

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY

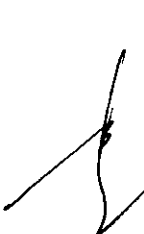
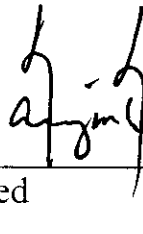
DISTRIBUTION LICENCE NO. 03 /DL/2002

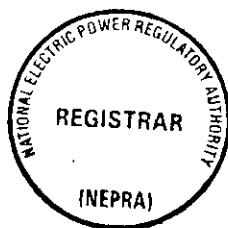
In exercise of the powers conferred on the National Electric Power Regulatory Authority under Section 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (XL of 1997), the Authority hereby grants a Distribution Licence to



Lahore Electric Supply Company Limited incorporated under the Companies Ordinance, 1984 under Certificate of Incorporation No. L09415 dated 18-02-98

to engage in the distribution service and to make sales of electric power to the consumers in the Service Territory and the Concession Territory subject to and in accordance with the terms and conditions of this Licence.

Issued under my hand at Islamabad this 1st day of April two thousand and two.



1.04.2002
Signed





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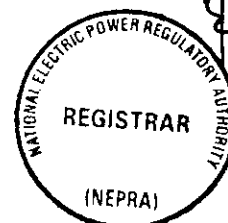


Article 1

Save as expressly provided otherwise the provisions of the National Electric Power Regulatory Authority Licensing (Distribution) Rules 1999 (hereafter referred to as "Rules"), as amended from time to time, shall apply to this Licence.

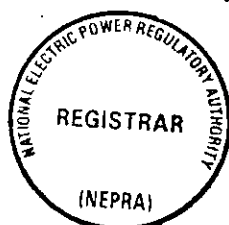
Article 2 Definitions

- 2.1 Unless there is anything repugnant in the subject or context and save as expressly defined hereafter, words and expressions used in this Licence bear the respective meanings given thereto in the Act or in the Rules.
- 2.2 Subject to Article 2.1:
- i. "Act" means the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (XL of 1997).
 - ii. "Authority" means the Authority constituted under Section 3(1) of the Act
 - iii. "Concession Territory" means the territory outside the Service Territory of the licensee defined by the administrative/geographical boundaries as delineated in Schedule-I to this Licence.
 - iv. "licensee" means Lahore Electric Supply Company Limited, and shall include its permitted successors and assigns;
 - v. "Small Power Producer" means owner of a generation facility of below 100 MW gross capacity, who was engaged in generation and sale of electric power as on 22nd April, 2000 and who has not signed any power purchase agreement with WAPDA or KESC or an implementation agreement with the Government of Pakistan.



Article 3 Grant of Licence

- 3.1 This Licence is granted to the licensee to engage in the distribution business within the Service Territory. All disputes relating to the Service Territory shall be decided by the Authority.
- 3.2.(i) The Service Territory of the licensee shall extend upto eight Km on either side and tail end points of its existing 11 kV distribution system as shown in Schedule I to this Licence. This Service Territory shall stand extended on expansion of the licensee's 11 kV distribution system within its Concession Territory as indicated in Article 3.2(iii) below; Provided that the Service Territory shall not include the following :
- (a) area in use of the Armed Forces for defence purposes for which an authorization by the Authority for distribution of power purchased at one or more points for consumption within its own area has been provided. The Authority shall issue such an authorization on a case to case basis. Appropriate compensation to the licensee as determined by the Authority shall be provided in such cases where applicable.
 - (b) areas in the use of housing colonies, plazas/complexes, and other bulk purchasers, at the option of the organizations or bodies representing the occupiers or owners thereof, which were already operating their own distribution systems within the said areas on the date of issue of this Licence.
 - (c) an area restricted to three meters on either side of the Small Power Producer's distribution system as set out in the generation licence issued to a Small Power Producer where the Small Power Producer opts to apply for a distribution licence.
- 3.2.(ii) Without the prior approval of the Authority the licensee shall not change or alter the arrangement, as it existed on the date of the issuance of this Licence, for the supply of electric power to the areas referred to in clauses (a) and (b) of Article 3.2(i)
- 3.2.(iii) The Concession Territory of the licensee shall comprise the area defined in Schedule-I. The licensee shall have the first right of



refusal of distribution services within its Concession Territory. The licensee shall plan its distribution system expansion within its Concession Territory. An area where the licensee is, despite the request of the owners or occupiers thereof, unable to supply electric power under the Authority's approved terms and conditions within one year, shall at the option of owners or occupiers, stand excluded from the Concession Territory. All disputes relating to Concession Territory shall be decided by the Authority.

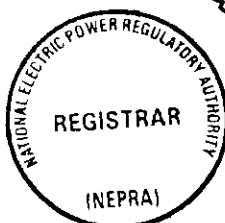
- 3.3(i) The licensee shall provide to the Authority digitized plotting of its distribution system on the maps within two years of the issuance of the Licence in the case of 11 kV distribution system including its sub-transmission network and within three years of the issuance of the Licence in the case of low tension distribution system. The Authority may extend the time required for reasons to be recorded in writing. The licensee shall within 90 days of the issue of this licence provide to the Authority an updated map showing 11 kV distribution system on a 1:50000 scale accurate maps preferably those prepared by Survey of Pakistan, clearly demarcating the extensions made after the system as shown in the maps included in Schedule-I of this Licence. . The licensee shall also on the first day of July of every year provide to the Authority with an updated map showing 11 kV distribution system clearly demarcating the extension(s) made in the immediately preceding year.
- 3.3(ii) The licensee shall furnish quarterly progress report in this regard to the Authority until completion of the digitization process.

Article 4 Licence Fee

The licensee shall pay to the Authority the Licence fee in the amount and manner and at the time set out in Schedule II to this Licence.

Article 5 Term and renewal

The term of this Licence shall be twenty years from the date of the issue of the Licence.



Article 6 Tariff

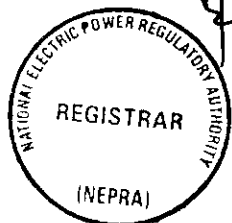
- 6.1 The licensee shall charge only such tariff as is approved by the Authority from time to time.
- 6.2 Pending a new tariff determination by the Authority, the tariff notified by the Federal Government shall apply to the Service Territory of the licensee, provided that, no later than ninety days following the grant of the Licence, the licensee shall file a petition before the Authority for determination of tariff for bulk-power consumers within its Service Territory.
- 6.3 The petition referred to in Article 6.2 shall include a statement of use of system charges and connection charges.
- 6.4 The licensee shall participate in such measures as may be directed by the Authority from time to time for development of a competitive power market structure.

Article 7 Exclusivity

Subject to the provisions of Section 22 of the Act the licensee shall, during the term of this License, have the exclusive right to provide distribution service, make sales of electric power, make schemes and engage in incidental activities in the Service Territory, as per provision of Article 3.2(i).

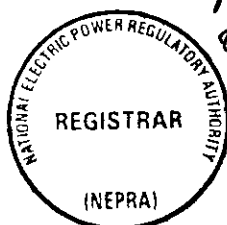
Article 8 Bulk Power Consumers

Bulk Power Consumer means, for the purpose of this Licence, in respect of and within the Service Territory, a consumer who receives or purchases at one premises one MW or more power at any voltage level; Provided that the Authority reserves power to itself to review this threshold for this Licence after three years from the issuance of this Licence; Provided further that an existing consumer of a Small Power Producer with a connected load of not less than 20 kW at the time of application for a Generation Licence by the Small Power Producer is also declared to be Bulk Power Consumer so long as it remains a consumer of the said Small Power Producer.



Article 9
Use of system and obligation to offer terms

- 9.1 The licensee shall, within ninety days following the date of issue of the Distribution Licence, if and to the extent not covered in or comprising part of the tariff, prepare and submit to the Authority for approval, statements in a form approved by the Authority setting out the basis upon which the use of system charges and connection charges in each case, as part of the distribution business, shall be calculated (hereinafter referred to as the "charges statement") in all cases in such manner and with such details as shall be necessary to enable any licensee seeking to become a second-tier supplier in respect of the Service Territory to make a reasonable estimate of the charges which may be payable by such person for the use of system.
- 9.2 The charges statement shall include such details and shall set out the methods by which and the principles on which the use of system charges and connection charges will be calculated, keeping in view the characteristics of the distribution system.
- 9.3 If, and to the extent not covered in or comprising part of or determined through or under the tariff, the use of system charges and connection charges shall be calculated on a basis which reflects the costs prudently incurred or to be incurred, less any gains achievable through efficiencies, in the provision, procurement, installation, operation or maintenance of the facilities for use of system or the connection including, without limitation, in respect of any works, extension, replacement or reinforcement of the distribution system or any parts thereof, as the case may be, together with a reasonable return on the capital represented by such costs.
- 9.4 The licensee shall, on a request for second-tier supply offer to enter into an agreement for use of system and connection to the system with any second-tier supplier on terms and conditions specified in the second-tier supply authorization, subject to Section 22 of the Act.
- 9.5 In the event of any dispute between the licensee and another licensee seeking to become a second-tier supplier in respect of the terms of the agreement referred to in Article 9.4 the dispute may be referred by either party for resolution to the Authority. The decision taken by the Authority on any such referral as aforesaid shall be binding on



the other licensee and the licensee shall forthwith enter into an agreement with the other licensee seeking to become a second-tier supplier on the terms settled by the Authority.

Article 10

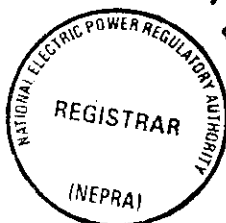
Investment programmes, acquisition and disposal of assets

- 10.1 The licensee shall not, except under a prior authorization acquire whether on ownership basis, lease, hire-purchase or other mode of possession or use, any tangible or intangible asset of a nature or value inconsistent with or which is not expressly or by necessary implication stated in the licensee's investment programme approved by the Authority in accordance with its rules and regulations provided that until such time the licensee's investment programme is approved by the Authority in accordance with Rule 17(1), the licensee may acquire assets required for the operation and maintenance of the distribution system or assets of a value not exceeding ten per cent of the figure of the approved investment programme of the licensee for that year.
- 10.2 The licensee shall not except under a prior authorization, sell or dispose in any manner any of the tangible assets comprised in the distribution system or any intangible assets accruing or likely to accrue to the licensee from the distribution business or the second-tier supply business in a manner inconsistent with or which is not expressly stated in the licensee's investment programme approved by the Authority in accordance with its rules and regulations, provided that until such time the licensee's investment programme is approved by the Authority in terms of Rule 17(1), the licensee may dispose or sell assets of a value not exceeding ten per cent of the figure specified in the approved investment programme of the licensee for that year.
- 10.3 The licensee shall not assume any responsibility for any encumbrance in relation to any asset unless the ownership thereof vests in the licensee.

Article 11

Compliance with Performance Standards

The licensee shall conform to the relevant Performance Standards as may be prescribed by the Authority from time to time.



Article 12
Compliance with Environmental Standards

The licensee shall conform to the environmental standards as may be prescribed by the relevant competent authority.

Article 13
Accounting practices

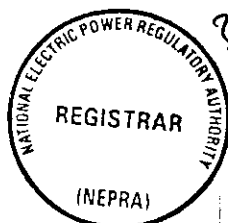
The licensee shall maintain separate accounts for its sale of power business and network business in addition to those provided in Rule 14(2).

Article 14
Maintenance of record

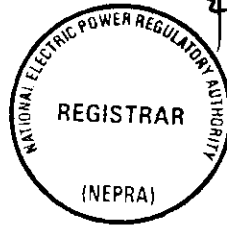
- 14.1 The licensee shall keep complete and accurate record and the data in respect of all aspects of the distribution business and the second-tier supply business, in their original form. Three years after the issuance of this licence the Licensee shall start maintaining the above mentioned record in electronic form also.
- 14.2 Without prejudice to the provisions of the Rule 14(3), unless provided otherwise under the law or the applicable documents, all record and data shall be maintained for a period of five years after the creation of such record or data. The licensee shall not destroy or dispose off any such record or data after the aforesaid period without thirty days prior written notice to the Authority. The licensee shall not dispose off or destroy any record or data which the Authority directs the licensee to preserve.
- 14.3 All record and data maintained in an electronic form shall, subject to just claims of confidentiality, be accessible by staff authorized by the Authority.

Article 15
Provision of information

- 15.1 The obligation of the licensee to provide information to the Authority shall be in accordance with Section 44 of the Act.
- 15.2 The licensee shall be subject to such penalties as may be specified in the relevant rules made by the Authority, for failure to furnish such



information as may be required from time to time by the Authority
and which is or has been in the control or possession of the licensee.

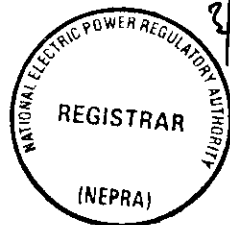


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SCHEDULE-I

CONCESSION TERRITORY AND SERVICE TERRITORY



SCHEDULE -II

- LICENCE FEE (Annual)

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SCHEDULE II

PART I

FEES (Annual)

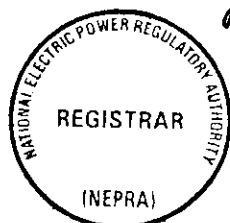
Distribution Licence:

The fee will be calculated at the rate of Rupees 0.00125 per kWh based upon the number of kilowatt-hours of energy sold by the licensee in a given year.

PART II

TERMS OF PAYMENT OF FEE BY THE DISTRIBUTION LICENSEES

- I) The fee for the distribution licences specified in Part I of this schedule shall be paid on a recurring basis in respect of each financial year by the licensee for the term of the licence (hereinafter referred to as the "annual licence fee").
- II) The annual licence fee in respect of any financial year shall be paid in advance within thirty days of the expiry of the preceding financial year, provided that, the annual licence fee for the first financial year shall be paid within thirty days of the date of grant of the licence and shall be prorated for the number of months remaining before the expiry of the financial year in which the licence is granted.
- III) Subject to sub-clauses (V) and (VI), the annual licence fee for any financial year in case of distribution licensees shall be calculated on the basis of the total number of kilowatt-hours of energy transmitted or sold in the preceding financial year.
- IV) The distribution licensees shall submit to the Authority, along with the tender of the annual licence fee, an abstract of their relevant accounts for a the preceding financial year demonstrating the total number of kilowatt hours of energy transmitted or sold on the basis of which the annual licence fee for the following financial year is calculated. The abstract of accounts shall be certified as to its accuracy by a responsible officer of the licensee.
- V) In case of distribution licensees already engaged in the business of distribution of energy at the time of application for a license, the calculation of the annual licence fee for the first financial year shall be made on the basis of the total number of kilowatt hours of



energy sold, recorded in the books of accounts of the licensee for the preceding financial year.

- VI) In case of applications for new licenses for distribution where there is no recorded data for the number of kilowatt hours of energy transmitted or sold for the respective area of supply, the annual licence fee for the first financial year shall be calculated on the basis of the distribution forecast provided by the applicant for the licence, as modified or approved by the Authority.

PART III

INDEXATION OF FEES

1. Any and all fees payable pursuant to the relevant rules shall be indexed to the Consumer Price Index ("CPI") published from time to time by the Federal Bureau of Statistics.
2. The indexation shall be done on the basis of the most recent CPI prevailing on the date of payment of the fees and shall be increased or decreased, as the case may be, in accordance with the following formula;

$$F_{pd} = F_t [CPI_{Pd} / CPI_{rd}]$$

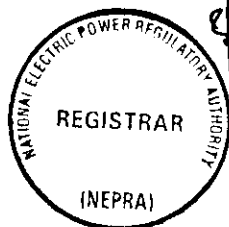
Where

F_{pd} = The actual fee payable on the date of payment

F_t = The respective fee set out in Part I of this schedule.

CPI_{pd} = The most recent CPI prevalent on the last day of the month immediately preceding the month in which the payment is due.

CPI_{rd} = The reference or base CPI, prevalent on the last day of the month in which these rules are notified in the official gazette.



**National Electric Power Regulatory Authority
(NEPRA)**

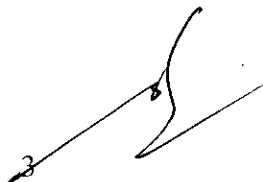
Determination in the matter of Licensing of Distribution Companies
Grant of Distribution Licence to Lahore Electric Supply Company Limited
(LESCO)

1. Lahore Electric Supply Company Ltd applied for a Distribution Licence vide their Application No.NEPRA/LIC-207/LESCO dated 19th December, 1999. The Application was admitted on 24th January 2000.
2. It was decided to publicize the receipt of the Application so as to be informed of the views of various stakeholders. Advertisement was made through the Newspapers.
3. The following proceedings took place while considering the Application:
 - (i) Public hearing was held at Lahore from 28th February to 1st March 2000 to allow an opportunity to all stakeholders to express their view point for or against the grant of licence and to discuss the various issues involved. During the public hearing a draft Distribution Licence developed by NEPRA professional staff (Licensing Group) was also circulated and discussed clause by clause. Various stakeholders, including PEPCO, WAPDA, SPP's, Chambers of Commerce & Industry, representatives of Housing Colonies participated in the hearing.
 - (ii) In view of the discussions, public hearings held in the context of applications by other DISCOs and comments received in writing from some DISCOs another draft was prepared. Several meetings were held with PEPCO, DISCOs and KESC on the subject and correspondence exchanged.
 - (iii) On 7th November 2000 a revised draft of the Distribution Licence was sent to PEPCO, all DISCOs, KESC, Cabinet Division, Chairman WAPDA, Federation of Chambers of Commerce and Industry and Pakistan Engineering Council for comments. This draft reflected proposals to resolve the contentious issues raised during the public hearing by the stakeholders. Comments (relating to the timing

of power market changes and time required for submission of various documents) were received from KESC vide their letter dated 2nd January 2001 and PEPCO vide letter dated 22nd March 2001. Subsequently meetings were held with the Pakistan Army, Engineer-in-Chief's team on 25th July, 2000 and 10th July 2001 regarding their concerns on the Distribution Licence to DISCOs. Some comments were received through correspondence exchanged on the subject.

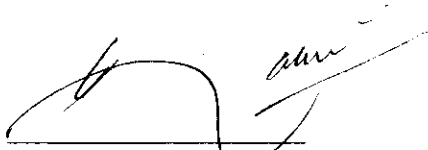
- (iv) The Group Leader report "Matter of Licensing of Distribution Company" was submitted to the Authority on 2nd May 2001 alongwith the updated draft of the Distribution Licence. Presentation on the report was made on 1st June and 2nd June 2001. The Group Leader's report was not fully agreed to and the draft Licence was further reviewed in several meetings.
- (v) During the period of March-July 2001, several meetings held to address the issues of exclusivity of DISCOs, rules for supply of power to Armed Forces, Residential Schemes and Small Power Producers/consumers and based on the consensus developed in the discussions during the meetings on some of the issues, a revised draft Licence was presented on 9th August 2001. This document incorporated several changes made in the previous draft Distribution Licence submitted to the Authority in May, 2001 relating to various issues such as :
- Elimination of the concept of "Type-of-Service" distribution rules
 - Elimination of the time targets associated with various stages of competitive power market development
 - Resolution on the issues associated with "Small Power Producers" supply arrangements
 - Exclusion of the Rules from the draft Distribution Licence which reflected no change from the notified Distribution Licensing Rules of 1999.
 - Inclusion of compliance with NEPRA prescribed "Performance Standards" as a separate clause.
- (vi) During the month of August 2001, several meetings of the licensing group were held with the ASI/BPI (ADB Consultants) to solicit their views on the various contentious issues in the Distribution Licence.

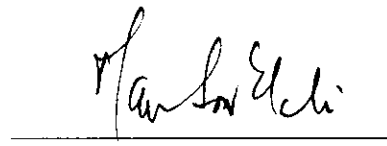
- (vii) The suggestions of ADB consultants were also discussed in various meetings of the Authority held during September 2001. Subsequent to these meetings a revised draft was presented to the Authority on 14th September, 2001. This led to several additional meetings to examine the design of the schemes and approaches included in the draft Distribution Licence alongwith a closer review of the repercussions/consequences and the regulatory oversight required for such proposed schemes in the Distribution Licence on the potential licensees and stakeholders
- (viii) A fresh text of Distribution Licence to IESCO (final at that stage) was approved in principle by the Authority on 28th September 2001. However, before a final decision on grant of Licence to IESCO could be made, a letter was received from the Chairman PEPCO requesting another meeting with the WAPDA/PEPCO team so that they could explain their point of view and make suggestions to resolve the issues of the Distribution Licence still considered as unresolved by them. The Authority invited the PEPCO team to hear their concerns. After having the PEPCO's concerns in the matter on 2nd October 2001, the Authority received written comments from PEPCO which were subsequently considered by us in the meeting of 30th October 2001. The concerns of the concerned provincial government i.e. the Government of Punjab were also discussed in that meeting.
- (ix) The draft was further reviewed and presented to the Authority on 31.10.2001 after incorporation of certain changes regarding (a) the limit of service territory (b) the definition of service territory excluded for SPPs (c) requirement of digitized maps.
- (x) The draft Distribution Licence for LESCO on the same pattern as the Distribution Licence issued to IESCO was submitted to the Authority on 12th December for consideration of approval. The Authority invited the Chief Executive Officer LESCO to attend the Authority Meeting on 14th December 2001 so as to allow a final opportunity to the CEO LESCO to be heard by the Authority. A copy of the draft Distribution Licence was sent to CEO LESCO through Fax and the CEO was also personally informed on Telephone. However, the CEO did not care to attend the meeting or communicate with the Authority on the subject.

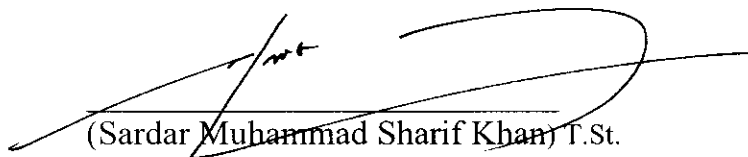


(xi) The draft Distribution Licence was finally discussed with PEPCO/WAPDA/LESCO representatives on 11th January 2002. LESCO later-on provided its response in the form of written comments. These comments were deliberated upon by the Authority and it was noted that LESCO has brought up the same comments which had been already clarified and explained by NEPRA at various forums. The Authority therefore observed that the comments by LESCO would not require any change in the Draft Licence.

4. After due consideration of all the arguments addressed and the evidence provided in the process of deliberations, suggestions and presentations mentioned in the above paragraph 3, and after considering all aspects of the case required to be considered, we have approved the final draft of the Licence as presented to us on the 14th December, 2001 and grant a Licence to LESCO under Section 21 of the NEPRA Act as annexed to this determination.


(Abdul Rahim Khan)
Member


(Mansoor Elahi)
Member


(Sardar Muhammad Sharif Khan) T.St.
Member


(Fazlullah Qureshi)
Vice Chairman


(Justice ® Saad Saood Jan)
Chairman

**National Electric Power Regulatory Authority
(NEPRA)**

**Determination in the matter of Licensing of Distribution Companies
Grant of Distribution Licence to Lahore Electric Supply Company Limited
(LESCO)**

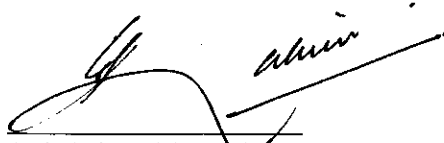
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3. The following proceedings took place while considering the Application:
 - (i) Public hearing was held at Lahore from 28th February to 1st March 2000 to allow an opportunity to all stakeholders to express their view point for or against the grant of licence and to discuss the various issues involved. During the public hearing a draft Distribution Licence developed by NEPRA professional staff (Licensing Group) was also circulated and discussed clause by clause. Various stakeholders, including PEPCO, WAPDA, SPP's, Chambers of Commerce & Industry, representatives of Housing Colonies participated in the hearing.
 - (ii) In view of the discussions, public hearings held in the context of applications by other DISCOs and comments received in writing from some DISCOs another draft was prepared. Several meetings were held with PEPCO, DISCOs and KESC on the subject and correspondence exchanged.
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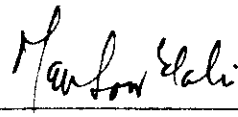
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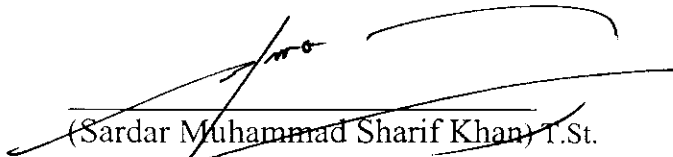
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- Elimination of the concept of "Type-of-Service" distribution rules
 - Elimination of the time targets associated with various stages of competitive power market development
 - Resolution on the issues associated with "Small Power Producers" supply arrangements
 - Exclusion of the Rules from the draft Distribution Licence which reflected no change from the notified Distribution Licensing Rules of 1999.
 - Inclusion of compliance with NEPRA prescribed "Performance Standards" as a separate clause.
- (vi) During the month of August 2001, several meetings of the licensing group were held with the ASI/BPI (ADB Consultants) to solicit their views on the various contentious issues in the Distribution Licence.


- (vii) The suggestions of ADB consultants were also discussed in various meetings of the Authority held during September 2001. Subsequent to these meetings a revised draft was presented to the Authority on 14th September, 2001. This led to several additional meetings to examine the design of the schemes and approaches included in the draft Distribution Licence alongwith a closer review of the repercussions/consequences and the regulatory oversight required for such proposed schemes in the Distribution Licence on the potential licensees and stakeholders
- (viii) A fresh text of Distribution Licence to IESCO (final at that stage) was approved in principle by the Authority on 28th September 2001. However, before a final decision on grant of Licence to IESCO could be made, a letter was received from the Chairman PEPCO requesting another meeting with the WAPDA/PEPCO team so that they could explain their point of view and make suggestions to resolve the issues of the Distribution Licence still considered as unresolved by them. The Authority invited the PEPCO team to hear their concerns. After having the PEPCO's concerns in the matter on 2nd October 2001, the Authority received written comments from PEPCO which were subsequently considered by us in the meeting of 30th October 2001. The concerns of the concerned provincial government i.e. the Government of Punjab were also discussed in that meeting.
- (ix) The draft was further reviewed and presented to the Authority on 31.10.2001 after incorporation of certain changes regarding (a) the limit of service territory (b) the definition of service territory excluded for SPPs (c) requirement of digitized maps.
- (x) The draft Distribution Licence for LESCO on the same pattern as the Distribution Licence issued to IESCO was submitted to the Authority on 12th December for consideration of approval. The Authority invited the Chief Executive Officer LESCO to attend the Authority Meeting on 14th December 2001 so as to allow a final opportunity to the CEO LESCO to be heard by the Authority. A copy of the draft Distribution Licence was sent to CEO LESCO through Fax and the CEO was also personally informed on Telephone. However, the CEO did not care to attend the meeting or communicate with the Authority on the subject.

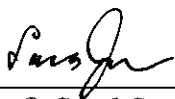
- (xi) The draft Distribution Licence was finally discussed with PEPCO/WAPDA/LESCO representatives on 11th January 2002. LESCO later-on provided its response in the form of written comments. These comments were deliberated upon by the Authority and it was noted that LESCO has brought up the same comments which had been already clarified and explained by NEPRA at various forums. The Authority therefore observed that the comments by LESCO would not require any change in the Draft Licence.
4. After due consideration of all the arguments addressed and the evidence provided in the process of deliberations, suggestions and presentations mentioned in the above paragraph 3, and after considering all aspects of the case required to be considered, we have approved the final draft of the Licence as presented to us on the 14th December, 2001 and grant a Licence to LESCO under Section 21 of the NEPRA Act as annexed to this determination.


(Abdul Rahim Khan)
Member


(Mansoor Elahi)
Member


(Sardar Muhammad Sharif Khan) I.St.
Member


(Fazlullah Qureshi)
Vice Chairman


(Justice ® Saad Saood Jan)
Chairman