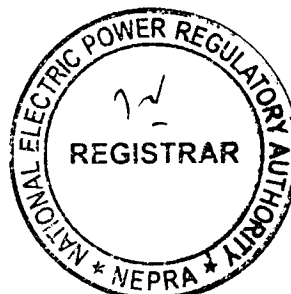
**Article-13**  
**Accounting practice**

The Licensee shall maintain separate accounts for its sale of power business and network business in addition to those provided in Rule 14(2).

**Article-14**  
**Maintenance of record**

14.1 The Licensee shall keep complete and accurate record and the date in respect of all aspects of the distribution business and the second-tier supply business, in their original form. Three years after the issuance of this Licence the Licensee shall start maintaining the above mentioned record in electronic form also.

14.2 Without prejudice to the provisions of the Rule 14(3), unless provided otherwise under the law or the applicable documents, all record and data shall be maintained for a period of five year after the creation of such record or data. The Licensee shall not destroy or dispose off any such record or data after the aforesaid period without thirty days prior written notice to the Authority. The Licensee shall not dispose off or destroy any record or data which the Authority directs the Licensee to preserve.



14.3 All record and data maintained in an electronic form shall, subject to just claims of confidentiality, be accessible by staff authorized by the Authority.

**Article-15**  
**Provision of information**

15.1 The obligation of the Licensee to provide information to the Authority shall be in accordance with Section 44 of the Act.

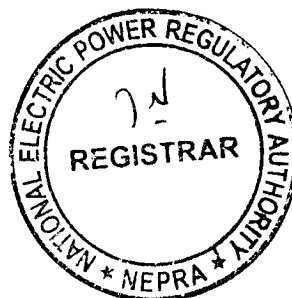
15.2 The Licensee shall be subject to such penalties as may be specified in the relevant rules made by the Authority, for failure to furnish such information as may be required from time to time by the Authority and which is or has been in the control or possession of the Licensee.

**Article-16**  
**Interpretation of Licence**

All disputes relating to the interpretation of the Licence will be decided by the Authority.

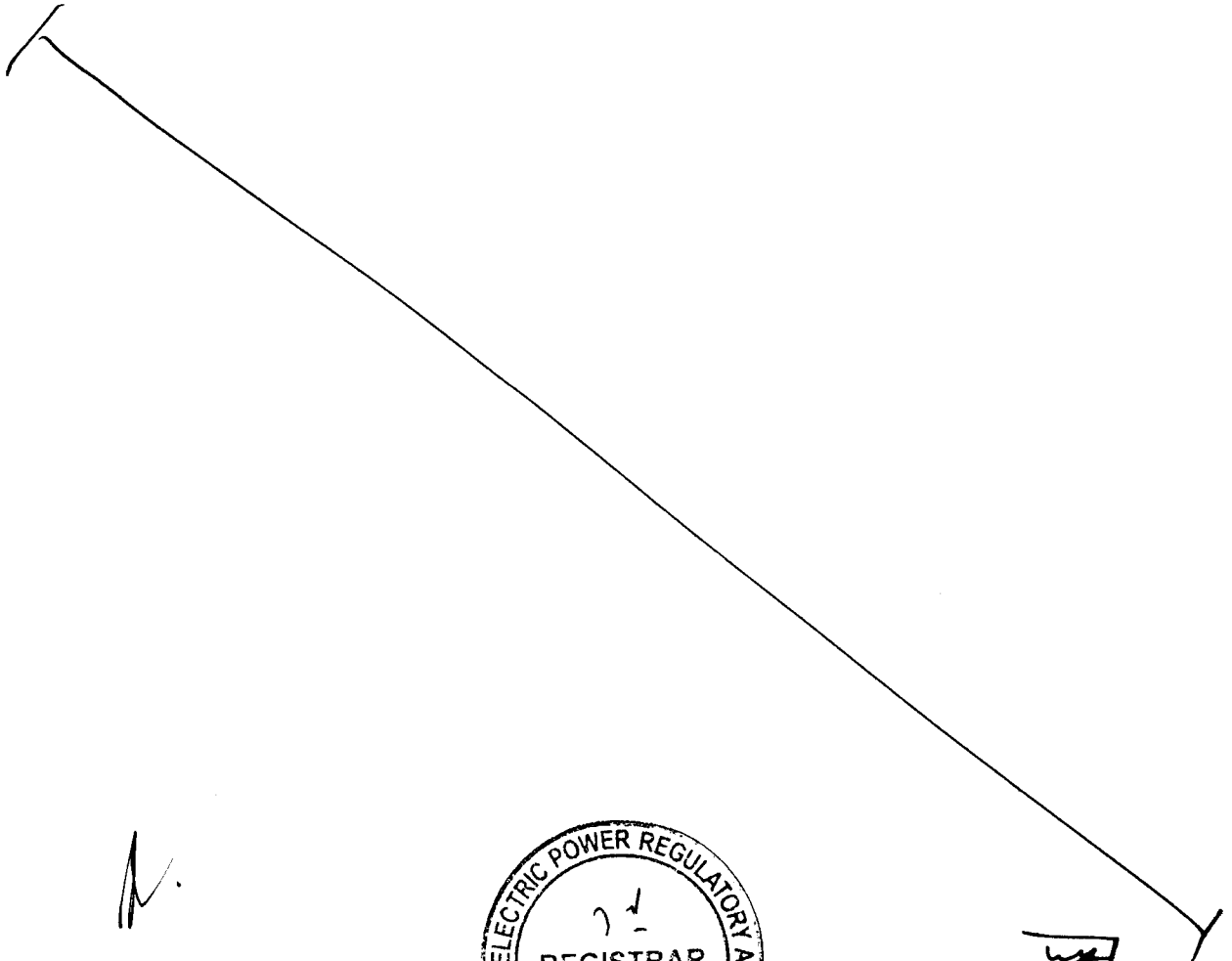
*[A large handwritten checkmark or signature spans across the page, starting from the top left and ending at the bottom right.]*

*[Handwritten mark or signature]*

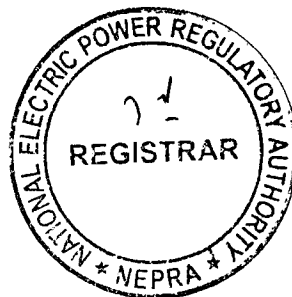


## SCHEDULE-I

The detail of the Service and Concession Territory of the Licensee are described in this Schedule.

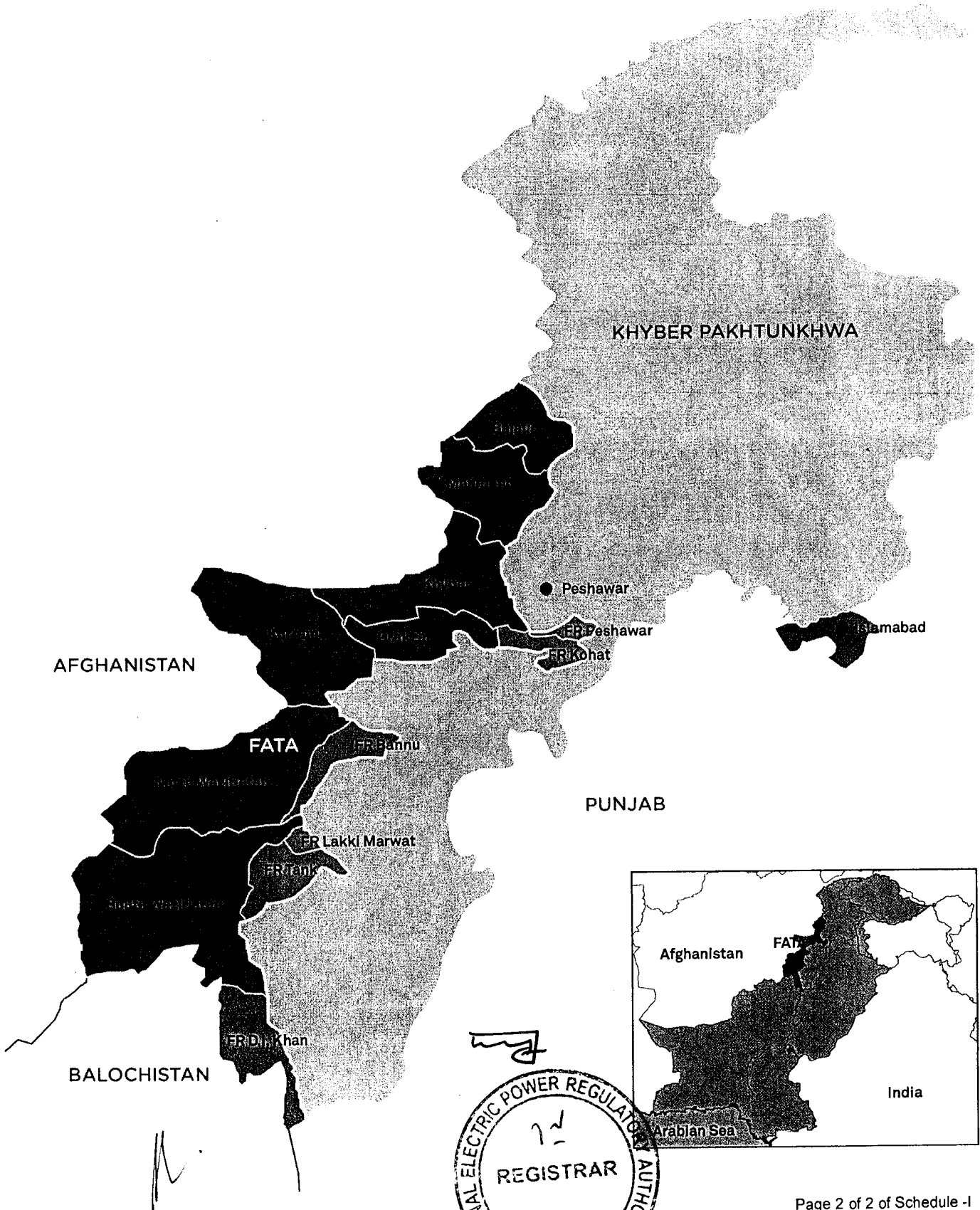


*Handwritten mark*



*Handwritten signature*

# FATA MAP



**National Electric Power Regulatory Authority**  
**NEPRA**

**Determination of the Authority**  
**In the matter of Distribution Licence Application of**  
**Tribal Areas Electric Supply Company Limited**  
**(TESCO)**

**August 06, 2013**  
**Application No. LAD-10**

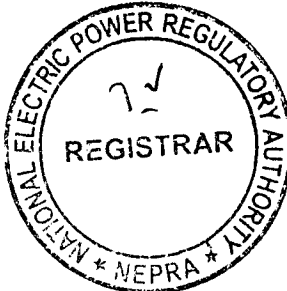
**(A). Background/History**

(i). Government of Pakistan incorporated Tribal Areas Electricity Supply Company Limited (hereafter called "TESCO") with the objective of providing distribution services in the Federally Administered Tribal Areas (FATA). Under Section 20 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (hereafter called the NEPRA Act), TESCO submitted an application for the grant of Distribution Licence on February 13, 2007.

(ii). The Authority admitted the application of TESCO for the consideration of a Distribution Licence under Regulation 7 of the NEPRA Licensing (Application and Modification Procedure) Regulations, 1999 (the "Regulations") on July 31, 2007 and approved the advertisement about the Notice of Admission to be published in daily newspapers, seeking comments of the general public as stipulated in Regulation 8 of the Regulations.

(iii). The Authority also approved the list of interested/affected parties for inviting comments or otherwise assisting the Authority in the matter as stipulated in Regulation 9 of the Regulations. Accordingly, Notice of Admission was published in the

*[Handwritten mark]*



*[Handwritten mark]*

*[Handwritten mark]*

national newspapers on August 02, 2007 and separate notices were sent to Individual Experts/Government Ministries/Representative Organizations etc. on the same date, for submitting their views/comments in the matter.

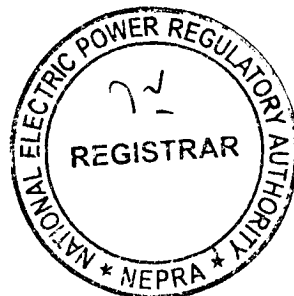
**(B). Comments of Stakeholders**

(i). In reply to the NoA, NEPRA received comments from, Federation of Pakistan Chambers of Commerce and Industry (FPCCI), Central Power Purchasing Agency (CPPA), Hyderabad Electricity Supply Company Limited (HESCO) and Ministry of Water & Power (MoW&P) and Ministry of Finance (MoF).

(ii). The salient points of the comments offered by the above stakeholder (s) are summarized in the following paragraphs.

- (a). FPCCI through its letter dated August 13, 2007 supported the Grant of Distribution Licence to TESCO and hoped that it would help to facilitate distribution of power to consumers without any interruption. It further desired that distribution lines be updated to cater to present day requirements;
- (b). CPPA of NTDC through its letter dated August 16, 2007 supported the grant of Distribution Licence to TESCO as it would facilitate to monitor company's performance independently. CPPA stated that the articles of draft Distribution Licence for TESCO that conform to the Distribution Licence to other DISCOs are agreed; however the Term of the licence should be minimum to ten (10) years. The quantum of line losses of TESCO may be kept in view while deciding its application for Distribution Licence. The Bulk Power Consumer of TESCO must be at par with other DISCOs;

*[Handwritten mark]*



*[Handwritten mark]*

*[Handwritten signature]*

- (c). HESCO through its letter dated August 15, 2007 submitted that it has not comments on the grant of Distribution License to TESCO as consequent to this, the distribution activities of HESCO would not be affected;
- (d). MoW&P through its letter dated August 27, 2007 supported the grant of Distribution Licence to TESCO for enforcing NEPRA distribution Standards and loss reduction program. However, MoW&P stressed that the issue of theft of electricity may be addressed while issuing the Distribution Licence;
- (e). MoF through its letter dated September 01, 2007 commented that it did not see any advantage of grant of licence to a company which would be depending on the Government of Pakistan (GoP) for its survival.

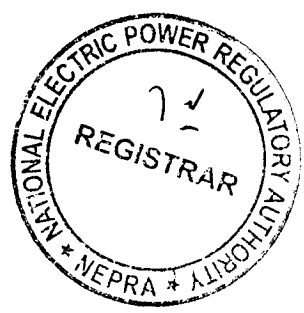
(iii). The Authority considered the above comments of the stakeholders and decided to convene a hearing of the stakeholders. Based on the said comments of the stakeholders and other information provided by TESCO, Issues of hearing were also framed for discussion in the hearing.

**(C). Holding of Hearing**

(i). In accordance with the above, the Authority convened the Hearing on August 28, 2007 which was attended by different stakeholders including Pakistan Electric Power Company Limited (PEPCO), Peshawar Electric Supply Company Limited (PESCO), TESCO, MoW&P, Private Power and Infrastructure Board (PPIB) and CPPA.

*WAF*

*W* *M.*

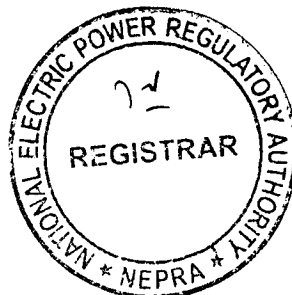




(ii). During the hearing, TESCO presented its case and other participants/interested persons were also heard. The participants proffered their comments and submitted arguments supporting their stance. The following relevant salient points were discussed during the hearing and commented on by other participants:-

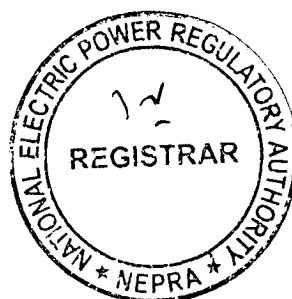
- (a). Willingness of PESCO to surrender the required "Service Territory" in favor of TESCO;
- (b). Date of Commencement of the Distribution Business by TESCO;
- (c). Exclusive Territory of TESCO;
- (d). Term of the proposed Distribution Licence;
- (e). Power Procurement Plan to meet future demands;
- (f). Financial health of the Company;
- (g). Shortage of required manpower at the operational level;
- (h). Compliance with Environmental Standards;
- (i). Any other issue/comments raised by the Stakeholder(s) in response to the Notice of Admission.

(iii). The representative of PESCO and TESCO confirmed that they had already reached an understanding and PESCO would surrender part of its Service



Territory for which TESCO had submitted its application for the grant of Distribution Licence. PESCO confirmed that it was in the process of filing a Licensee Proposed Modification as stipulated in Regulation 10 of the Regulations. The representative of TESCO confirmed that company had already started its business activities since 2002 for which Securities and Exchange Commission of Pakistan (SECP) had already issued the certificate for commencement of business. About the exclusive Territory, the representative of TESCO confirmed that as per its memorandum, TESCO shall have the exclusive right to provide distribution service in FATA (comprising of Bajaur, Mohmand, Khyber, Ourakzai, Kurrum, North Waziristan, South Waziristan agencies) and Frontier Regions-FRs (i.e. FR Peshawar, FR Kohat, FR Bannu, FR Lakhi, FR Tank and FR DI Khan). About the term of the proposed Distribution Licence, TESCO stressed that the same may be fixed in line with other DISCOs. Regarding, the Power Procurement Plan, the representatives of TESCO confirmed that the same would be met through CPPA as was being done by other DISCOs. About the financial health of the Company, it was conceded that financial condition of the company was not very healthy due to the law and order situation in FATA and other adjoining areas however, efforts were being made to address this issue. TESCO clarified that unless the situation improves in FATA and FRs, it would have to rely on the financial support being provided by the Government of Pakistan (GoP) through different sources. About the shortage of required manpower at the operational level, TESCO clarified that necessary steps were being taken to improve on this aspect. TESCO clarified that it is in compliance with the Environmental Standards.

(iv). During the hearing, apart from TESCO other stakeholders were also offered an opportunity to express their views. All the stakeholders participating in the hearing supported the request of TESCO for the grant of Distribution Licence except CPPA. The representative of CPPA took a contrary position to its earlier stance of supporting the grant of Distribution Licence and stated that CPPA would not be entering into agreement with TESCO as it had huge receivables.



**(D). Post Hearing Proceedings**

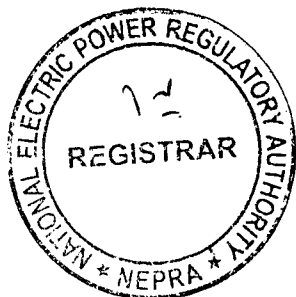
(i). In the light of the proceeding of the above hearing whereby the issues of reluctance of CPPA in signing an agreement TESCO and financial viability of company were surfaced, the Authority decided to further deliberate these issues.

(ii). As part of the proceedings, the Authority took up the matter with CPPA for confirming its position in writing in this regard. CPPA in its written comments dated September 1, 2007 confirmed that NTDC/CPPA was not interested in entering a direct agreement with TESCO because it was not financially and technically a healthy company and has not been able to pay bills on account of purchase of electricity. In this regard, an amount of Rs. 70.00 billion was outstanding against it.

(iii). The above observations of CPPA/NTDC were conveyed to TESCO for filing rejoinder. TESCO submitted that the application had been filed on the directions of the competent authority whereby it was decided to separate FATA and FRs from other areas which are being served by PESCO. The competent authority also decided that TESCO would enter into separate agreement with CPPA/NTDC for purchasing electricity from pool. TESCO also acknowledged that its financial position was not very healthy due to non-payment culture prevailing in the area. TESCO clarified that it has also been decided by the competent authority that shortfall of the company is to be met with the assistance of GoP.

(iv). The Authority in its Regulatory Meeting (RM-08-054) held on February 25, 2008 considered the objections of CPPA and submissions made by TESCO. The Authority decided to further deliberate the matter with stakeholders including PESCO, NTDC, MoF, MoW&P and Government of NWFP. A hearing/meeting of the stakeholders in this regard was held March 13, 2008.

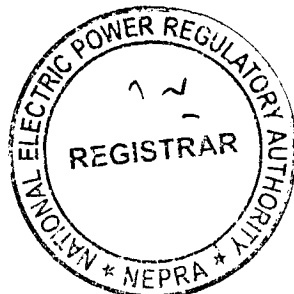
*From*



*Handwritten signature and arrow pointing to the stamp.*

(v). In the above mentioned hearing the representatives of TESCO, PESCO, NTDC and MoW&P participated. All the stakeholders stuck to their previous positions whereby TESCO, PESCO and MoW&P supported the grant of Distribution Licence but NTDC/CPPA did not changed its stance of entering into direct agreement with TESCO. In the said meeting the Authority decided to put the application on hold till the time TESCO submits a comprehensive plan for improving its financial viability including billing/payment of consumers, recovery of outstanding arrears pending with TESCO on account of purchase of electricity from CPPA/NTDC. The Authority also directed TESCO to prepare its Financial Viability Plan (FVP) by taking all stakeholders on board including MoW&P, CPPA/NTDC and FATA administration. Further, instructions were also given to MoW&P for involving MoF, Privatization Commission (PC) and other stakeholders to evolve a consensus in the matter in view of the proposed privatization of PESCO whereby areas of FATA and FRs were not included in the Service Areas of PESCO thus necessitating the creation of TESCO to provide distribution services to these areas through the grant of the Distribution Licence. The Authority also decided to hold a meeting of MoF, MoW&P and PC once TESCO submits its FVP. The Authority decided to take any further action on the application of TESCO once the above meeting is convened and concluded. The above mentioned decision of the Authority was communicated to TESCO for submitting FVP.

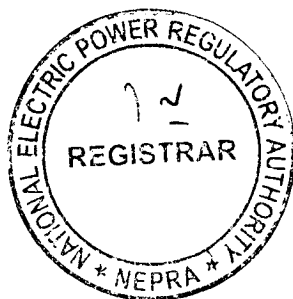
(vi). The matter was continuously followed up with TESCO and PEPCO for submitting the FVP however, nothing was submitted. Ultimately, TESCO submitted some information regarding its FVP on August 03, 2010. TESCO submitted that it was operational in most sensitive and complicated areas of Pakistan where the continuity of supply is being maintained in very critical and unsafe environment on one side and difficulties in payment of bills due to non-availability of banks, on other sides. The matter was taken up at high forum i.e. the Governor KPK, MoW&P and MoF through PEPCO to arrange payment against receivables. The response to our efforts was positive and recoveries at source and through individual consumers touched Rs. 95.90 Billion during 2009-2010. TESCO further clarified that expenses on development side are provided from grants placed at the disposal of parliamentarians. The Prime Minister Secretariat



also provides sufficient funds in this respect to meet with the expenses on heavy projects like grid station. In addition to above FATA Secretariat reserves handsome amount under ADP on various schemes. TESCO claimed that it did not face any financial burden in expenses of development activities and company is very much viable to be granted a Distribution Licence.

(vii). The Authority considered the submissions of TESCO in its Regulatory Meeting held on September 07, 2010 and decided to conduct a hearing inviting TESCO and all concerned stakeholders. Further, the Authority also decided to seek fresh views of NTDC/CPPA on its stance of not entering into direct agreement with TESCO. Accordingly, a hearing of the stakeholders was convened on October 19, 2010 inviting CPPA/NTDC, MoW&P, MoF, PC, PESCO, TESCO and FATA Secretariat to participate in the same. The representatives of TESCO, PESCO, FATA and CPPA/NTDC participated in the hearing whereas no representation was made by MoW&P, PC and MoF. During, the meeting only PESCO supported TESCO for the grant of Distribution Licence whereas CPPA/NTDC and FATA did not support the same. In view of the divided opinion and absence of important stakeholders including MoW&P, PC and MoF the matter remained unresolved. The Authority kept on taking up the matter with TESCO and other stakeholders through various communications and subsequent reminders however, no headway could be made due to lack of interest of stakeholders specially PC and MoF.

(viii). Later on TESCO finally submitted information relating to its FVP on July 05, 2012 stating that its financial position has improved considerably and "Payables" to CPPA which touched an alarming level of Rs. 82.00 Billion (as of June 30, 2010) has now reduced to Rs. 2.00 Billion (as of June 30, 2011). "Similarly, the "Receivable" which touched the level of Rs. 61.00 billion (as of June 30, 2009) have now reduced to Rs. 25.00 Billion (as of June 30, 2011). There is improvement in the "T&D Losses" and the same has reduced to 25% (as of June 30, 2011) as compared to 27% (as of June 30, 2008). TESCO further clarified that as per the decision of December 17, 2003, the GoP is required to pick up its cash deficit. TESCO has further submitted that GoP has

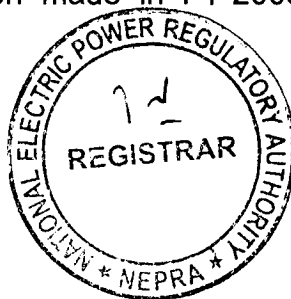



already given guarantee in writing for payment of all domestic consumers which amounts to 92%-93% of its total consumer base. TESCO submitted that to improve its Financial position, efforts were being made to install meters at Industrial, Commercial and Government connection for which a demand of Rs. 143.00 million had already been raised with FATA Secretariat.

(ix). The Authority considered the above submissions of TESCO in its Regulatory Meeting held on October 02, 2012 and decided to seek fresh comments of all the stakeholders on these submissions of TESCO and hold a fresh hearing/meeting inviting all the relevant stakeholders to participate in the same. Accordingly, the submissions of TESCO were forwarded to MoW&P, CPPA/NTDC, PESCO, PC, MoF and Ministry of States and Frontier Regions (MoS&FR) and FATA Secretariat.

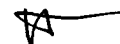
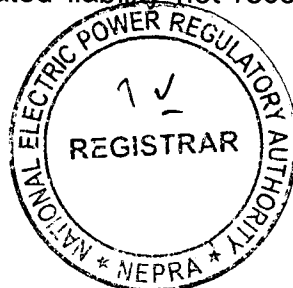
(x). In reply to the above, NEPRA received afresh comments from TESCO, PESCO, CPPA, Finance Department Government of Khyber Pakhtun Khwa (FDGoKPK), FATA Secretariat (FATAS), Ministry of Water and Power Government of Pakistan (MoW&P) and Ministry of Finance (MoF). The said stakeholders submitted the following:-

- (a). TESCO through letter dated November 23, 2012. submitted a detail of financial plan confirming that its recovery is on the rise. It was submitted that its recovery from the small industrial units and FATA Govt. Departments and Commercial connections has increased significantly. Amounts of Rs. 520.00 million, Rs. 696.00 million, Rs. 944.00 million, and Rs. 964.00 million were recovered in the FY-2008-09, FY-2009-10, FY-2010-11 and FY-2011-12 respectively showing a constant rise in its recovery. In addition, Government of Pakistan through Finance Division under a regular head is making payments to CPPA. In this regard payments of Rs. 5.00 billion, Rs. 94.10 Billion, Rs. 6.00 Billion, Rs. 7.00 Billion and Rs. 5.00 Billion have been made in FY-2008-09, FY-2009-10, FY-2010-11, FY-



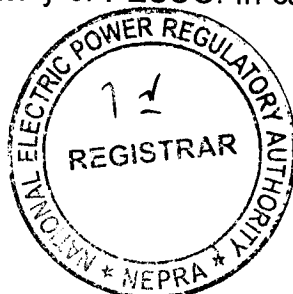
2011-12 and FY-2012-13 respectively. TESCO acknowledged the non-existence of proper meters for billing of consumers in its areas and explained that for installing the same it is essential to have free accessibility, availability of security and Normal Law and Order. However, due to prevailing law and order situation in FATA it is not possible to install individual meters there. TESCO stressed that presently the consumers in FATA are billed using load and load factor basis. TESCO also claimed that its financial position was now much better than other XWDISCOs including PESCO. It was also submitted that it is also getting some assistance from FATA Secretariat/political administration. TESCO submitted that under the prevailing situation neither GoP nor FATA Secretariat is in a position to disconnect to FATA. In view of the above, TESCO stressed for grant of Distribution Licence;

- (b). PESCO expressed that it is facing a number of administrative, financial and regulatory issues due to non-issuance of Distribution Licence to TESCO. As TESCO does not have Distribution Licence, CPPA does not recognize it as a separate entity, hence forth all sale of power in jurisdictions of PESCO and TESCO are recognized as sales to PESCO. As a result the purchases of PESCO from CPPA are overstated in the books of CPPA. PESCO cannot include purchase of power by TESCO because of fact that TESCO is a separate legal entity and is registered under Companies Ordinance 1984. TESCO is also registered with FBR and has a valid Sales Tax Registration No. and is filing its Sales Tax Return regularly. Commercial Auditors provided an "except for" opinion on the Financial Statements of PESCO because PESCO is not recognizing the total liability on account of electricity purchased from CPPA and is excluding the cost of power purchase of TESCO. The accumulated liability not recognized by PESCO pertaining to



the sale of Power to TESCO by CPPA amounts to Rs. 108.381 billion as at June 30, 2011 excluding Rs. 23.25 billion for FY-2011-12. Ministry of Water and Power is pressing hard that PESCO should claim Tariff Differential Subsidy on behalf of TESCO. PESCO is of the view the same is not possible as TESCO is an Independent Company; However, as per directive of MoW&P PESCO has to countersign Tariff Differential Subsidy claim on behalf of TESCO as TESCO cannot claim subsidy from GOP due to its non-issuance of Distribution Licence. NEPRA is also directing PESCO to pay the Distribution Licence fee for units sold in area of TESCO. The Financial position of PESCO is very weak to absorb such burden. It is a fact that TESCO apart from collection from its consumers is also receiving Government Subsidy against billing to Domestic Consumers, hence should pay off its liabilities itself and PESCO may not be held responsible for the same. Due to consistent Government support, the financial position of TESCO is much better than PESCO. As of June 30, 2012, the payables of TESCO to CPPA are RS. 17.00 billion whereas that of PESCO are Rs. 198 billion. Accumulated losses of TESCO are Rs. 31.00 Billion whereas that of PESCO are Rs. 126 Billion. In view of these facts, PESCO is of the opinion TESCO may be granted a Distribution Licence;

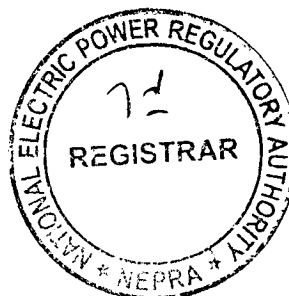
- (c). FDGoKPK commented that TESCO is mandated to act as a distribution licensee within the territorial jurisdiction of FATA, therefore the Provincial Government has no objection in principle on grant of any such license. It may however be noted without any equivocation that the Provincially Administered Tribal Areas (PATA) are within the administrative control and supervision of this Provincial Government and thus shall remain within the licensed service territory of PESCO. In case of any proposal to annex these





tribal areas also to the service territory of TESCO, this Provincial Government would show its serious concern and shall be compelled to invoke its rights under Article 157(2)(d) of the Constitution. Additionally, while along with the TESCO to act as distribution licensee, the committed quota of load dispatches to PESCO (13.5% of the national generation/dispatches) both in terms of MW Capacity and GWh units produced and dispatched, shall not be affected adversely in any manner. Allowing TESCO as a distribution licensee shall in no manner curtail, restrict or limit supply of electricity in terms of units or load to PESCO or its consumers. Separate metering arrangements shall immediately be put in place with distinct separate common delivery and metering points for TESCO, so as to separately gauge load and units dispatched by the NTDC/CPPA. The practice of intermingling load and CPPA billing for TESCO and PESCO must be discontinued. Immediate arrangements be made to do away with the practice of mixed feeders spilling out of settled areas into bordering or adjoining tribal territories and vice-versa. Separate feeding, grid and distribution arrangements must be made for the two DISCOs. While TESCO shall be at liberty to use the transmission network of NTDC for load dispatches to TESCO common metering points but necessary wheeling charges may be paid to PESCO in case of use of sub-transmission network of PESCO. TESCO or for that matter the Federal Government, as its sponsors/subscribing owners, shall immediately clear dues and arrears of wheeling charges payable to PESCO, being reflected in books of accounts of PESCO as long terms receivables. This payment shall enable the DISCO working in this Province to exhibit some financial viability and ensure steps for improvements that it has been delaying because of lack of financial arrangements. While granting Distribution License to TESCO special arrangements may be made and provision may be

W

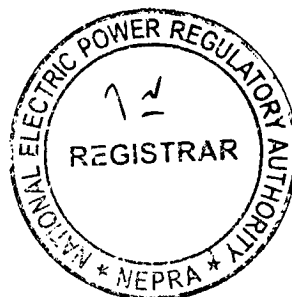


W

M

introduced in license itself to ensure that the consumers of settled areas are saved from the impact of non-payment and high T&D losses in tribal areas. Keeping in view, the Provincial Government has no objection on grant of distribution license to TESCO subject to the conditions and observations mentioned above;

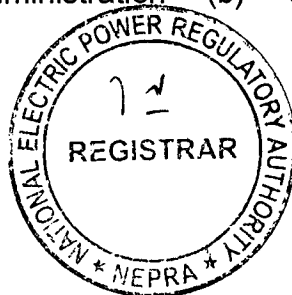
- (d). FATAS stated that the issue of metering and billing in FATA is rather complex which needs concerted efforts and integrated approach on long term basis. People of FATA have since long been using electricity without paying for it. Worsening law and order and security situation has further contributed to the culture of non-payment for services provided by the Government. Installing meters, delivering bills and collecting charges in FATA would not be possible in the near future. Keeping in view the peculiar circumstance of tribal areas, a decision was made on August 18, 2009 by the Finance Division Govt. of Pakistan to pick up the receivable against the consumption of electricity in FATA. As the law and order situation and security will improve, and service delivery gets better with the strengthening of democratic institutions and participation of civil society and traditional Jirgas, the issue will be possibly resolved. By giving the status of DISCO to TESCO could be a way forward in achieving objectives of the company;
- (e). MoW&P through its letter dated November 23, 2012 remarked that for the time being GoP is regularly picking up expenses of electricity consumption in FATA which may continue further for next few years in view of peculiar situation and circumstances of the area. However, this Ministry supports the requests of TESCO for grant of Distribution License to streamline the matter which gets frequently mixed up between PESCO and TESCO due to non-existence of DISCO status of TESCO. The grant of Distribution



Licence to TESCO would be a first step to strengthen the performance of TESCO both technically and financially in the days to come;

- (f). MoF through its letter dated December 17, 2012 commented that TESCO's mandate to act as a distribution licensee may remain confined to the territorial jurisdiction of FATA. Separate arrangements with distinct delivery and metering points for TESCO, so as to separately gauge load and units dispatched by the NTDC/CPPA, needs to be put in place. The practice of intermixing load and CPPA billing for TESCO and PESCO needs to be discontinued. Arrangements need to be made to do away with the practice of mixed feeders spilling out of settled areas into bordering or adjoining tribal territories and vice-versa. Separate feeding, grid and distribution arrangements be made for PESCO and TESCO. If distribution licence is granted to TESCO, Federal Government would only provide Tariff Differential Subsidy (TDS). The existing payment of FATA subsidy on account of receivables of PESCO would be discontinued. The company would be responsible for collection of its receivables from the area under its territorial jurisdiction. The accumulated liabilities of TESCO towards PEPCO needs to be clearly identified and decided before making a decision about the grant of distribution license of PEPCO. The financial viability of TESCO needs to be properly examined so that on grant of distribution license, the company is able to sustain itself financially without any support from the federal government except payment of TDS. The Company (i.e. TESCO) should present a concrete business plan for next 3-5 years to phase out burden on public exchequer. The business entails the following among others
- (a) System mapping of existing infrastructure authenticated by Tribal Administration (b) Customer Census (c) System









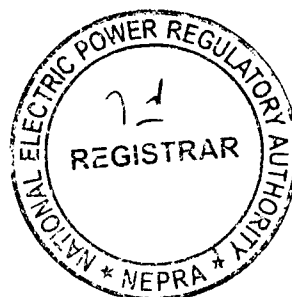
Augmentation Plan. It is therefore, requested that NEPRA may re-examine the issue for grant of distribution license to TESCO by convening a meeting of related agencies to arrive at a consensus decision.

(xi). The Authority conducted fresh hearing in the matter on November 21, 2012 which was attended by representatives of TESCO, PESCO, MoW&P, FATAS and CPPA. All the said stakeholders supported the grant of Distribution Licence whereas CPPA did not give an explicit opinion in the matter and stated that there are many issues with TESCO. In view of this, the Authority directed CPPA for submitting its explicit opinion in the matter. CPPA vide its correspondence of November 29, 2012 submitted its No Objection to the grant of Distribution Licence to TESCO subject to the condition that MoF giving guarantee to bear the financial burden of TESCO. Further, TESCO should submit the technical plan to have supply from system of NTDC since at present there is no Common Delivery Point (CDP) between TESCO and NTDC and presently it is getting supply from CDP of PESCO. An amicable mechanism solution about wheeling mechanism must be agreed between TESCO and PESCO.

**(E). Grant of Distribution Licence**

(i). The Authority has gone through the relevant record of the application of TESCO in the light of the relevant provisions of law. TESCO filed the application for the grant of Distribution Licence on February 13, 2007 under Section 20 of the NEPRA Act, 1997. While conducting the proceedings the Authority had framed issues as regard to the ability of TESCO to qualify for the grant of Distribution Licence which are being dealt in the following paras.

(ii). The NEPRA Act, 1997 was enforced on December 16, 1997 with a primary object to regulate the Generation, Transmission and Distribution of Electric Power Sector in the Country. Before enactment of the Act, the power sector was

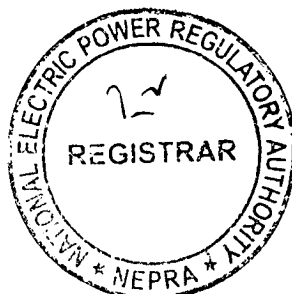


supervised by Water and Power Development Authority. The 1992 strategic plan of restructuring of the power sector of Pakistan with an objective to achieve efficiency in different segments of power sector, divided the vertically integrated WAPDA into relatively small manageable companies.

(iii). After its inception, NEPRA initially granted Distribution Licences to eight (08) Ex-WAPDA Distribution Companies including the PESCO. Later due to bifurcation of HESCO, a Distribution Licence was also granted to SEPCO. It is pertinent to state that at the time of grant of Distribution Licence to PESCO, the NEPRA Act was not extended to the area of FATA therefore, the Authority entrusted PESCO for providing electricity distribution services in the province of KPK/N.W.F.P. Later on, through an amendment dated February 02, 2007, the area of FATA was included in the regulatory framework of NEPRA and accordingly TESCO filed an application for the grant of Distribution Licence. It may be added that before filing application for Distribution Licence, TESCO was distributing electricity through PESCO which was a licensee of the Authority.

(iv). The Authority has noticed that on account of such arrangements, PESCO has been facing serious administrative, financial and regulatory issues, as has been informed by PESCO through its letter dated November 08, 2012. PESCO has also insisted the Authority that due to the existing arrangement of purchase of electricity from CPPA on behalf of TESCO, their financial accounts are burdened with the price/amount of electricity being purchased for TESCO which has created issues in preparing the financial statements of the Company. In order to surrender the area being fed by TESCO, a Licensee Proposed Modification (LPM) in its Distribution Licence has already been by PESCO on August 15, 2007. Further, PESCO has supported the grant of Distribution Licence to TESCO.

(v). In the instant proceedings, most crucial issue which the Authority came across was the evidence of the availability of adequate financial resources of TESCO

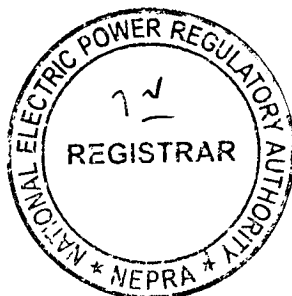


for the purpose of carrying out the distribution services in FATA and FRs. In this regard several communications were made with TESCO to find out its ability to sustain as a Distribution Licensee.

(vi). The Authority has observed that at the time of filing of the application for the grant of Distribution Licence, stiltedly TESCO had liabilities of RS. 70.00 billions to CPPA on account of purchase of electricity. In view of the poor financial condition of the TESCO the Authority directed that TESCO should submit a Financial Viability Plan (FVP) so as to determine its financial viability, which was finally submitted by TESCO on July 05, 2012. While submitting the FVP, TESCO informed that its payables to CPPA which were reached to Rs. 82.00 Billion as of June 30, 2010 which have reduced to Rs. 2.0 billions. Similarly, the receivables which had touched to Rs. 61.00 Billion as of June 30, 2009 have now reduced to Rs. 25.00 billions, as of June 30, 2011.

(vii). The Authority has also noted from the record of the case that TESCO being a government owned entity has been supported by the Government of Pakistan (GOP) through Ministry of Finance (MoF), which has regularly been making payments to CPPA on account of purchase of electricity purchased by TESCO. In view of the government's support, the Authority was consistently writing to MoF as well as Ministry of Water and Power (MoW&P) for their comments regarding the pending application of distribution licence to TESCO. During the proceedings MoW&P and MoF have submitted their comments.

(viii). As per the latest comments from MoF through its letter dated December 17, 2012, the Authority observed that the said Ministry is ready to support the TESCO and agreed to pay the tariff differential subsidy. The MoF has further stressed that the TESCO shall be responsible for collection of its recoveries for the area under its territorial jurisdiction. MoF has further stated that TESCO should take measures to install distinct delivery and metering points so as to separately gauge load and units dispatched by the CPPA/NTDC. Finally MoF has suggested that TESCO should present

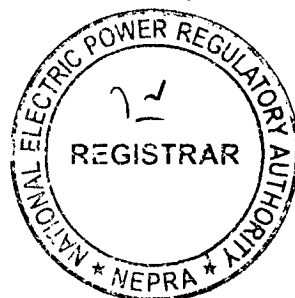


a concrete business plan regarding System Mapping of existing Infra Structure, Customer Census and System Augmentation Plan.

(ix). MoW&P through its letter dated November 23. 2012, informed that GOP is regularly paying the cost of electricity consumed in the area of FATA due to the prevailing law and order situation. However, MoW&P supported the grant of Distribution Licence to TESCO as it has been considered that it would be a first step to strengthen the performance of TESCO.

(x). In view of the forgoing comments of MoF and MoW&P, the Authority is convinced that the sponsors of the TESCO, which is the GOP is ready to financially support the TESCO for carrying out its distribution activities. The next issue which was considered by the Authority was that of the source and scope of electric power available to TESCO for carrying out its business as a Distribution Licensee. Under the law TESCO must confirm the Authority that it has a firm commitment from the CPPA or any other generation facility to meet with its requirements of electricity. In this regard, the Authority sent various notices to CPPA/NTDC for their views and comments. Initially CPPA/NTDC was in favor of grant of Distribution Licence to TESCO as evident from its letter dated August 16. 2007, however, during the hearing conducted on August 27, 2007, the representative of CPPA took a different view and informed that CPPA is not ready to enter into an agreement with TESCO as it had huge receivables from TESCO on account of purchase of electricity. Later on, as mentioned above , TESCO managed to pay the receivables of CPPA and in view of this fact, CPPA finally through its letter dated November 29, 2012 submitted its no objection to the grant of Distribution Licence to TESCO subject to the condition that MoF shall give a guarantee to bear the financial burden of TESCO. CPPA further stated that TESCO should submit a technical plan about the common delivery points between TESCO and NTDC.

(xi). The term of a Distribution Licence is fixed in accordance with Rule 5 of the NEPRA Licensing (Distribution) Rules 1999 (the Rules). According to said Rule, except

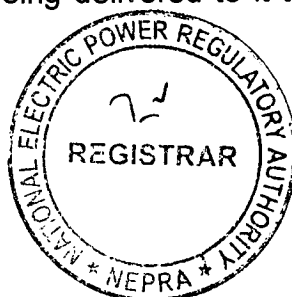


where an applicant for distribution licence consents to a shorter term, the term of a distribution licence shall not be less than twenty (20) years. In its application, TESCO did not explicitly mention about the term of the proposed Distribution Licence however, considering the very fact that the Authority in the case of other nine (09) XW-DISCOs and KESC had set the term of their Distribution Licences to twenty (20) years therefore, on similar lines the Authority fixes the term of the Distribution Licence of TESCO to twenty (20) years from the date of its issuance.

(xii). The Authority is well aware of the fact that the Service Territory for which TESCO had applied for the Distribution Licence is presently included in the Distribution Licence of PESCO. However, PESCO has already communicated a Licensee Proposed Modification for carving out areas of FATA and FRs from its Service Territory. The Authority in its Regulatory Meeting (RM-13-225), held on May 28, 2013 considered the matter of LPM of PESCO and approved the same and carved out the areas of FATA and FRs from the Service Territory of PESCO. Similarly, according to Article 7(1) of the existing Transmission Licence of NTDC, CPPA is allowed to purchase power on behalf of eight (08) XWDISCOs only which does not include TESCO right now. However, NTDC/CPPA has issued an NOC for issuing a Distribution Licence to TESCO. In order to allow the immediate functioning of TESCO, the Authority has decided to take up the modification issue in the Transmission Licence of NTDC separately, through procedure prescribed in Regulation 10 of the Regulations.

(xiii). In view of the above, the Authority is of the considered view that TESCO shall have available the source of electric power from NTDC and shall be able to distribute electricity to the consumers in the area of FATA and FRs. The Authority directs TESCO to establish Common Delivery Points (CDPs) for supply of power from CPPA/NTDC and also to enter into a bilateral Power Purchase Agreement. It is further directed that such CDPs should be established as soon as possible but not later than six (06) months of the date of issue of the Distribution Licence. During the intrim period of the setting up of CDPs, the Authority directs TESCO to make fool proof arrangement for accounting for the power being delivered to it through the network of PESCO with

*WST*



*W*

*M*

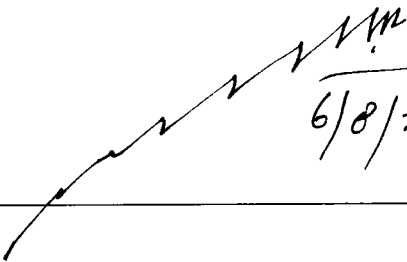


the assistance of PESCO. The Authority also directs TESCO to file a Tariff Petition with the Authority within ninety (90) days of the issue of the Distribution Licence. Further, the Authority also directs TESCO to immediately prepare a comprehensive Consumer Service Manual and submit the same for its approval.

(xiv). In view of the above, the Authority grants a Distribution Licence to TESCO subject to the conditions mentioned in this determination and other terms and conditions contained in it. TESCO is entitled to distribute electricity in the area of FATA and FRs. as specifically mentioned in the Schedule-I of the Distribution Licence. The Authority further direct to TESCO to comply with the NEPRA Act and other applicable document strictly.

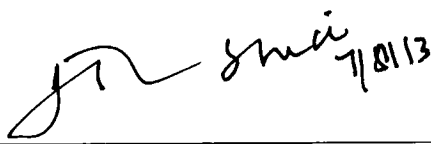
**Authority**

Habibullah Khilji  
Member



6/8/2013

Maj (Rtd) Haroon Rashid  
Member



7/8/13

Khawaja Muhammad Naeem  
Member/ Vice Chairman

