Registrar

# National Electric Power Regulatory Authority
## Islamic Republic of Pakistan

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No. NEPRA/SA(M&E)/LAD-04/ /7224

October 27, 2025

Chief Executive Officer,
Faisalabad Electric Supply Company Ltd. (FESCO),
Abdullahpur, Canal Bank Road,
Faisalabad

Subject: **ORDER OF THE AUTHORITY IN THE MATTER OF SHOW CAUSE NOTICE ISSUED TO FESCO UNDER REGULATIONS, 4(8) AND 4(9) OF NEPRA (FINE) REGULATIONS, 2021, ON ACCOUNT OF DECLINE IN PERFORMANCE WITH RESPECT TO TRANSMISSION & DISPATCH (T&D) LOSSES AND RECOVERY**

Please find enclosed herewith, the Order of the Authority (total 07 pages) in the subject matter for information and compliance.

Enclosure: As above

(Iftikhar Ali Khan)

National Electric Power Regulatory Authority

# ORDER

## IN THE MATTER OF SHOW CAUSE NOTICE ISSUED TO FESCO UNDER REGULATION 4(8) AND 4(9) OF NEPRA (FINE) REGULATIONS, 2021, ON ACCOUNT OF DECLINE IN PERFORMANCE WITH REPSECT TO TRANSMISSION AND DISTRIBUTION (T&D) LOSSES AND RECOVERY.

1. Faisalabad Electric Supply Company Limited (FESCO) (the "Licensee") was granted a Distribution License (No. DL/02/2023) by the National Electric Power Regulatory Authority (the "Authority") on 09.05.2023, for providing Distribution Services in its Service Territory as stipulated in its Distribution License, pursuant to section 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 ("NEPRA Act").

**Background:**

2. NEPRA received a Circular Debt (CD) Report for the month of June, 2024 from CPPA-G through an email dated 30.07.2024. The report reveals that DISCOs electricity purchases for the FY 2023-24 have been reduced to 115,142 GWh i.e., 1% as compared to 116,696 GWh for the FY 2022-23. Further, DISCO's losses during FY 2023-24 have increased to 18.31% as compared to 16.84% during FY 2022-23 i.e., increase of 1.47%. NEPRA's allowed average target of T&D Losses for the FY 2023-24 was 11.77%. Thus, DISCOs have breached the target by 6.54%. This breach of target contributed around Rs. 276 billion in Circular Debt for the FY 2023-24 despite the fact that DISCOs have been allowed an investment amount of Rs. 163.1 billion for the FY 2023-24 to improve their network.

3. While reviewing the losses of each & individual DISCO as given in CD report, it is noted that the Licensee has also contributed in such increase of overall losses and subsequent financial impact. It is a matter of fact that the T&D losses of the Licensee have been increased to 9.86% in FY 2023-24 as compared to 8.88% in FY 2022-23. Due to this increase, the financial loss has also been increased to Rs. 5 billion in FY 2023-24 as compared to Rs. (0.2) billion.

4. Therefore, the Authority decided to initiate legal proceedings against the Licensee under NEPRA Fine Regulations, 2021. In view thereof, an Explanation was served to the Licensee under Regulation 4(1) and 4(2) of NEPRA (Fine) Regulation, 2021, vide NEPRA's letter dated Nov 05, 2024, on account of violation of NEPRA Act, terms & conditions of License, tariff determination and other applicable documents.

5. However, the Licensee failed to submit its response within the specified time frame. Therefore, it was assumed that the Licensee has nothing to say in its defense and it appeared that the Licensee admitted the allegations levelled against it in the said Explanation.

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**Show Cause Notice:**

6. In view thereof, a Show Couase Notice was served to the Licensee under Regulation 4(8) and 4(9) of NEPRA (Fine) Regulation, 2021, vide NEPRA's letter dated January 15, 2025, on account of violation of NEPRA Act, terms & conditions of License, tarif determination and and other applicable documents. The salient points of the Show Cause are as under:

"3. **WHEREAS**, the Authority issued an Explanation to the Licensee under Rule 4 (1) and 4 (2) of NEPRA Fine Regulation, 2021 on 05.11.2024. The basis of Explanation to the Licensee included the following;

*3. WHEREAS, NEPRA received a Circular Debt Report for the month of June, 2024 from CPPA-G through an email dated 30.07.2024. The report reveals that DISCOs electricity purchases for the FY 2023-24 have been reduced to 115,142 GWh i.e., 1% as compared to 116,696 GWh for the FY 2022-23. Further, DISCO's losses during FY 2023-24 have increased to 18.31% as compared to 16.84% during FY 2022-23 i.e., increase of 1.47%; and*

*4. WHEREAS, NEPRA's allowed average target of T&D Losses for the FY 2023-24 was 11.77%. Thus, DISCOs have breached the target by 6.54%. This breach of target contributed around Rs. 276 billion in Circular Debt for the FY 2023-24 despite the fact that DISCOs have been allowed an investment amount of Rs. 163.1 billion for the FY 2023-24 to improve their network; and*

*5. WHEREAS, while reviewing the losses of each & individual DISCOs as given in CD report, it is noted that the Licensee has also contributed in such increase of overall losses and subsequent financial impact. It is a matter of fact that he T&D losses of the Licensee have been increased to 9.86% in FY 2023-24 as compared to 8.88% in FY 2022-23. Due to this increase, the financial loss has also been increased to Rs. 5 billion in FY 2023-24 as compared to Rs. (0.2) billion; and*

*6. WHEREAS, pursuant to Section 7 (2) (ac) of the NEPRA Act, the Authority shall ensure efficient tariff structures and market design for sufficient liquidity in power markets; and*

*7. WHEREAS, pursuant to Section 7 (3) (a) of the NEPRA Act, the Authority shall determine tariff, rates, charges and other terms and conditions for supply of electric power services by generation, transmission and distribution companies and recommend to the Federal Government for notification; and*

*8. WHEREAS, pursuant to Section 31 (2) (c) of the NEPRA Act, the Authority, in the determination, modification, or revision of rates, charges and terms and conditions for the provision of electric power services shall keep in view the encouragement of efficiency in licensees, operations and quality of service; and*

*9. WHEREAS, pursuant to clause 4.6 of the Authority's Determination dated April 20, 2023 in the matter of Investment Plan filed by the Licensee for MYT control period for the FY 2023-24 to 2027-28, the Licensee itself claimed that it will achieve the tangible and non-tangible benefits including reduction in transmission & transformation losses. Similarly pursuant to clause 5.2. of the above said determination, the Licensee itself claimed certain billion rupees investment*

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*requirement for energy loss reduction program. However, the Licensee has failed to prudently utilize the investments as the T&D losses have been increased in FY 2023-24 as compared to FY 2022-23; and*

*10. WHEREAS, pursuant to clause 7.6 of the Authority's Determination dated April 20, 2023 in the matter of Investment Plan filed by the Licensee for MYT control period for the FY 2023-24 to 2027-28, the Licensee itself claimed that it will achieve the tangible and non-tangible benefits from AMI projects including loss reduction and recovery improvement in high loss areas. Moreover, pursuant to clause 7.10 of the above-said determination, the Authority allowed the investment claimed by the Licensee for AMI, SCADA and GIS mapping projects in order to bring the technical improvements, however, the Licensee has failed to achieve the same particularly in FY 2023-24; and*

4. **WHEREAS**, the Licensee has not submitted any response in this regard. Hence, it is assumed that the licensee has nothing to say in its defense; and

5. **WHEREAS**, therefore, the licensee is in violation of NEPRA Act, Rules, Regulations, codes and other applicable documents; and... "

**<u>Submission of the Licencee:</u>**

7. In response to the SCN, the Licensee vide its letter dated January 24, 2025 submitted its reply and requested NEPRA to withdraw the SCN based on the grounds mentioned therein. A summary of the same is as under:

**Para 3:**
No doubt, FESCO electricity purchases decreased during FY-2023-24 from 16,088 MkWh to 15,736 MkWh due to increase in power tariff and discontinuation of subsidies (ZRI & Industrial support package). Resultantly, 14% negative industrial growth has been observed during FY 2023-24 as compared to the preceding year 2022-23. The increase in tariff rate and discontinuation of subsidies both were beyond the control of FESCO.

**Para 4 & 5:**
The progressive T&D losses have increased to 9.86% in FY 2023-24 as compared to 8.86% in FY 2022-23 due to the following reasons which are beyond the control of FESCO.

- Due to an increase in tariff rates and the discontinuation of subsidies, the cost of electricity has risen significantly. As a result, electricity consumption / sales have decreased abnormally, particularly in the Industrial Sector, which affected line losses. The industrial electricity consumption has decreased to 4,858 MkWh in FY 2023-24 as compared to 5,669 MkWh in FY 2022-23 (a decrease of 811 MkWh (14%)).
- It is an admitted factor that Distribution Companies are viciously wedged in billing errors. To achieve the goal of 100% accurate billing, FESCO afforded bill corrections through adjustments having an impact of 151.76 MkWh. If the above units had been included in the units sold, the target for T&D losses in FY 2023-24 would have been achieved, resulting in 8.42%loss level (0.32% decrease from the NIEPRA target.) Moreover, FESCO carried out the following stern actions to achieve the goal of 100% accurate billing which are as under:

  - Ensured 100% accurate meter reading as per snaps.
  - Conversion of industrial consumers meter reading on AMI Meters.
  - Implementation of Pro-rated billing software to avoid excessive days billing according to the calendar month days.

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- Charging of justified detection bills as per D/Bill policy as per NEPRA CSM.
- Timely data retrieval of removed/defective meters through M&T Lab.

**By putting in special efforts and implementing the effective measures, FESCO achievements are as under:**

| PERIOD | UNIT RECEIPT | UNIT SOLD | %AGE LOSS | NEPRA TARGET | UNIT SAVED / LOST | FINANCIAL IMPACT (PKR IN MLN) |
|---|---|---|---|---|---|---|
| FY2023-24 | 15,736 | 4,191 | 9.82 | 8.74 | 170.10 | 7,263 |
| Upto 12-2024 | 8,224 | 7,753 | 5.74 | 8.38 | (217.42) | (9,871) |
| 07-23 to 12-24 | 23,961 | 21,943 | 8.42 | - | (47.32) | (2,607) |

The above-mentioned table is reflecting that FESCO progressive T&D losses up to Dec-2024 has significantly been decreased up to 5.74% against NEPRA target 8.38% and thus FESCO has saved 217.42 MkWh having financial impact of saving Rs. 9,871 million.

Summing up, FESCO has not only recovered the financial impact of loss sustained during the Financial Year 07/2023 to 06/2024 which was 170.10 MkWh units with financial impact of Rs.7,263 million but also gained saving of 47.32 MkWh having financial impact of Rs.2,607 million.

**Para 9:**

FESCO has made every effort to prudently utilize the investments allocated by the Honorable Authority for the Energy Loss Reduction Program to achieve the line loss targets set by the Honorable Authority. However, the projects faced delays primarily because of the COVID-19 pandemic. Some equipment required for Grid Stations was to be supplied by foreign bidders/suppliers. But due to Government of Pakistan's temporary ban on opening Letters of Credit (LCs), which was later lifted by the State Bank of Pakistan, the material delivery was delayed. As a result, the associated liability was shifted deferred to the next financial year (FY 2024-25).

Furthermore, certain subprojects including the 132kV Transmission Lines and Grid Stations could not be completed on time due to issues such as right-of-way problems involving court cases related to the Transmission Lines and no availability of suitable state land for the construction of new 132kV Grid Stations.

It is also a fact that the full benefits of the Energy Loss Reduction Projects are realized in the following year after their completion. It is clear from the results of FY 2024-25, in which FESCO has achieved a proportionate share of the NEPRA target. FESCO is now on track and fully committed to achieving the NEPRA T&D loss targets for FY 2024-25. Moreover, it is worth mentioning here that FESCO's review petition for an additional budget allocation under the Distribution Integrated Investment Plan (DIIP) is currently under consideration by the Honorable Authority. Should the Honorable Authority approve this additional budget, it will certainly lead to further technical improvements and enhance the quality of service.

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**Para 10:**

The AMI, SCADA, and GIS Mapping projects are now being implemented as per given timelines and targets which will significantly enhance technical control over the distribution system. These initiatives will also improve the quality of service, reduce technical losses, and support operational efficiency across FESCO's network.

8. Therefore, in order to proceed further as per law, a hearing in the matter of Show Cause Notice was held on July 10, 2025. During hearing, following submissions were made by Licensees's representatives:

i. CEO FESCO stated that our losses were increased by 1% and we have submitted our reasons, but we have worked on that without any overbilling or manipulation and by ending 2025 our losses have been much improved. Further, our target was 8.38 and we have ended up by 8.56. We have improved by 0.18 and this is because, the receipts were increased by last year.

ii. For the last year data, it is requested to the Authority not to penalize us as we are improving and will further improve as per Authority's targets. FESCO is the Company which improves its losses as well as the customer's services.

iii. Last year, there was a decline on sale of 80 million industrial units, particularly B-3 & B-4. This was the reason that our losses were increased by 1%. The consumers who left FESCO are now coming back and we are serving them.

**FINDINGS:**

9. Keeping in view the above submissions of the Licensee following are the findings:

i. The Licensee has submitted that due to an increase in tariff rates and the discontinuation of subsidies, the cost of electricity has risen significantly. As a result, electricity consumption / sales have decreased abnormally, particularly in the Industrial Sector, which affected line losses. The industrial electricity consumption has decreased to 4,858 MkWh in FY 2023-24 as compared to 5,669 MkWh in FY 2022-23 (a decrease of 811 MkWh (14%)).

The Authority while examing of FESCO submissions of the Licensee noted that the company primarily addresses unit losses, whereas the core issue pertains to technical losses. Additionally, FESCO acknowledges an increase in overall loss levels within other consumer categories attributed to both technical and non-technical factors. Further the same could have been partially offset, and the overall loss ratio brought closer to NEPRA's target, had there been an actual increase in industrial sales which did not materialize. This indicates an overdependence on the industrial sector, with insufficient efforts directed towards reducing losses in other consumer categories that significantly contribute to the overall loss profile. In light of the above, the Licensee's justification does not appear to be adequately substantiated.

ii. The Licensee has further submitted that it is an admitted fact that Distribution Companies are viciously wedged in billing errors. To achieve the goal of 100% accurate billing, FESCO afforded bill corrections through adjustments having an impact of 151.76 MkWh. If the above units had been included in the units sold, the target for T&D losses in FY 2023-24 would have been achieved, resulting in 8.42%loss level (0.32% decrease from the NIEPRA target.)

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The Authority has considered the submission of the Licensee and observes that the Licensee has effectively admitted the allegation and acknowledged the actual reason for the increase in losses, namely, overbilling. While the Licensee characterized this as an "error," in reality, it appears to have been a deliberate act aimed at concealing operational inefficiencies and presenting an artificially improved loss level. As a distribution licensee, FESCO is obligated to comply with the provisions of the Consumer Service Manual when issuing bills. However, it failed to do so in this instance. Consequently, NEPRA conducted inquiries, confirmed the violations, initiated legal proceedings, and directed FESCO to reverse all such instances of incorrect billing. Moreover, the Licensee's own submissions indicate that losses can be superficially reduced by inflating consumer bills with additional units for a specific month, an act that constitutes a clear violation of NEPRA regulation.

iii. The Licensee has claimed that its progressive T&D losses up to Dec-2024 has significantly been decreased up to 5.74% against NEPRA target 8.38% and thus it has saved 217.42 MkWh having financial impact of saving Rs. 9,871 million. The Licensee has further submitted that it has not only recovered the financial impact of loss sustained during the Financial Year 07/2023 to 06/2024 which was 170.10 MkWh units with financial impact of Rs.7,263 million but also gained saving of 47.32 MkWh having financial impact of Rs.2,607 million.

The Authority while reviewing the submissions of the Licensee observes that the Licensee has attempted to highlight its progress for FY 2024–25, claiming that it has achieved the desired loss level for FY 2025 along with addressing previous financial losses. However, this assertion is not substantiated. Each financial year has its own distinct opening and closing data. Accordingly, the losses for FY 2023–24 have already been accounted for and booked under the circular debt. The Licensee cannot attribute the losses or gains of a previous financial year to the current one. Furthermore, it is important to clarify that the present proceedings are focused solely on the performance and progress of FY 2023–24 in comparison to FY 2022–23. They bear no relevance to FY 2024–25. Therefore, the Licensee's submissions are considered irrelevant in the context of these proceedings.

iv. The Licensee has submitted that it has made every effort to prudently utilize the investments allocated by the Honorable Authority for the Energy Loss Reduction Program to achieve the line loss targets set by the Honorable Authority. However, the projects faced delays primarily because of the COVID-19 pandemic, Government of Pakistan's temporary ban on opening Letters of Credit (LCs), and subsequent delay in material delivery. The Licensee has further submitted that certain subprojects including the 132kV Transmission Lines and Grid Stations could not be completed on time due to issues such as right-of-way problems involving court cases related to the Transmission Lines and no availability of suitable state land for the construction of new 132kV Grid Stations.

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The Authority while considereing the submission of the Licensee observes that they do not align with the ground realities. The Licensee has failed to reduce its losses in FY 2023–24 compared to FY 2022–23, despite having incurred investments under the ELR program. Furthermore, the justifications provided, such as the impact of COVID-19 and the ban on the opening of LCs, do not appear valid, as these challenges primarily affected FY 2019–20 and FY 2020–21. The current proceedings, however, pertain to FY 2022–23 and FY 2023–24. Additionally, the Lincesee's reasoning regarding the non-completion of grid stations and transmission lines due to RoW issues and court cases also appears to be irrelevant, as these factors are unrelated to 11kV distribution losses. The Licensee should have recognized that the matter concerns distribution losses, not transmission losses, an area that could be addressed by strengthening and optimizing the 11kV and below distribution network, which the Licensee has unfortunately failed to improve.

**Decision**

10. After due deliberations and taking into account the facts, submissions/arguments made by the Licensee, and in light of the NEPRA Act, NEPRA (Fine) Regulations, 2021, and other applicable documents, the Authority is of the considered opinion that the Licensee has failed to provide any satisfactory reply to the Show Cause Notice served to it. Therefore, the Authority hereby decides to impose a fine amounting to PKR 10,000,000/- (Ten Million) on the Licnesee due to its failure pertaining to improvement in T&D losses and Recovery in FY 2023-24 as compared to FY 2022-23.

11. The Licensee is directed to pay the fine amount of PKR 10,000,000/- (Ten Million) in designated bank of the Authority within a period of 15 days from the date of issuance of this order and forward a copy of the paid instrument to the Registrar Office for information, failing which the Authority may recover the amount due under section 41 of the NEPRA Act as arrears of the land revenue or through any other appropriate legal means in addition to taking any other appropriate legal action against the Licnesee for non-compliance.

**AUTHORITY**

Rafique Ahmed Shaikh
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Waseem Mukhtar
Chairman

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Dated 27 – 10, 2025

27/X/25