National Electric Power Regulatory Authority
Islamic Republic of Pakistan

Registrar

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No. NEPRA/SA(M&E)/LAD-02/ 16922 October 23, 2025

Chief Executive Officer
Islamabad Electric Supply Company Limited (IESCO),
Street 40, G-7/4, Islamabad

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

Please find enclosed herewith the Order of the Authority (total 05 pages) in the subject matter for information and compliance.

Enclosure: As above

23/X/25

(Iftikhar Ali Khan)

National Electric Power Regulatory Authority

ORDER

IN THE MATTER OF SHOW CAUSE NOTICE ISSUED TO IESCO 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.

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1. Islamabad Electric Supply Company Limited (IESCO) (the "Licensee") was granted a Distribution License (No. DL/01/2023) by the National Electric Power Regulatory Authority (the "Authority") on 06.04.2023, 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 DISCO's 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. With respect to recovery point of view, the CD report highlights that the overall recovery percentage remained the same i.e., 92% for the FY 2023-24 as compared to FY 2022-23. However, the financial impact of unrecovered amount has increased to Rs. 315 billion in FY 2023-24 as compared to Rs. 236 billion for the FY 2022-23.

4. Similarly, the Licensee's figures indicate that the Licensee's performance has been declined as its recovery percentage has been down to 97% in FY 2023-24 as compared to 105% in FY 2022-23. Due to this decrease, the Licensee's unrecovered amount has been increased to Rs. 15 billion in FY 2023-24 as compared to negative Rs.(19) billion in FY 2022-23.

5. Therefore, the Authority decided to initiate legal proceedings against the Licensee under the 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 November 05, 2024, on account of violation of NEPRA Act, terms & conditions of License, tariff determination and other applicable documents.

6. In response, the Licensee vide its letter dated November 20, 2024, submitted the response against said Explanation. The same was considered by the Authority and the Authority was of the view that the Licensee has failed to provide any satisfactory reply to the Explanation

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served to it, therefore, the Authority decided to issue a Show Cause Notice to the Licensee in terms of Regulations 4(8) & (9) of the NEPRA (Fine) Regulations, 2021.

Show Cause Notice:

7. In view thereof, a Show Cause Notice was served to the Licensee under Regulation 4(8) and 4(9) of NEPRA (Fine) Regulation, 2021, vide NEPRA's letter dated March 21, 2025, on account of violation of NEPRA Act, terms & conditions of License, tariff 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, with respect to recovery point of view, the CD report highlights that the overall recovery percentage remained the same i.e., 92% for the FY 2023-24 as compared to FY 2022-23. However, the financial impact of unrecovered amount has increased to Rs. 315 billion in FY 2023-24 as compared to Rs. 236 billion for the FY 2022-23. Similarly, the Licensee's figures indicate that the Licensee's performance has been declined as its recovery percentage has been down to 97% in FY 2023-24 as compared to 105% in FY 2022-23. Due to this decrease, the Licensee's unrecovered amount has been increased to Rs. 15 billion in FY 2023-24 as compared to Rs. (19) billion in FY 2022-23; 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 the decision of the Authority dated 01.07.2017, in the matter of reconsideration request filed by the Federal Government, on the issue*

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of allowing 100% recovery to DISCOs, decided that the inefficiencies of DISCOs cannot be passed on to the consumers and maintain its earlier decision that the DISCOs tariffs be determined on the basis of 100% recovery. This means that all the distribution companies are obligated to achieve the 100% target of recovery in order to make better financial health and to avoid the unnecessary burden on national exchequer in terms of circular debt. However, the Licensee has failed to achieve the 100% target and even the recovery of the Licensee has been decreased in FY 2023-24 as compared to FY 2022-23; and

8. **WHEREAS,** the Licensee submitted its response vide letter dated 20.11.2024 against the above-mentioned Explanation. The same was evaluated and found unsatisfactory. The Licensee has admitted the allegation by submitting that the recovery was low because of defaulting of Govt. Departments. However, the Licensee should have produced some concrete efforts to recover the dues from these departments in form of serving notices, temporary disconnections and getting into knowledge the matter to its higher ups such as its BOD & Ministry of Energy (Power Division); and

9. **WHEREAS,** the Licensee has failed to satisfy the Authority with its reply and has committed the violation of Section 7 (2) (ac), Section 7 (3) (a), and Section 31 (2) (2) of the NEPRA Act read with other enabling provision of rules and regulations and other applicable documents. Therefore, the Authority hereby rejects the response of Explanation submitted by the Licensee through an Order dated **<u>21.03.2025</u>**, recording the reasons of rejection; and"

8. In response, the Licensee vide its letter dated April 10, 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:

1. *"Billing assessment of IESCO had increased considerably from Rs 385 billion in FY 2023 to Rs 522 Billion in FY 2024 due to tariff hike. However, best efforts were made for collection and IESCO succeeded in achieving 97.87% recovery from private consumers despite the fact that economic conditions / buying power of consumers was not favorable. There was gap of about Rs 8 billion out of which Rs 5.6 billions was outstanding against 475,769 defaulters having one month age for which IESCO was not in position to disconnect their supply as per SoP or to compel them to pay at any cost. However, full efforts are being made to cover this gap during current financial year as evident from the results ending March 2025, the recovery from private consumers is 101.48% (ie gain of about Rs 4.5 billion) above 100%.*

2. *Overall recovery remained 97.03% in 2023-24 because recovery from Govt departments remained 94.82% (i.e., gap of about 7 billion). In this regard, it is submitted that IESCO made following efforts to ensure 100% recovery from these defaulting department as detailed, below:*

   a. *Issued notices to these defaulting departments on regular basis (copies enclosed).*
   b. *Conducted various meetings/ visits with their high ups for clearance of outstanding dues.*
   c. *Published/announced department wise default amounts through print/ electronic media in leading newspapers, tickers on electronic media including social media (copies enclosed).*

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d. Disconnections of power supplies of defaulting departments were also made including WASA's tube wells but subsequently had to restore due to public pressure and to avoid law and order situation.

e. IESCO feeds power supply in AJK territory through independent feeders and issue bills as per notified tariff rates but AJK Govt pays @ Rs 2.59 per kwh and remaining amount parks in receivables for which payment is received from Federal Government as grant against AJK receivables from time to time keeping in view the budgetary position. Rs 45.352 Billion was outstanding against AJK ending June 24 for which IESCO was not in position to disconnect supply of AJK in the best interest of country so as to avoid any politically backed protest in the territory.

f. IESCO also feeds power supply to sensitive defense installation including CDA, Cantonments boards and various hospitals for which it's not possible for IESCO to disconnect supply of these installations.

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

i. CEO IESCO stated that the company has consistently demonstrated strong recovery performance in the private sector, frequently exceeding 100%. In FY 2023–24, private sector recovery stood at 99.49%, compared to 101% in FY 2022–23. As of June 2024, recovery for FY 2024–25 has further improved to 101.68%.

ii. CEO IESCO further stated that however, the government sector continues to pose challenges due to delayed payments. Despite these issues, the overall recovery rate combining both private and government sectors for FY 2024-25 stands at a commendable 100.64%, closely aligning with NEPRA's prescribed targets.

10. Meanwhile, as per Authority's directions given during hearing, IESCO vide its letter dated 16.07.2025 has submitted the break up of current & arears amounts recovered during FY 2023-24. The detail is as under:

Period	Opening Receivables (Arears)	Computed Assessment	Total Collection	Collection Against Arears	Closing Receivables (Arears)
2022-23	90,269	380,369	404,402	41,577	71,089
2023-24	71,089	515,925	506,675	55,459	86,579
2024-25	86,579	504,433	507,648	77,488	81,569

It is obvious from above that IESCO has improved performance and succeeded to achieve recovery target ending June, 2025. Overall recovery remained 100.64% in 2024-25 (i.e., a gain of about Rs. 6.26 Billion against private consumers and overall Rs. 3.22 Billion) which shows that IESCO is committed and sincere toward target achievement.

FINDINGS:

11. The Licensee has tried to justify the 98% recovery was achieved by it and only Rs. 8 billion amounts remained pending. Out of which, 5.6 billion rupees were outstanding against 475,796 defaulters having one month age for which it could not disconnect the supply as per SOP. The Licensee has further claimed that efforts are being made to cover this gap during current financial year.

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12. The Licensee has further emphasized that the recovery was declined mainly due to less collection from Govt. Departments for which efforts were taken like issuance of notices, conduction of various meetings, advertisement of department wise default amounts through print/electronic media, disconnection of power supplies, etc. The Licensee has also drawn attention towards the difference of payment to be paid by Federal Government as grant against AJK receivables which are around Rs. 45.352 Billion.

13. The submissions of the Licensee have been gone through and it is observed that recovery is an ongoing process and amounts could be collected in arears. Apparently IESCO's arguments could be acknowledged, as the reason given by the Licensee seems appropriate.

14. Upon inquiry regarding arrears collection by the Authority, the Licensee has submitted the details of last 03 years by clearly stating the opening and closing balances. The figures indicate that it is an ongoing process and arears of previous year are collected and the same are again pending for next year.

Decision

15. 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 while taking linent view is considering the Licensee's response as satisfactory. Howerver, the Authority is of the considered opinion that the Lisensee should make more efforts to collect arrears too in addition to current dues, Further, the Licensee should have concrete strategy regarding collection from government depratments to achieve the 100% targets.

16. Matter Stands closed.

AUTHORITY

Rafique Ahmed Shaikh Member (Technical)	
Amina Ahmed Member (Law)	Amina Ahmed
Engr. Maqsood Anwar Khan Member (Development)	
Waseem Mukhtar Chairman	

Dated 23 – 10 – 2025

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