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Islamic Republic of Pakistan

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No. NEPRA/DG(M&E)/LAD-09/ 4835

April 03, 2024

Chief Executive Officer,
Quetta Electric Supply Company (QESCO),
Zarghoon Road,
Quetta

Subject: **ORDER OF THE AUTHORITY IN THE MATTER OF SHOW CAUSE NOTICE
ISSUED TO QESCO UNDER REGULATIONS 4(8) & 4(9) OF NEPRA (FINE)
REGULATIONS, 2021 ON ACCOUNT OF AT&C-BASED LOAD SHEDDING**

Please find enclosed herewith, the Order of the Authority (total 10 pages) in the subject matter for information and compliance.

Enclosure: Order of the Authority (total 10 Pages)


(Engr. Mazhar Iqbal Ranjha)




National Electric Power Regulatory Authority

ORDER

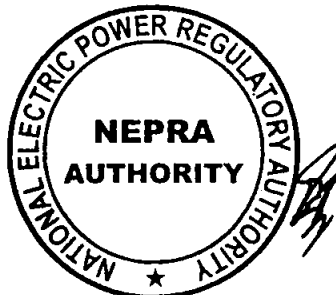
IN THE MATTER OF SHOW CAUSE NOTICE ISSUED TO QESCO UNDER REGULATIONS 4(8) AND 4(9) OF NEPRA (FINE) REGULATIONS, 2021 ON ACCOUNT OF AT&C-BASED LOAD SHEDDING.

1. Quetta Electric Supply Company Limited (QESCO) (the "Licensee") was granted a Distribution License (No. DL/08/2023) by the National Electric Power Regulatory Authority (the "Authority") on 09.05.2023, for providing Distribution Services in its Service Territory as stipulated in its said Distribution License, pursuant to section 20 read with 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 ("NEPRA Act").

Background:

2. During hearings in the matter of Monthly Fuel Price Adjustments (FPAs) for DISCOs and K-Electric being held on monthly basis, number of complaints regarding unscheduled load shedding by general public had been and are being received by the Authority. Upon inquiry, it was revealed that load shedding is being carried out on the basis of AT&C losses policy which is not in line with the provisions of the NEPRA Act, 1997, and Performance Standards (Distribution) Rules, 2005, and has never been recognized by NEPRA.
3. According to Rule 4 (f) of NEPRA Performance Standards Rules:
 - (i) *A distribution company shall have plans and schedules available to shed up to 30% of its connected load at any time upon instruction from NTDC. This 30% load must be made up from separate blocks of switchable load, which can be disconnected in turn at the instruction from NTDC. A distribution company shall provide copies of these plans to NTDC.*
 - (ii) *Wherever possible NTDC shall give distribution companies advance warning of impending need for load shedding to maintain system voltage and/or frequency in accordance with the Grid Code.*
 - (iii) *As per the provisions of the Grid Code, NTDC shall maintain an overview and as required instruct each distribution company the quantum of load to be disconnected and the time of such disconnection. This instruction shall be given in clear, unambiguous terms and related to prepared plans.*
 - (iv) *When instructed by NTDC, the distribution companies shall shed the load in the following order, namely: —*

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- (a) *Supply to consumers in rural areas; and residential consumers in urban areas where separate feeders exist.*
- (b) *Supply to consumers, other than industrial, in urban areas.*
- (c) *Supply to agriculture consumers where there is a dedicated power supply.*
- (d) *Supply to industrial consumers.*
- (e) *Supply to schools and hospitals.*
- (f) *Supply to defense and strategic installations.*

(v) *A distribution company shall prepare schedules of load disconnection, which demonstrate this priority order and which rotate load disconnections within the above groups in a non-discriminatory manner. The principle of proportionality shall be kept in mind so as not to excessively burden a particular consumer class.*

4. The Authority further observed that the Licensee is even violating its own so-called AT&C policy and carrying out excessive load shedding as compared to the scheduled one. Moreover, few feeders were randomly selected, and observed that the Licensee has been failed to make improvements in technical and financial health of those feeders since last four years despite allowing colossal amounts under O&M head by NEPRA and continuing their operations in status quo, due to which, even good paying consumers are being suffered a lot.
5. Therefore, the Authority decided to initiate legal proceedings against the Licensee under NEPRA Fine Regulations, 2021.
6. In view thereof, an Explanation was served to the Licensee under Regulation 4(1) and 4(2) of NEPRA (Fine) Regulation, 2021 on January 03, 2023, on account of providing electricity on a non-discriminatory basis by carrying out AT&C-based load shedding and failure to comply with Performance Standards (Distribution) Rules. However, the Licensee did not submit response within stipulated timelines against the said Explanation despite repeated correspondence.
7. In order to proceed further into the matter, a hearing was scheduled for May 18, 2023. Vide the hearing notice dated May 09, 2023, the Authority showed serious displeasure upon the non-submission of response by the Licensee. Meanwhile, the Licensee vide its letter dated May 16, 2023, submitted its response. Moreover, the Licensee requested NEPRA for an adjournment of the hearing on account of reasons mentioned therein. The request of the Licensee was considered, and accordingly, the hearing was rescheduled and held on May 29, 2023.
8. The Authority considered the submissions of the Licensee and observed that the response submitted by the Licensee against the Explanation is unsatisfactory. Therefore, the Authority decided to issue a Show Cause Notice (SCN) to the Licensee under Regulation 4(8) & (9) of the NEPRA (Fine) Regulations, 2021.
9. Accordingly, a Show Cause Notice (SCN) along with the Order recording reasons for the rejection of Explanation was issued to the Licensee on September 11, 2023. The salient features of the said SCN are narrated as under:

3. ***"WHEREAS, pursuant to section 21 (2) (b) of the NEPRA Act, the Licensee is responsible to provide distribution service and make sales of electric power within***



its territory on a non-discriminatory basis to all the consumers who meet the eligibility criteria laid down by the Authority; and

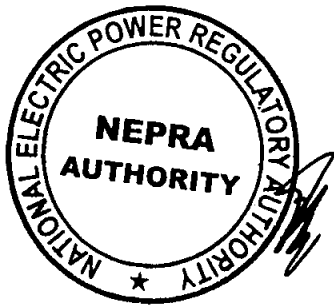
4. **WHEREAS**, pursuant to section 21 (2) (f) of the NEPRA Act, the Licensee is required to follow the performance standards laid down by the Authority for distribution and transmission of electric power, including safety; and
5. **WHEREAS**, Rule 4(f) of NEPRA Performance Standards (Distribution) Rules, 2005, states below:

(i) A distribution company shall have plans and schedules available to shed up to 30% of its connected load at any time upon instruction from NTDC. This 30% load must be made up from separate blocks of switchable load, which can be disconnected in turn at the instruction from NTDC. A distribution company shall provide copies of these plans to NTDC.

(ii) Wherever possible NTDC shall give distribution companies advance warning of impending need for load shedding to maintain system voltage and/or frequency in accordance with the Grid Code.

(iii) As per the provisions of the Grid Code, NTDC shall maintain an overview and as required instruct each distribution company the quantum of load to be disconnected and the time of such disconnection. This instruction shall be given in clear, unambiguous terms and related to prepared plans.

(iv) When instructed by NTDC, the distribution companies shall shed the load in the following order, namely: —



- (a) Supply to consumers in rural areas; and residential consumers in urban areas where separate feeders exist.
- (b) Supply to consumers, other than industrial, in urban areas.
- (c) Supply to agriculture consumers where there is a dedicated power supply.
- (d) Supply to industrial consumers.
- (e) Supply to schools and hospitals.
- (f) Supply to defense and strategic installations.

(v) A distribution company shall prepare schedules of load disconnection, which demonstrate this priority order and which rotate load disconnections within the above groups in a non-discriminatory manner. The principle of proportionality shall be kept in mind so as not to excessively burden a particular consumer class.

6. **WHEREAS**, the Authority issued an Explanation to the Licensee under Regulation 4(1) and 4(2) of NEPRA (Fine) Regulation, 2021 on January 03, 2023, on account of AT&C-based load shedding and failure to comply with Performance Standards (Distribution) Rules. The salient points of the said Explanation are reproduced below:

6. "WHEREAS, contrary to above, the Licensee is carrying out load shedding in their service territories on the basis of the Aggregate

Technical and Commercial (AT&C) losses policy following the criteria hereunder:

Category	I	II	III	IV	V	VI	VII	Total Number of Feeders
% AT&C Losses	0 – 10 (%)	10.1 – 20 (%)	20.1 – 30 (%)	30.1 – 40 (%)	40.1 – 60 (%)	60.1 – 80 (%)	80.1% and above	
Load Shedding Hours	0 Hours	0 Hours	2 Hours	4 Hours	8 Hours	12 Hours	16 Hours	
No. of Feeders	57	16	14	14	29	50	138	711

7. **WHEREAS**, the load shedding carrying out by the Licensee following the above said criteria is not in line with the provisions of the NEPRA Act, 1997, and Performance Standards (Distribution) Rules, 2005 and has never been recognized by NEPRA. According to NEPRA Performance Standards Rules, the Licensee can never do load shedding on its own until & unless instructed by NTDC. Hence, the Licensee is *prima facie* in violation of Rule 4(f) of Performance Standards (Distribution) Rules, 2005 read with Section 21(2)(b) & (f) of the NEPRA Act and Article 11 of the terms & conditions of Licensee's License; and
8. **WHEREAS**, from the data of few randomly selected feeders for the period of four years (FY 2018-19 to FY 2021-22), it is noted that there is no significant improvement in AT&C losses. The details of which are given in the table below:

Sr. #	Name of Feeder	%AT&C losses in July 2018	%AT&C losses in June 2022	Increase/ Decrease
1	SARIAB NO 2	85.08	82.43	%age AT&C slightly decreased but no relief provided to consumers as these still fall in the same category.
2	OMER	78.01	74.16	
3	MARIABAD	37.93	32.79	
4	FG COLONY	71.67	65.57	
5	S.TOWN	46.92	40.55	

9. **WHEREAS**, from the above data it is evident that despite spending colossal amount of billions of rupees under the investment head, the Licensee has failed to take measures to improve the technical & financial health of 11 kV feeders, rather they have found an easy way to carry out load shedding on such feeders based on AT&C policy; and
10. **WHEREAS**, the power Generation capacity, that too on Take or Pay basis is underutilized; the underutilization factor of thermal power generation plan during last four years is given in following table:

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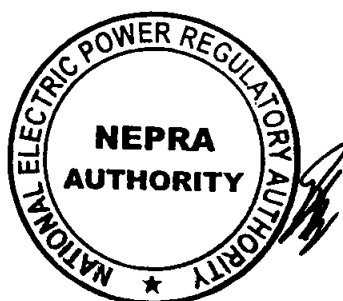
Year	Thermal Power Plants in CPPA-G System		
	Installed Capacity (MW)	Energy Generated (GWh)	Utilization (%)
2018-19	24,253	85025.53	40.02
2019-20	23,827	78504.04	37.61
2020-21	24,972	86599.28	39.59
2021-22	27,304	91404.82	38.22

11. WHEREAS, the consumers of electricity on one hand are paying capacity charges for idle power generation capacity while facing load shedding on other hand; and

12. WHEREAS, the Licensee was repeatedly directed to submit concrete plan containing specific measures and timelines to avoid such undue load shedding in their service territories. However, no such specific plan has been submitted by the Licensee instead they submitted generic responses. Therefore, the Licensee has prima facie non-complied with the Authority's directions; and"

7. **WHEREAS**, the Licensee was given fifteen (15) days to either admit or deny the occurrence of the said violations and submit a reply against the aforementioned Explanation, failing which it shall be presumed that the Licensee has nothing to say in its defense and the Authority shall proceed based on available record in accordance with NEPRA Act, Rules, and Regulations. However, despite the lapse of the given time period, no response from the Licensee was received; and
8. **WHEREAS**, in pursuance of the fair administration of justice, the Authority deemed it necessary to provide a fair opportunity to comply before any further action is taken. Therefore, a Reminder dated January 31, 2023, followed by a Final Notice dated March 10, 2023, were also issued to the Licensee to submit its response. However, no response was submitted by the Licensee, despite expiry of the additional time given. This demonstrates an obvious disregard for the repeated directions of the Authority and a clear dereliction of its obligations; and
9. **WHEREAS**, later, the Licensee submitted its reply vide letter dated May 16, 2023, and hearing in the matter was also held on May 29, 2023. Consequently, the Authority after detailed deliberations concluded that the Licensee has failed to provide any satisfactory reply to the Explanation served to it; and
10. **WHEREAS**, the Licensee has failed to satisfy the Authority with its replies and prima facia, has committed the violations of Rule 4(f) of Performance Standards (Distribution) Rules, 2005, read with Section 21(2)(b) & (f) of the NEPRA Act and Article 11 of the terms & conditions of Licensee's License, and is in non-compliance with the directions of the Authority. Therefore, the Authority hereby rejects the response of the Licensee against the Explanation served, and an Order dated September 11, 2023, is attached herewith, mentioning the reasons of rejection; and"

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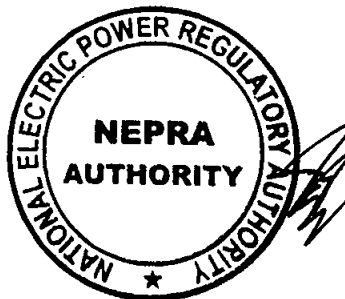


10. The Licensee did not submit response within the stipulated timelines against the aforementioned SCN despite repeated correspondence. Meanwhile, after showing serious displeasure through telephonic reminders, the Licensee vide its letter dated November 06, 2023 (received by this office on December 17, 2023) submitted its reply against the SCN. The salient points of the same are reproduced as under:

- i. QESCO is following the instructions regarding load management in coordination and instruction of NTDC. As regards load shedding of 30% load on the instructions of NTDC is concerned, it is apprised that load shedding is prepared and implemented in accordance with Government of Pakistan's Policy/TORs based on AT&C Losses.
- ii. For maintaining voltage stability and system frequency in accordance with the Grid Code, the QESCO implements the directives of system operator (NTDC) as and when required.
- iii. As regards sub paras (iii & iv) of Para 5 is concerned, the instructions of NTDC as being followed as per sequence mentioned therein in sub para (iv).
- iv. The instructions contained in sub para (v) of Para 6 are being implemented as and when required on the instruction of system operator (NTDC).
- v. For the instructions/explanation mentioned in Para 6 and its sub-para (vi), regarding AT&C-based load management and failure to comply with the NEPRA Performance Standards (Distribution) Rules, 2005, it is submitted here that the load management is being implemented category wise on the basis of AT&C losses already mentioned under sub-para (vi) of Para 1.
- vi. As regards sub para (vii) is concerned, it is once again mentioned here that load management is being implemented in coordination and instructions of system operator (NTDC) but being rationalized on the basis of recoveries/pay back from the consumers particularly Agri consumers, as QESCO is facing huge financial constraints on the context of non-recovery from Agri consumers as well as from Government of Balochistan and to some extent from Government of Pakistan.
- vii. The AT&C losses of the feeders mentioned in tabulated format in sub-para (viii) have been looked into and have further been reduced to the extent of S.No.1,3&4:

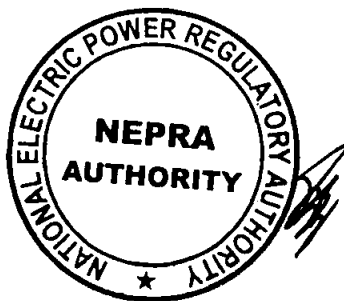
Serial #	Name of Feeder	%AT&C losses for in July 2018	%AT&C losses for in June 2022	%AT&C losses for in October 2023
1	SARIAB NO 2	85.08	82.43	81.9
2	OMER	78.01	74.16	76.4
3	MARRIABAD	37.93	32.79	11.3
4	FG COLONY	71.67	65.57	63.8
5	S.TOWN	46.92	40.55	55.7

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- viii. However, efforts are underway to lower down AT&C losses by adopting technical means/measures not only for these, but for the other high loss feeders too. Chief Engineer (P&E), Chief Engineer (Development), Chief Engineer (Operation), and Finance Director have been assigned a task to sit together and chalk out a comprehensive plan for implementation in true spirit in accordance with the investment plan (mentioned in sub-para-ix) and the Authority will be updated in this regard accordingly.
 - ix. The observations mentioned in sub para (x&xi) seems policy matter and as already mentioned carried out on the basis of the Government policy of AT&C losses.
 - x. The plan asked in sub para (xii) will be shared in due course of time.
11. In order to proceed further as per law, a hearing in the matter of SCN issued to the Licensee was scheduled on January 03, 2024, wherein, the CEO QESCO along with his team participated and made the following submissions:
- i. In QESCO, there are 752 feeders, out of which 400 feeders are agriculture-dominated feeders.
 - ii. The total amount of subsidy provided to a tube well connection is Rs. 75,000/-. Out of which Rs. 10,000/- have to be bear by the consumer. From the remaining amount, 40% of the subsidy is to be bear by the Federal Government, and 60% of the subsidy is to be bear by the Government of Balochistan.
 - iii. QESCO is carrying out load management mostly on Agriculture Feeders.
 - iv. QESCO cannot carry out operations against the defaulters due to the law and order situation in the areas.
 - v. No. of feeders in CAT-I and CAT-II is 107, upon which there is zero load shedding.
 - vi. For the feeders lying in CAT III and CAT IV, QESCO is planning to reduce their AT&C losses to bring them in CAT-I and CAT-II.
 - vii. The problem exists on CAT V, CAT VI, and CAT VII feeders, upon which AT&C Losses have been recorded upto 98%.
12. In addition to the aforementioned submissions, QESCO vide its letter dated February 14, 2024, submitted additional grounds. The same are reproduced below:
- i. *"More than 400 out of 752 11kV feeders are agriculture dominated falling in the x-category provided supply as per the Agri Subsidy Decision issued by the Government of Pakistan Ministry of Energy Power Division, Power Co-ordination, Policy & Finance Wing during 2015.*
 - ii. *Further, above 190 No, 11kV feeders falling in categories VI & VII having AT&C loss ranging from 80 to 98% are in semi-hard politically influenced areas, having*

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non-payment culture, and it was proposed that these feeders may also be included in category-X.

- iii. *Efforts will be made to minimize the losses of 47 Nos of 11kV feeders of Category III, IV & V through ELR/maintenance techniques to bring feeders of Category V into Category IV and feeders of Category III & IV into Category I & II respectively*
- iv. *It is also pertinent to mention here that, the Agri consumers have not come up to their commitment & almost 90% of T/Well running at the site have motors of higher capacity ranging from 40 to 60HP or even higher instead of 30HP as per agri subsidy decision which was duly verified jointly by a special committee constituted by the Federal Government comprising on the relevant stakeholders i.e. Deputy Commissioner, Representative of Zamindar Action Committee & Concern XEN (operation) of QESCO.*
- v. *The main financial crunch faced by QESCO is due to the reluctant attitude/nonpayment culture of Agricultural consumers, who were/are not even paying their legitimate dues of Rs 10,000/month as per above mentioned Agri subsidy agreement, while on the other hand, surprisingly more than 70% of QESCO's total demand is being utilized by only 4.25% Agri customers & subsequently QESCO's main revenue chunk relies upon the recovery from Agri customers.*
- vi. *In order to limit the burden on the National Ex-Chequer, a commercial-based Load Management is devised and implemented in line with the directives of MoE (Power Division) & PPMC (former PEPCO). The abstract is as under for ready reference.*

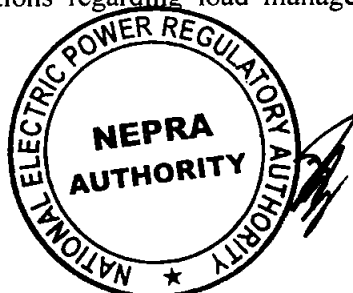
AT&C Losses	00-10%	10-20%	20-30%	30-40%	X-CATEGORY					Total
CATEGORY	I	II	III	IV	40-60% V	60-80% VI	80-100% VII	Agri Dominant	Pure Agri	
LOAD MANAGEMENT	0	0	2	4	06-18					
NO. OF FEEDERS	103	4	8	6	33	42	155	356	45	752

13. **FINDINGS/ANALYSIS:**

- i) The Licensee has submitted that it is following the instructions regarding load management in coordination and instruction of NTDC. As regards load shedding of 30% load on the instructions of NTDC is concerned, it is apprised that load shedding is prepared and implemented in accordance with the Government of Pakistan's Policy/TORs based on AT&C Losses.

The Authority after considering the submissions of the Licensee is of the view that the Licensee has admitted the primary allegation leveled in the Explanation/SCN that it is carrying out load shedding in its service territory based on AT&C losses criteria which is in violation of Rule 4(f) of Performance Standards (Distribution) Rules. Regarding the claim of the Licensee that it is following the instructions regarding load management in coordination and

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instruction of NTDC. The Authority further observes that the submissions of the Licensee are not based on facts. According to daily log reports, the Licensee is drawing less power (around 100-200 MW) and carrying out load shedding even more than its scheduled load shedding (AT&C-based) on the majority of its feeders.

- ii) The Licensee has also submitted that load management is being implemented in coordination and instructions of the system operator (NTDC) but is being rationalized on the basis of recoveries/payback from the consumers particularly Agri consumers, as QESCO is facing huge financial constraints on the context of non-recovery from Agri consumers as well as from Government of Balochistan and to some extent from Government of Pakistan.

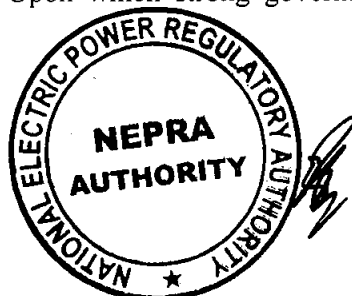
The Authority has considered the submissions of the Licensee and is of the considered opinion that financial constraints in the context of non-recovery from GOP & GOBs, and provision of electricity to the consumers on a non-discriminatory basis are two different issues. Punishing consumers based on the mere reason that provincial and federal governments are not paying subsidy amounts is highly unjustifiable. Further, it appears that the Licensee is trying to hide its inefficiencies and showing a reduction in line losses by implementing AT&C load shedding for its consumers instead of implementing corrective measures to improve feeder losses. The Licensee should focus on efficiently utilizing its O&M and Investment funds allowed under STG, DOP, and ELR heads in its MYT in order to address this issue. Presently, the consumers are facing undue load shedding for which the Licensee is responsible as it violates NEPRA Performance Standards.

- iii) The Licensee has highlighted that around 400 out of 752 feeders are agriculture-dominated feeders in the x-category provided supply as per the Agri Subsidy decision issued by MOE, Power Division. The Licensee has further submitted that the main financial crunch faced by it is due to the reluctant attitude/nonpayment culture of Agricultural consumers, who were/are not even paying their legitimate dues of Rs 10,000/month as per above mentioned Agri subsidy agreement. The Licensee has also claimed that more than 70% of its total demand is being utilized by only 4.25% Agri customers.

The submissions of the Licensee have been considered and examined by the Authority, and it is revealed that around 401(53%) feeders in the service territory of the Licensee are Agri. dominated feeders. Moreover, 107(14%) come under CAT-I and CAT-II, upon which there is no load shedding as per the claims of QESCO. Further, the Agricultural consumers are not even paying their legitimate dues according to which total receivables from the consumers are Rs. 457.23 Billion. Similarly, receivables in terms of subsidies from GOP, and GOB are 21.92 Billion and 50.58 Billion respectively. These figures emphasize the critical need for implementing improved revenue collection mechanisms by the Licensee and fostering stronger coordination with governmental bodies to ensure the financial sustainability of the Licensee's operations.

- iv) Apart from the above, it is a matter of fact the 14 No. of feeders come under CAT III and CAT IV. Upon which strong governance strategies could be

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applied and make them free from Load-shedding. Although the Licensee has shown its willingness in this regard, however, being a prudent utility, the Licensee has done this a lot earlier. Moreover, the Licensee has given an excuse that losses of 190 No. of feeders could not be improved because of the law and order situation. Here a question arises, whether the Licensee has initiated any effort in this regard. Whether the Licensee has written to any law enforcement agency to get help/assistance for the recovery of dues. If there is 98% loss, then why QESCO is maintaining the network and get O&M allowance from NEPRA every year under O&M head. The Licensee has not submitted anything in this regard which shows that the Licensee is using this tool as a source to show reduction in line losses rather than taking any concrete step. Hence the Licensee's submissions are not justified and are rejected without having any substance.

14. **Decision**

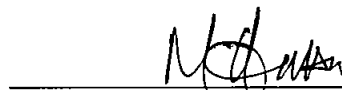
Keeping in view the submissions of the Licensee, the evidence available on record, and provisions of relevant NEPRA laws and terms and conditions of distribution license issued to the Licensee, the Authority hereby rejects the response of the Licensee against the served Show Cause Notice dated September 11, 2023, and imposed a fine of Rs 50 Million on the Licensee under NEPRA Act, and NEPRA (Fine) Regulations, 2021 for violation of Rule 4(f) of Performance Standards (Distribution) Rules, 2005, read with Section 21 (2)(b) & (f) of the NEPRA Act, and Article 11 of the terms & conditions of its Distribution License. Additionally, the Licensee is non-compliant to the directions of the Authority.

AUTHORITY

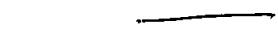
Rafique Ahmed Shaikh
Member (Technical)



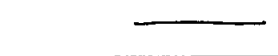
Engr. Maqsood Anwar Khan
Member (Licensing)



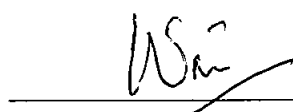
Mathar Niaz Rana (nsc)
Member (Tariff)



Amina Ahmed
Member (Law)



Waseem Mukhtar
Chairman



Dated 23/04/2024
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