



Registrar

# National Electric Power Regulatory Authority Islamic Republic of Pakistan

NEPRA Tower, Attaturk Avenue (East), G-5/1, Islamabad  
Ph: +92-51-9206500, Fax: +92-51-2600025  
Web: www.nepra.org.pk, E-mail: registrar@nepra.org.pk

No. NEPRA/TRF-329/FESCO-2015/9769-9771  
July 1, 2016

**Subject: Decision of the Authority in the matter of Request for Reconsideration pertaining to the Tariff Determination dated December 31, 2015 and Review Decision dated May 11, 2016 with respect to FESCO for the FY 2015-16 to 2019-20 under Section 7 & 31(4) of NERPA Act 1997 read with Rule 17 of the NEPRA Tariff (Standards & Procedure) Rules, 1998 [Case # NEPRA/TRF-329/FESCO-2015]**

*Reference: Ministry of Water & Power letter No. nil dated 26.05.2016.*

Dear Sir,

Enclosed please find herewith the subject Decision of the Authority (14 pages) in the matter of Ministry of Water & Power's Request for Reconsideration pertaining to the Tariff Determination dated December 31, 2015 and Review Decision dated May 11, 2016 with respect to FESCO for the FY 2015-16 to 2019-20 under Section 7 & 31(4) of NERPA Act 1997 read with Rule 17 of the NEPRA Tariff (Standards & Procedure) Rules, 1998.

2. The Decision is being intimated to the Federal Government pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997).

Enclosure: As above

(Syed Safer Hussain)

Secretary  
Ministry of Water & Power  
'A' Block, Pak Secretariat  
Islamabad

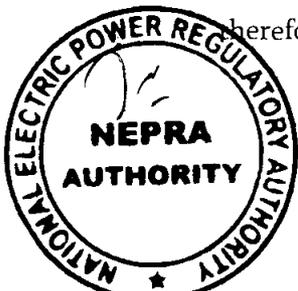
CC:

1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.



**DECISION OF THE AUTHORITY IN THE MATTER OF REQUEST FOR RECONSIDERATION  
PERTAINING TO THE TARIFF DETERMINATION DATED DECEMBER 31, 2015 AND REVIEW  
DECISION DATED MAY 11, 2016 WITH RESPECT TO FESCO FOR THE FY 2015-16 TO 2019-20  
UNDER SECTION 7 & 31(4) OF NEPRA ACT 1997 READ WITH RULE 17 OF THE NEPRA TARIFF  
(STANDARDS & PROCEDURES) RULES, 1998**

1. As per Section 31 (4) of the NEPRA Act, notification of the Authority's approved tariff, rates, charges and other terms & conditions for the supply of electric power services by the generation, transmission and distribution companies is to be made in the official gazette by the Federal Government.
2. Faisalabad Electric Supply Company Limited (FESCO)'s multiyear tariff was determined in accordance with the procedure provided under NEPRA Tariff (Standards & Procedure) Rules, 1998 vide a decision No. NEPRA/TRF-329/FESCO-2015/18462-18464 dated December 31, 2015. The same was intimated to the Federal Government under Section 31(4) of the NEPRA Act, for its notification in the official gazette.
3. FESCO, being aggrieved with the aforesaid determination, filed a Motion for Leave for Review (MLR) which was accordingly disposed-off vide determination No. NEPRA/TRF-329/FESCO-2015/6369-6371 dated May 11, 2016. The MLR decision was also intimated to the Federal Government under Section 31(4) of the NEPRA Act for notification in the official gazette.
4. Under the first proviso to the Section 31(4) of NEPRA Act, 1997, when a tariff is intimated by NEPRA to Federal Government for notification in the official gazette, the same is to be notified within 15 days or alternatively; a re-consideration request could be filed by the Federal Government within 15 days of receipt of such determination or decision; whereupon the Authority has to determine the same a new within 15 days.
5. In the instant case, the tariff determination was intimated by the Authority on December 31, 2015 and the reconsideration request, if any, should have been filed within 15 days from the date of such intimation. The instant reconsideration request was not filed within the statutory period, however, in order to meet the ends of natural justice, the delay was condoned and the request was admitted on May 30, 2016. Although, there is no specific requirement in section 31(4) of the NEPRA Act, 1997 to conduct any hearing for the consideration of re-consideration request, yet it was decided to conduct a hearing on 14<sup>th</sup> of June, 2016 for which notices were sent to all the parties which participated at the time of determination of tariff dated December 31, 2015.
6. A request was filed on behalf of the Federal Government for adjournment of hearing, which was acceded to by the Authority. Since it was a statutory requirement for NEPRA to decide the reconsideration request within a period of 15 days from the date of filing of the request, therefore, hearing was again rescheduled for June 30, 2016 for which due notices were sent to



*[Signature]*



the parties. In the meanwhile, orders dated 23.06.2016 passed by Lahore High Court Multan Bench in Writ Petition No. 6565/2016 were received whereby it was directed by the Court that NEPRA should decide the request filed by the Federal Government within 7 working days. However, on the evening of 29<sup>th</sup> of June, 2016, written requests were filed by a couple of distribution companies for the adjournment of hearing which were declined owing to the reason that the request for "reconsideration" was filed by the Federal Government and not the distribution company. However, when the case was called for hearing on 30<sup>th</sup> of June, 2016, Mr. Furqan Naveed, Advocate appeared on behalf of Federal Government and intimated that his senior Counsel Mr. Munawar Ul Islam is busy somewhere, therefore, the hearing may be adjourned. A written request from the Federal Government dated 30<sup>th</sup> June, 2016 was also received wherein it was requested for adjournment of hearing. In the request, it was inter-alia mentioned that some documentary evidence will be produced for which, time is required. Having considered the request, the Authority is of the view that the reconsideration request should had been filed along-with all necessary documents; no further evidence is required to substantiate the reconsideration request; there is no plausible ground mentioned in the request for adjournment; that earlier the matter was adjourned as per request of the Federal Government and further adjournment was not warranted; that under section 31(4) of the NEPRA Act, 1997, the reconsideration request is required to be decided by the Authority within 15 days and such time stood already lapsed and that there are written directions from Honorable Lahore High Court Multan Bench Multan to decide the reconsideration request within 7 working days, therefore, the request for adjournment was declined. Here it would be pertinent to mention that the orders dated 23.06.2016 in WP 6565/16 was passed by the Honorable Lahore High Court Multan Bench "with the concurrence of parties". The representative of the Federal Government was present before the Court at the time of passing of orders dated 23.06.2016 whereby the reconsideration request was ordered to be decided within 7 working days which period to be expired on 1<sup>st</sup> of July, 2016, therefore, the request of adjournment on behalf of Federal Government is prima facie may be an attempt to defeat the orders of the Court which were passed in concurrence of the Federal Government.

7. In response to the notice of hearing; following comments inter-alia were filed on behalf of All Pakistan Textile Mills Association (APTMA) and M/s Anwar Kamal Law Associates who were party to the proceedings in the impugned tariff determination:-
8. APTMA
  - i. The Reconsideration Request did not provide any new arguments / grounds to justify revision of T&D losses target. Federal Government, instead of castigating the FESCO for non-compliance of Authority's direction regarding completion of T&D losses study, wishes to reward the DISCOs to operate more inefficiently by increase in T&D losses and to counter defeat its goals. In view thereof, the Intervener requested the Authority to revise the T&D





losses target downward to 7.80% to 8.3% being weighted average of T&D losses, if the findings of the study are applied with the quantum of sales at different voltage levels but in any case should not exceed beyond the level of 9.13% for the FY 2015-16.

- ii. The request of the Federal Government on the issue of Prior Year Adjustment (PYA) is not supported with any calculations; rather qualitative sweeping statement has been made that the impact of fuel price adjustment is being passed on to the customer twice. Instead of providing any detailed calculations, Federal Government has repeated the old grounds. In fact FESCO in its petition admitted to recover excess amount in FY 2014-15 which prima facie indicates NEPRA's assessment is correct. If the Federal Government's view that PYA calculation methodology has error which needs to be corrected is agreed to, then all the PYA issued to-date by NEPRA have to be reopened since the same methodology was being used in the past.
- iii. NEPRA assumption of 100% revenue collection is in line with the global practices in the power utilities. FESCO revenue collection from the Private Consumers has always been around 100%, however, if the Revenue Collection from Government customers is below 100%, the cost of uncollected bills due to inefficiency of FESCO management cannot be passed on to the paying consumers.
- iv. In view thereof, the Intervener requested to dismiss the Federal Government reconsideration request. The Intervener also mentioned to initiate separate proceeding inviting all stakeholders in public hearing for review and discussion of the current methodology used by NEPRA for determination of PYA and T&D losses target.

9. ANWAR KAMAL LAW ASSOCIATES (AKLA)

- i. Sufficient time has not been provided before the hearing;
- ii. The Reconsideration Request is barred by the time;
- iii. NEPRA may include a table in the determination in the matter of PYA showing all factors which contribute towards the PYA to make it more simple, easier and reader friendly;
- iv. Delayed in determination and notification of consumer end tariff contributes towards PYA;
- v. Technical losses in all DISCOs must be in the range of 6-7%, whereas, impact of administrative losses being DISCOs mis-governance and mismanagement should not be passed on to the consumers. No improvement has been witnessed in T&D losses despite charging of billion of rupees from the consumers in the name of investment;





- vi. At present the consumers are paying for lost units and also the burden of bad debts. Now the Government through the Reconsideration Request wants to burden the consumers with the mis-governance and mismanagement of DISCOs recovery;
- 9.1 Though no representation was there on behalf of AKLA, yet after considering the points raised by AKLA, the observations of the Authority are as under:-
- i. The Authority on the point of not allowing sufficient time observed that hearing in the matter was initially scheduled on June 14, 2016 for which notice of hearing along-with copy of the Reconsideration Request was sent to the Interveners on June 07, 2016, therefore the plea of AKLA for not having sufficient time for preparation is not correct.
- ii. On the issue of late submission of the Reconsideration Request, the Authority has already condoned the delay in submission of the Reconsideration Request.
- iii. Although the Authority always tries to ensure that its determinations are detailed and elaborative, however the Authority welcomes any specific questions or explanation, if required by AKLA.
- iv. The point regarding delay in determination and notification of the tariff resulting in PYA has already been addressed in detail in the Determination.
- v. Assessment of T&D losses has been deliberated in detail in the original determination as well as in the Motion for Leave for review wherein complete rationale and justification has been provided in this regard.
- vi. The other issues raised by AKLA regarding Upfront Tariff, Grant of Generation Licenses, Monthly FCA of XWDISCOs & K-Electric, Projection Higher Fuel Prices being not relevant to the instant Reconsideration Request are not considered here.

10. Hearing

- 10.1 On the date of hearing i.e. June 30, 2016, Mr. Furqan Naveed, Advocate appeared on behalf of Mr. Munawar Ul Islam, learned Counsel for Federal Government. Mr. Akhlaq Ahmad appeared on behalf of APTMA, however, no representative from AKLA or any of the Distribution Companies was present.
- 10.2 Having considered the available record and hearing of the parties present on 30<sup>th</sup> June, 2016, it may be observed that the Federal Government's request for reconsideration of the tariff determination dated December 31, 2015 is on the following grounds:-

- a. The deduction and quantum of Prior Period Adjustment

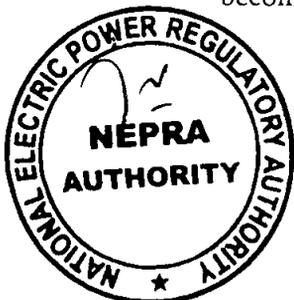




- b. The target for distribution losses be set forth as per the third party technical study and its gradual reduction be as proposed in the petition of MYT linked with execution of investments and its implementation, including arrangement of finances: and
- c. The assumption of 100% recovery be re-fixed as per the sound business practices, ground realities prevalent in Pakistan and including the aspects with respect to area specific situation leading to non-collection by Distribution Companies

11. Prior Period Adjustment

- 11.1 The Federal Government, in its reconsideration request stated that the Authority while determining PYA did not apply the target of distribution loss *assessed* by the Authority for FY 2014-15, causing serious financial hardship to the sector.
- 11.2 It was further stated that FESCO requested for a positive PYA whereas, the Authority based on its own calculations determined a negative PYA of Rs. 16,787 million, which consequently was deducted from the assessed cost for FY 2015-16.
- 11.3 It was further stated that the paragraph No. 30.9 of the determination shows that -quarterly adjustment is on account of the difference between the notified reference PPP during FY 2014-15 quantified as Rs.105,270 million, less regulated PPP recovery on notified rates during the FY 2014-15 quantified as Rs.124,133 million. It was also mentioned in the Federal Government's request that the quantum of regulated PPP recovery on notified rates during the FY 2014-15 fails to adjust / deduct the amount of FPA, same is contrary to the tariff setting mechanism and tantamount to double deduction leading to shortfall in legitimate cost of the distribution company which is contrary to the Act and the Tariff Standard Rules as well as the policy guidelines. It was also stated that the quantum of notified reference PPP adopted for the purpose of calculating PYA is contrary to the assessment of PPP for the FY 2014-15. In view thereof, Federal Government requested the Authority to reconsider the upfront deduction of PYA from the assessed adjusted PPP being contrary to the law and fact.
- 11.4 The Authority while reviewing the Federal Government's contentions on the methodology for the calculation PYA, observed that it has failed to provide any alternative workings which would substantiate its claim and at the same time would refute the Authority's already assessed amount in this regard. The same point was also highlighted by the Intervener.
- 11.5 The argument of the Federal Government to apply *assessed* target of T&D losses while working out the PYA for respective year is not logical, since the assessed regulatory targets do not become binding on the utility unless it is notified with an exception to the assessed Distribution





Margin and prior year adjustment as both represents the fixed cost pertaining to the specific Financial Year. The Authority considers that if the PYA is calculated on the assessed regulatory targets instead of notified regulatory targets for a period, it would be unfair and unjust for the XWDISCOs since they would not be allowed reasonable/ required time for the achievement of the assessed targets. Here it is pertinent to mention that the need for aforementioned calculation methodology would only be required if there is a delay in the notification of the determined consumer end tariff. Further, there has been instances in the past where the assessed regulatory targets of FESCO were more challenging vis a vis the notified targets, on which the PYA was calculated in the matter of all XWDISCOs yet the same methodology was adopted by the Authority. In addition, the Federal Government has itself pleaded in the instant request that if the tariff is notified late it is not left with required time to achieve the targets set by the Authority. In view thereof, the Authority consider it just, fair and equitable to calculate PYA in the matter of XWDISCOs on the notified regulatory targets.

- 11.6 It was also stated in the reconsideration request that use of notified reference Power Purchase Price for the purpose of calculation of PYA is contrary to the assessment of PPP for the FY 2014-15. The Authority considers that PPP is a pass through item. The full recovery of PPP is only ensured if it is calculated as difference between notified reference cost and actual cost. If assessed PPP instead of notified PPP is used it would lead to either over recovery or under recovery of the PPP, thus rendering PPP as non-pass through item. Considering the same analogy, the Authority while working out the monthly Fuel Charges Adjustment (FCA), also uses the notified reference Fuel Cost Component (FCC) instead of assessed reference FCC.
- 11.7 On the point of the Federal Government regarding regulated PPP recovery on notified rates fails to adjust / deduct the amount of FPA and tantamount to double deduction leading to shortfall in legitimate cost of the distribution company, the Authority after careful consideration is of the view that Federal Government while pleading its observation has totally ignored the fact that the regulated PPP recovery on notified rates vis a vis notified reference PPP does not include the impact of FPA in both the aforementioned figures, thereby nullifying the impact of FPA from both these amounts, thus there is no double deduction on account of FPA. It is further clarified that FPA is the difference between actual fuel cost and the notified reference fuel cost i.e. FPA only occurs if actual fuel cost is different from the notified reference fuel cost. In addition to aforementioned, the Federal Government has not substantiated its claim of double deduction with any working, calculation or reconciliation.
- 11.8 In view of the foregoing, the Authority considers that Federal Government has failed to submit any grounds or rationale in support of its request which would provide any basis for the Authority to reconsider its earlier decision in this regard.





12. Assumption of 100% Recovery

- 12.1 The Federal Government in its reconsideration request has mentioned that in order to ensure safe and reliable provision of electric power in the Country, it is of paramount significance that the distribution companies are allowed to recover their revenue requirements (total cost of service), through fair assessment of revenue requirements. Further the Federal Government has stated that if a distribution company fails to recover its revenue requirement, it will not be able to pay its liabilities with respect to power producers which will result in circular debt and non-production of electricity in certain cases.
- 12.2 The Federal Government also stated that the tariff setting mechanism is based on 100% recovery from the consumers of the determined revenue requirement, whereas, presently the sector recoveries are in the range of 85-89% per annum. Resultantly, shortfall always accrues on account of less payment to the power producers leading to circular debt situation, therefore the assumption of 100% recovery be reconsidered by the Authority, keeping in view the sound business practices as well as situation prevalent in Pakistan, including the aspects with respect to area specific situation leading to non-collection by distribution companies. The Federal Government further stated in the reconsideration request that it is also contrary to the Act, rules and regulations as well as the policy guidelines.
- 12.3 In light of the above, the Federal Government has requested to reconsider the Tariff Determination dated December 31, 2015 and Review Decision dated May 11, 2016 of FESCO for the FY 2015-16 to 2019-2020 and to re-issue the schedule of tariff of FESCO, by way of reconsidering the assumption of 100% recovery as per the sound business practices, ground realities prevalent in Pakistan and including the aspects with respect to area specific situation leading to non-collection by distribution companies.
- 12.4 The Authority after careful review of the Federal Government contentions on the issue of recovery is of the view that it has not specifically discussed FESCO's recovery issue in its reconsideration request rather has pleaded it as a general power sector issue, whereby a national range of recovery level is submitted. Here it is pertinent to mention that the recovery figure mentioned includes both i.e. recoveries from private and government. The Authority never disallowed the actual write offs against the private defaulter given that the due process of law has been followed while writing off the receivables. However, the write off against receivables of any Government cannot be allowed considering the fact the Government is a "going concern". The Intervener also highlighted that the recovery of FESCO is 100% from the private sector. The Authority considers that if the provision for doubtful debts is considered at national level it would provide no incentive to the efficient companies, whose recoveries are already





100%. As regard the companies which operate in so called hard areas, the Authority has already taken cognizance of the fact and allowed a margin of law in their T&D losses. Thus, effectively encouraging them to report their actual level of recoveries.

- 12.5 The decision of the Authority for setting 100% recovery is based on the documents required for new connection/extension and reduction of load or change of name in terms of Chapter 2.3 (b) & (h) of the Consumer Service Manual (CSM) and in view of the fact that the risk of credit sales transfers to the third party i.e. Owner of the premises or purchaser of the property as mentioned in Chapter 8 (8.1) of the CSM, reproduced hereunder;

*“a premises is liable to be disconnected if the consumer is defaulter in making payment of the energy consumption charges bill(s), or if he is using the electric connection for a purpose other than for which it was sanctioned, or if he has extended his load beyond the sanctioned load even after receipt of a notice in this respect from DISCOs”.*

- 12.6 Currently DISCOs are functioning in a monopolized environment and in case of default, the connection of the premises, if disconnected, cannot be restored till the outstanding dues are paid and as per the referred Chapter of Consumer Service Manual, thus transferring the risk to the third party who is occupant of the premises. Further the distribution company always has the option to recover the outstanding amount through sale of the property after following the due process of law. In addition to this, at the time of connection, DISCOs also collects one month's billing from the consumers in the shape of security deposits, which also serves as a deterrence for a consumer to default.

- 12.7 On the argument that since presently the sector recoveries are in the range of 85-89% per annum resulting in the shortfall on account of less payment to the power producers leading to circular debt situation, the Authority considers it a pure operational inefficiency on the part of DISCOs.

- 12.8 The Authority in Human Rights case No. 7734-G/2009 & 1003-G/2010 regarding Alleged Corruption in Rental Power Plants and case No.56712/2010 regarding fraud in payment of rental power plants submitted before the Honorable Supreme Court of Pakistan that the Tariff determined by the Authority is free of any inefficiencies and mismanagement on the part of DISCOs and the impact thereof is not passed on to the consumers through tariff.





12.9 The Court under para 84 (ii) and (viii) of its aforementioned decision decided that;

*84 (ii) "The Federal Government/WAPDA/PEPCO/GENCOs had failed to control pilferage of electricity from the system because of bad governance and failure of the relevant authorities to enforce the writ of the Government. Therefore, the Government is required to improve the existing system of generation and transmission of electricity by taking all necessary steps, including clearing of circular debt, etc., so that electricity can be generated to the maximum capacity"*

*84 (viii) ".....In terms of Constitution and Act, 1997, the NEPRA is mandated to safeguard the interests of the consumers, but the concerned officials of NEPRA failed to perform their duties diligently;"*

12.10 The Honorable Court through its aforementioned order has clarified that it is the Federal Government who needs to improve its affairs rather than asking NEPRA to built-in the inefficiencies of the system in the tariff. The Court in fact adjudged NEPRA's failure to protect the interest of the consumers, therefore, passing on inefficiencies of the XWDISCOs / Government to the consumers would be contradictory to the Court orders.

12.11 The Honorable Supreme Court in other Human right cases No.14392/2013 & 790-G/2009 in the matter of unprecedented load shedding and increase in electricity prices under para 36 (ii) decided as under;

*36 (ii). "The competent authority shall take steps to control all kind of losses after supply of the generation like line losses, theft, etc, by using modern devices like introducing smart meters and supplying electricity only to the consumers, if need be, in advance or without any default after submission of the bills. As far as all kind of unauthorized consumers are concerned, efforts should be made to persuade them to make payments of the bills, failing which action as envisaged under the electricity act, 1910, the Electricity Rules, 1937 and NEPRA act, 1997 as well as other enabling laws / rules, should be taken. A policy has to be announced by the NTDC / DISCOs under which this supply of electricity to the consumers to believe in law and make payments in time, if encouraged and supply of unauthorized consumers is discouraged."*

12.12 It is evident from the aforementioned decision, that supply of electricity to the paying consumers has been encouraged, meaning thereby that burden of non- paying consumers may not be passed on to the paying consumers rather the unauthorized consumers be discouraged. Therefore, the request of Federal Government to allow any margin for non-recoveries in the tariff does not merit consideration and if allowed will be in violation of the orders of Honorable Supreme Court of Pakistan as referred above.





12.13 Based on the foregoing arguments, the Authority does not see any grounds to re-consider its earlier decision of setting the tariff based on 100% recovery.

13. T&D Losses

13.1 On the issue of losses, in the reconsideration request, Federal Government stated that historically, DISCOs in their petitions propose T&D losses, based on previous year data and the Authority based on such information and envisaged investments for energy loss reduction sets out the target of distribution losses. It was further pointed out that the Authority's determined T&D losses are always lower as compared to the average power sector losses and that the losses target setting is always for the period which has already lapsed, thus there is no co-relation with the envisaged investments for energy loss reduction during the base period.

13.2 It was also stated in the reconsideration request that the Authority while maintaining the lesser target of losses directed the XWDISCOs to conduct the T&D losses study of their 132KV, 11KV and below network based on reasonable sampling by the independent experts and maintained its assessed level of losses subject to adjustment as per the study.

13.3 The Federal Government further submitted that, the Authority in view of the non-completion of the study within the requisite time frame and while acknowledging the limitations of an operational audit carried out by PDIP (on a very limited sample) and treating the same as the starting point assessed a target for distribution losses not technically possible for the FY 2013-14, which in the review motion was further reduced on the basis of an in-house study. This drastically reduced the distribution losses as mentioned hereunder, resulting in additional shortfall of Rs.45 billion less recovery of adjusted PPP for all the XWDISCOs:

Year	Losses Target by Authority	Actual Losses
2012-13	16.00	18.76
2013-14	13.02	18.60

13.4 The Federal Government further mentioned that the matter was considered by ECC, leading to policy guideline by the Federal Government to the Authority that the losses of DISCOs be reflective of the system losses however, the Authority recommended to conduct the third party technical studies for ascertainment of distribution losses. The Federal Government delineated that in the subsequent determination for the FY 2014-15 distribution losses was assessed at 9.50% by the Authority.

13.5 The Federal Government also stated in the reconsideration request that for the Multi Year Tariff (MYT) petition for the FY 2015-16 to 2019-20, FESCO submitted the technical study carried out by the independent third party, approved by the Authority, for 132 KV and 11 KV



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and below thus the direction of the Authority and requirement with respect to the policy guidelines of the Federal Government was complied with. The Federal Government also stated that FESCO requested a T&D losses target of 10.00% for the FY 2015-16 which gradually reduces to 9.98% by the end of the control period i.e. FY 2019-20, therefore, keeping in view the previous determinations as well as the policy guideline and the position of the Authority with respect to third party report of technical losses, it was only logical that the third party technical study should have been adopted for the purposes of assessment of the technical losses and also the same should have been adopted for the adjustments in the previous years, as previously decided by the Authority. However, the Authority disregarded the study being incomplete i.e. not 100%. The Federal Government further stated that the technical study on sample basis ranging from 25% and above (e.g., in case of FESCO it is more than 47% of 11KV) by third party independent expert, was submitted by the distribution companies therefore, this aspect needs reconsideration, as it is not only contrary to previous position of the Authority but is also contrary to the established position for such kind of studies and also contrary to the policy guideline of the Federal Government.

- 13.6 It was further stated in the reconsideration request that being a MYT Petition, it was proposed that the target for losses, keeping in view the IGTDP, be gradually reduced in five years, however, the Authority declined the proposed plan and instead determined an overall reduction of quantum of losses commencing from FY2016-17, which is not technically possible to be achieved and is contrary to all the established practices.
- 13.7 The Federal Government in view thereof has requested for reconsideration of the above assessments keeping in view the fact that period has already lapsed and the investment which has been made basis for reduction plan may or may not materialize and therefore the impact built in on account of envisaged investment needs to be considered and made flexible for the tariff control period. The Federal Government also highlighted the adverse financial implication in this regard on account of the target set by the Authority for the previous years and to the extent of FESCO amounting to Rs.1.40 Billion for the FY 2015-16 and in aggregate Rs.23.911 Billion for FY 2015-16.
- 13.8 The Authority has observed that the Federal Government has requested to set the loss target as per the third party technical study whereas as per the statement annexed to the Reconsideration Request, the financial impact of losses has been worked out based on the T&D losses target requested by FESCO in its Petition. Thus, there is contradiction in the request of Federal Government for which no clarification/justification has been provided, with respect to the difference between the requested loss level and the loss level recommended in the study.
- 13.9 On the contention of assessing lower target of T&D losses in the matter of distribution companies as compared to its actual level of T&D losses, the Authority is of the firm view that the actual reported level of T&D losses of XWDISCOs include the impact of inefficiencies, poor governess and theft etc. and the Authority's assessment in this regard has always been based on





the principle of prudence, which ensures that consumers are not burdened with the costs that arise due to XWDISCOs inefficiencies and poor management. That is the reason why the assessed level of T&D losses has always been lower than the actual reported level of T&D losses in the matter of DISCOs.

- 13.10 It is pertinent to mention here that the Authority in its determination in the matter of review motion of FESCO for the FY 2013-14 increased the allowed level of T&D losses to 9.5% as compared to 9.13% allowed in the original determination for the FY 2013-14. Thus the claim of the Federal Government regarding reduction in target of T&D losses of FESCO in the review motion for the FY 2013-14 is not correct.
- 13.11 The Federal Government's contention regarding non-correlation of investment allowed and target assessed in terms of reduction of T&D losses, owing to the fact that the relevant period always stands lapsed, is not maintainable as the Authority's determination only becomes effective for the period after its notification. That is the reason why PYA is always calculated on notified targets of T&D losses and allowed investments.
- 13.12 The Authority keeping in view the increasing gap between the assessed and the actual level of T&D losses, the issue of overbilling & theft directed all the XWDISCOs to conduct study of its distribution network 132KV, 11KV and below by an independent expert.
- 13.13 FESCO failed to comply with the Authority's direction as it only submitted a partial study. The Authority in view thereof decided to maintain the level of T&D losses of the FESCO for FY 2015-16 i.e. 9.50% to be considered as base line for setting future T&D losses target of the during the control period. Further, during the proceedings of FESCO's Motion for Leave for Review of its MYT determination, FESCO submitted that with increase in the sample size of study from 45% to 62%, its distribution losses have reduced from 10.29% to 9.49%, thus reducing the overall T&D losses as per study from 12.84% to 12.04%. Considering the fact that the level of T&D losses of distribution network may vary with the change in sample size, as evident from the status presented by the FESCO in the MLR hearing, the Authority decided not to rely on the intermediate results of the study, and decided that it may consider the results of the study once it is complete and the Authority is satisfied with quality of study.
- 13.14 The Authority further in the matter of other XWDISCOs and FESCO as well, in order to evaluate the quality of studies conducted, held meetings with the representatives of the consultants wherein it was observed and also agreed by the consultants that losses in an electricity distribution company can be accurately measured only through metering equipment at different voltage levels from high voltage (132 kV) to the consumer-end and the results of the studies depend on the set of approximations which can exactly replicate the actual operational conditions over different periods. It was also observed that the results of the studies depend on the suitability of the software being used for the studies, size of the database and comparing results of the study with actual in-field monitoring and data collection. The consultants used PSSE software for analyzing 132 kV losses. PSSE software a standard software for simulation studies however it was noted that system operational conditions under different





periods were not modeled adequately. For 11 kV feeder level studies, Synergy software was being used which is a refined version of FDRANA which was used by the XWDISCOs earlier, for evaluating loading position of individual feeders for making improvements and/or induction of new feeders. It was observed that although the software may allow accurate modeling of a feeder it cannot be considered as ideal software for calculating the losses of all feeders collectively. The XWDISCOs did not appear to have clear criteria for selecting sample feeders for the studies as only general guiding instructions were provided to the consultants by the XWDISCOs. For the low voltage analysis also, it was noted that the XWDISCOs and the consultants did not develop a clear criteria and guidelines for selecting the samples. Most importantly the consultants failed to corroborate its results by putting up metering equipment and measuring actual losses over selected circuits at high voltage and low voltage levels. It was also noted that modeling of loads at different voltages is also very important in addition to the accuracy of data. No clear statements were available that the XWDISCOs carried out detailed scrutiny of the data and modeling of loads. The Authority in view thereof directed the FESCO to submit its complete study. However, FESCO has not yet submitted any response in this regard.

- 13.15 Here it is pertinent to clarify that the Authority's referred decision of the past by GoP with respect to the review of assessed T&D losses, the review if any would be done on prospective basis and not on retrospective basis. However in case of MYT decision dated December 31, 2015 the relevant para 11.11 is self-explanatory.
- 13.16 The Authority has discussed in detail the assessment of T&D losses under para 11 of the MYT determination and para 4 of the subsequent MLR decision of the FESCO for the FY 2015-16 to FY 2019-20 wherein complete rational / basis have been provided for setting the target of T&D losses.
- 13.17 The Authority considers that the Federal Government reconsideration request to reconsider T&D losses has failed to submit any ground or rationale in support of its claim which would provide any basis for the Authority to review its earlier decision in this regard.
14. Having considered the respective contentions of the Federal Government contained in the "reconsideration request", perusal of the record and hearing and considering the points of view of the interveners, the Authority observed that Federal Government failed to substantiate its reconsideration request through any evidence or rational; which may form any basis for the Authority to reconsider its earlier determination in this regard; therefore, the reconsideration request of Federal Government is declined.



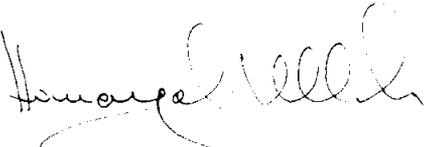


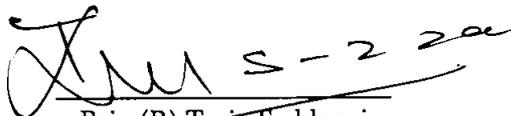
Decision of the Authority in the matter of request for reconsideration filed by  
GoP with respect to the consumer-end tariff of Faisalabad Electric Supply  
Company Limited (FESCO) for FY 2015-16 to FY 2019-20

AUTHORITY

  
Syed Masood-ul-Hassan Naqvi  
Member

  
Maj (R) Haroon Rashid  
Member

  
Himayat Ullah Khan  
Vice Chairman

  
Brig (R) Tariq Saddozai  
Chairman



  
1-7-16