



National Electric Power Regulatory Authority
Islamic Republic of Pakistan

Registrar

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No. NEPRA/ADG(L)/LAD-04/18553

November 23, 2018

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

Subject:- **AUTHORITY PROPOSED MODIFICATION IN THE EXISTING DISTRIBUTION LICENCE OF FESCO**

WHEREAS, in exercise of the powers conferred upon the National Electric Power Regulatory Authority (the "Authority") under Section-20 and 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the NEPRA Act), the Authority granted Distribution Licence (No. 02/DL/2002, Dated March 02, 2002) to FESCO;

2. AND WHEREAS, in terms of Section-21 of the NEPRA Act, the abovementioned distribution company under Article-7 read with Schedule-I of its license was allowed exclusivity to provide distribution services, make sale of electric power, make schemes and engage in incidental activities in its service territory;

3. AND WHEREAS, with the amendment in Section-21 of the NEPRA Act through NEPRA Amendment Act, 2018, the exclusivity of distribution companies to provide distribution services in their service territory has been omitted with the object to encourage participation by more market players to enhance efficiency to ensure better price, quality of service and choice for consumers. Relevant parts of the amended Section-21 are reproduced as under:

21. Duties and responsibilities of distribution licensees. — (1) The Authority may, after such enquiry as it may deem appropriate and subject to the conditions specified, grant a licence for the distribution of electric power.

(2) The licensee shall—

(a) possess the right to provide, for such period as may be specified in the licence, distribution service in the service territory specified in the licence and to frame schemes in respect of that service territory.....

4. AND WHEREAS, Section-26 of the NEPRA Act empowers the Authority to amend, or vary the conditions of any license issued under the NEPRA Act and states that:-

26. Modification. ---- If the Authority is of the opinion that it is in the public interest, it may, with the consent of the Licensee, amend or vary the conditions of any Licence issued under this Act and in the absence of Licensee's consent, the Authority shall conduct a public hearing on whether the proposed amendment or variance is in the

public interest and shall make a determination consistent with the outcome to this hearing.

5. AND WHEREAS, keeping in view the new market structure/reforms under the amended NEPRA Act, it is in the public interest as specified in the Section-26 of the NEPRA Act read with Regulation-10 of the National Electric Power Regulatory Authority Licensing (Application and Modification Procedure) Regulations, 1999 (the "Regulations"), to modify the terms of existing distribution licenses;

6. NOW THEREFORE, the Authority pursuant to sub-regulation-1(a) of Regulation-10 of the Regulations hereby communicates the text of the Authority Proposed Modification of the following relevant Article of the license:-

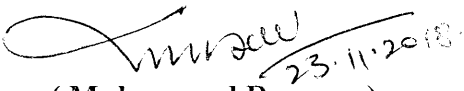
Article-7

Duties and Responsibilities of the Licensee

The Licensee shall during the term of the License, provide distribution service in the service territory and frame schemes in respect of that service territory as per provision of Article 3.2(i). The Licensee shall also make sales of electric power, make schemes and engage in incidental activities in the territory as a deemed supplier in terms of Section-23E of the Amended NEPRA Act.

7. Pursuant to sub-regulation-1(b) of Regulation-10 of the Regulations, the statements of the reasons in support of Authority Proposed Modification are that Section-21 of the NEPRA Act has been amended to foster competition in the power sector by removing the exclusive right to provide distribution services in a given service territory. It is imperative to note that the said statutory provision is effective from the date of amendment i.e. May 2, 2018 without any conditionality and deferment and therefore, existing distribution licenses are required to be modified immediately to bring consistency with the statutory provisions of the amended NEPRA Act and implement the market reforms introduced there under in letter and spirit.

8. You are therefore required to send your response on the Authority Proposed Modification either affirming or denying the modification within fourteen (14) days of the receipt of this communication. In the event of your failure to convey your response within the stipulated period, it shall be construed that you have no objection to the Authority Proposed Modification and the Authority will proceed accordingly.


(Muhammad Ramzan)
Director



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OFFICE OF THE
CHIEF EXECUTIVE OFFICER
FESCO FAISALABAD

No. 436-37 (MT&CM)

Dated: 12-12-2018

Input

For information of M/A

- ADG (L)
- SA (Tech) - DG (M&E)
- LA (L) - MF

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*Chairman
M(G)/M&E
M(L-)
M(S&M)*

✓ **Mr. Muhammad Ramzan, Director**
National Electric Power Regulatory Authority
Atta Turk Avenue (East),
G-5/I, NEPRA Tower,
Islamabad.

Subject: **AUTHORITY PROPOSED MODIFICATION IN THE EXISTING DISTRIBUTION LICENSE OF FESCO.**

Reference: Your office letter No. NEPRA/ADG(L)/LAD-04/18553 dated 23.11.2018.

FESCO is a leading Power Distribution Company amongst other Distribution Companies and serves in 08 Districts of Punjab Province. FESCO is a licensee of NEPRA and distributes / supplies electricity to about 4.03 Million customers under Distribution license granted by NEPRA pursuant to Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (NEPRA Act). All possible efforts are made by FESCO for provision of un-interrupted supply of electricity to its consumers and provide quality services in its territorial jurisdiction specified in Distribution License granted by NEPRA on 02.03.2002. The reservations of FESCO on the Proposed Modification in the existing Distribution License of FESCO solicited by NEPRA on the above subject vide above referred letter is received in FESCO on 30.11.2018, are as follows inter-alia others:-

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- i. The ~~existing~~ NEPRA Guidelines for determination of Consumer End tariff (Methodology and Process) 2015 does not contain any Tariff Methodology to cater for the new situation after the proposed license modification of FESCO. Without pre-defined and understandable Tariff Methodology, the proposed modification will add to the impasses of the Sector.
- ii. FESCO own and operate the entire distribution networks in its service territory with the required workforce for carrying out the distribution business mandated by NEPRA in the distribution license. To keep its system capable of providing safe and secure electricity, FESCO has to incur the required ~~fixed cost~~ (Distribution Margin) being recovered from the consumers. ~~Allowing others to sell in the service territory or exit of big consumers from the FESCO network would result in lower electricity sales and higher distribution cost per unit.~~
- iii. The Pay & Allowances of the employees are governed by the National Pay Scales of the Federal Government and majority of the existing employees enjoying permanent positions liable to grant of retirement benefits. Any increase in Pay & Allowances and retirement benefits by the Federal Government is automatically passed on the employees and pensioners. Further, the proposed modification may ~~cause reduction~~ in the existing employees. The ~~retired pensioners~~ of FESCO would also suffer. Therefore, it would be more appropriate to settle all such like issues before going for the modification to avoid litigations.

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- iv. ~~The fate of existing Power Purchase Agreements (PPAs) between IPPs and NTDC/CPPA-G (on behalf of DISCOs) needs to be decided well in advance before making the proposed modification.~~ FESCO would go for new bilateral contracts with the Power Producers and be accountable for its demand projections as well. Therefore, the Company would require intense capacity building in the areas of power planning, forecasting, Commercial, Finance, contract management and legal for which it has no readiness at this stage. ✓
- v. ~~Mechanism for settlement, invoicing and payment of bilateral contracts directly between the power producers and FESCO needs to be formulated in advance.~~ ✓
- vi. The existing structure and autonomy of FESCO is not compatible to the competitive market as a result of proposed modification. The decisions of the governments are influenced by both political and socioeconomic considerations. These often overshadow commercial decision-making, and result in a reluctance to pass on the full cost of electricity to customers. ✓
- vii. There are litigations by the consumer against the bills served by FESCO for various reasons. The existing Consumer Manual fail to address the situation and the recovery is hampered. The Consumer Manual shall be commensurate with the proposed changes. ✓
- viii. The performance Standards (Distribution Rules) 2005 shall be updated to keep pace with the new environment before the proposed modifications. ✓
- ix. The existing obligations among the CPPA-G, WAPDA, NTDC and DISCOs involving billions of Rupees needs to be settled before the proposed modifications. The credit based transactions among these entities may be stopped. ✓
- x. The outstanding subsidies and arrears towards the Federal and Provincial Governments shall be made clear before the proposed modifications. ✓
- xi. The Proposed Modification in the License of FESCO already granted will provide space to consumers of FESCO for misuse of tariff, therefore, NEPRA will not safe guard the interest of consumers as well as FESCO in its viability to meet with the universal services obligations. Allowing consumers of FESCO to purchase a desired quantum of electricity from other supplier without discontinuing the supply taken from FESCO will not only be detrimental to FESCO but also consumers themselves as well as NEPRA. ✓
- xii. The Proposed Modification will allow the other companies to sell electric power to the consumers of FESCO. As a result of which supply Contract, approved by NEPRA in Consumer Service Manual (CSM) will be infringed attached at the Annex-1, which is highly injurious to the interest of FESCO. ✓
- xiii. The Proposed Modification will violate the earlier affidavit provided by the consumers as per NEPRA approved (CSM) that no connection exists previously at the premises for which connection applied for. ✓
- xiv. It is apprehended that the Proposed Modification will support the consumers to avert connection charges or other incidental charges required for getting independent feeder and grid station by managing the MDI

recorded because of having option of dual source of supply. These charges are mandatory to maintain the parameters of the system within permissible limit for other general consumers to meet the Performance Standard Distribution Rules-2005.

- xv. The obligation of FESCO to reserve the power in accordance with the sanctioned load, will not be met with appropriately to keep a huge quantum of power reserved. However Proposed Modification will not allow FESCO to sanction new industrial connection at these grid stations. FESCO will get meager amount in shape of fixed minimum charges, therefore, FESCO will face revenue loss. This will affect the distribution margin of FESCO and ultimately will cause the burden on the FESCO consumers.


(Engr. Nazim Ahmed Soomro)
CE/Chief Commercial Officer
FESCO Faisalabad

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1. SO to Chief Executive Officer FESCO Faisalabad, for information.
2. Master File