



National Electric Power Regulatory Authority
Islamic Republic of Pakistan

Registrar

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No. NEPRA/ADG(L)/LAD-06/18549

November 23, 2018

Chief Executive Officer
Multan Electric Power Company Limited (MEPCO)
MEPCO Headquarter, Khanewal Road
Multan

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

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. 06/DL/2002, Dated April 25, 2002) to MEPCO;

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:-

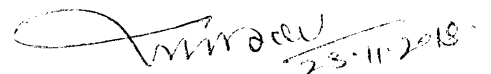
Article-7

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

Received through Fax



MULTAN ELECTRIC POWER COMPANY LIMITED

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OFFICE OF THE
FINANCE DIRECTOR

NO. /FDM/BS/Tariff/ 21076-82

08 JAN 2019
Date: 01/2019

The Registrar NEPRA,
NEPRA Tower, Atta Turk Avenue (East),
G-5/1, Islamabad.

Attention: Mr. Muhammad Ramzan (Director) NEPRA

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

Ref: Your office letter No. NEPRA/ADG(L)/LAD-06/18549 dated: 23.11.2018.

The requisite comments as required vide above referred letter are enclosed for necessary action please.

For Mian Anwar
- ADG (L) -
- LA (L) -

DA/02 Nos. Pages

- SA (Tech) - SA T-I

- DG (M&E) -

- DRD/DRG - I/MF

09.01.19
cc: Chairman
MD/M(M&E)
M(CA) - M(LD)

8/1/19
Mian Anwar Mahmood
Finance Director

C.C to: -

1. The Joint Secretary (PF), Ministry of Energy, Block-A, Pak Secretariat, Islamabad for information please.
2. The SO to CEO MEPCO Ltd., Multan for information please.
3. The Director General (Finance) PEPCO, 712-WAPDA House, Lahore for info please.
4. The Chief Engineer O&M (Dist.), MEPCO Ltd., Multan.
5. The Chief Engineer/CSD, MEPCO Ltd., Multan.
6. The Director (L&L), MEPCO Ltd., Multan.

} For information with respect to our meeting dated 08.01.2019 please

14/01/19
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REGISTRAR
Dy. No.: 313
Date: 09-01-19

COMMENTS IN THE MATTER OF AUTHORITY PROPOSED MODIFICATION IN THE EXISTING DISTRIBUTION LICENSE OF MULTAN ELECTRIC POWER COMPANY (MEPCO) LTD.

The Article 7 of MEPCO's Distribution License (No. 06/DL/2002 dated 25th April, 2002) exclusively allowed / authorize MEPCO to provide distribution services, make sale of electric power, make schemes and engage in incidental activities in its service territory.

Under the NEPRA (Amendment) Act 2018, the definition of distribution has been amended to omit sale of electric power and distribution means only delivery of electric power. For sale of electric power new terms "Supplier of Electric Power" has been introduced and exclusive rights given earlier to distribution companies have been taken away with the purpose of encouraging participants to act as Supplier of the electric power.

In this regard, NEPRA has proposed modification in Distribution License of MEPCO. The text of proposed modification in Article-7 of Distribution Licenses (No. 06/DL/2002 dated 25/04/2002) is as under:

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 provisions 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."

It is worth mentioning here that NEPRA has issued distribution licence for the period of twenty years which will be expired in 2022, all the terms and conditions mentioned in the licence are fully binding effect on the licensee as well as the regulator. It is a well settled principle of law that any amendment in any act, rules and regulations will take effect immediately nor with retrospective effect until and unless it is specifically mentioned in the amended act rules and regulations that such amendment would take effect retrospectively. In the present case no such specific provision has been provided in the amended act so at this stage any modification in the licence has no legal sanctity as well as no legal effect at all. However, in response to your letter initial comments are given as under:

1. The statement of the reasons in support of the modification under section 10(b) of NEPRA Licencing (Application and modification procedure) Regulations 1999 does not comply with the provisions of section 5 of the said regulations.
2. The demarcation point of electric power between distributor of electric power and supplier of electric power has not been specified in the act. However, it is suggested that Common Delivery Point between distributor and the supplier of electric power should be 132KV level; it will shift responsibility of administrative losses to the supplier of electric power instead of the distributor.
3. The mechanism of cross subsidy will either reduce drastically or be eliminated altogether after this amendment and entrance of different suppliers of electric power.
4. The modification will allow the private parties to be "Supplier of Electric Power" which will affect the socio economic problems in the country. The investors will attract the good

consumers located in the well settled areas whereas the DISCOs will have to serve the far flung and less profitable or no profitable areas, which will further increase pressure on poor consumers and detrimental to the concept of level playing field for the DISCO and its consumers.

5. Distribution is a natural monopoly because it is not possible for all the suppliers of energy to setup its own distribution system, if it is so, then it will not be feasible for Supplier of the last resort (DISCOs) to maintain its distribution system in the presence of separate pockets of distribution systems.
6. The socio economic purpose of facilitation for all consumers at affordable price will not be achieved due to scattered consumer ship and shift of cream to private sector, which will add losses to the DISCOs financial statements.
7. The responsibility of losses to be shared between the distributor and the supplier are not clear. In case that T&D losses are charged to the distribution companies, then it will drastically lead to the poor financial condition of these companies.
8. The arrival or departure of a supplier should involve some criteria with defined length of period. The introduction of supplier of electric power will also create a serious human resource problem in DISCOs. If a supplier enters or leaves into a specific area, where the consumers are to be served by distribution company, then ensuring the availability of staff will be a great issue.

In the light of above it is evident that this major deviation requires rules and regulation (as per Amended Act of 2018) for DISCOs, generating companies and the suppliers. In absence of such rules and regulations the comments are just a faint overview of the situation and MEPCO reserves the rights to convey any further comments if required in future.