



**Registrar**

# **National Electric Power Regulatory Authority**

## **Islamic Republic of Pakistan**

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No. NEPRA/DG(M&E)/LAD-08/ 12522

August 08, 2025

Chief Executive Officer,  
Hyderabad Electric Supply Company Limited (HESCO),  
WAPDA House, Hussainabad,  
Hyderabad

Subject: Order of the Authority in the matter of Show Cause Notice Issued to the HESCO under Regulation 4(8) and 4(9) of NEPRA (Fine) Regulations, 2021, on account of Decline in performance with respect to Transmission and Distribution (T&D) Losses and recovery

Please find enclosed herewith, the Order of the Authority (total 06 page) in the subject matter for information and compliance.

Enclosure: As above

  
(Wasim Anwar Bhinder)



## National Electric Power Regulatory Authority

### ORDER

**IN THE MATTER OF SHOW CAUSE NOTICE ISSUED TO HESCO UNDER  
REGULATION 4(8) AND 4(9) OF NEPRA (FINE) REGULATIONS, 2021, ON  
ACCOUNT OF DECLINE IN PERFORMANCE WITH RESPECT TO  
TRANSMISSION AND DISTRIBUTION (T&D) LOSSES AND RECOVERY.**

1. Hyderabad Electric Supply Company Limited (HESCO) (the "Licensee") was granted a Distribution License (No. DL/05/2023) 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 Distribution License, pursuant to section 21 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 ("NEPRA Act").

#### **Background:**

2. NEPRA received a Circular Debt Report for the month of June, 2024 from CPPA-G through an email dated 30.07.2024. The report reveals that DISCOs electricity purchases for the FY 2023-24 have been reduced to 115,142 GWh i.e., 1% as compared to 116,696 GWh for the FY 2022-23. Further, DISCO's losses during FY 2023-24 have increased to 18.31% as compared to 16.84% during FY 2022-23 i.e., increase of 1.47%. NEPRA's allowed average target of T&D Losses for the FY 2023-24 was 11.77%. Thus, DISCOs have breached the target by 6.54%. This breach of target contributed around Rs. 276 billion in Circular Debt for the FY 2023-24 despite the fact that DISCOs have been allowed an investment amount of Rs. 163.1 billion for the FY 2023-24 to improve their network.
3. While reviewing the losses of each & individual DISCO as given in CD report, it is noted that the Licensee has also contributed in such increase of overall losses and subsequent financial impact. It is a matter of fact that the T&D losses of the Licensee have been increased to 27.62% in FY 2023-24 as compared to 27.53% in FY 2022-23. Due to this increase, the financial loss has also been increased to Rs. 23.2 billion in FY 2023-24 as compared to Rs. 15.1 billion.
4. Therefore, the Authority decided to initiate legal proceedings against the Licensee under NEPRA Fine Regulations, 2021. In view thereof, an Explanation was served to the Licensee under Regulation 4(1) and 4(2) of NEPRA (Fine) Regulation, 2021, vide NEPRA's letter dated Nov 05, 2024, on account of violation of NEPRA Act, terms & conditions of License, tariff determination and other applicable documents.
5. However, the Licensee has failed to submit its response within the specified time frame. Therefore, it was assumed that the Licensee has nothing to say in its defense and it appears that the Licensee has admitted the allegations levelled against it in the said Explanation.



**Show Cause Notice:**

6. In view thereof, a Show Cause Notice was issued to the Licensee under Regulation 4(8) and 4(9) of NEPRA (Fine) Regulation, 2021, vide NEPRA's letter dated Jan 15, 2025, on account of violation of NEPRA Act, terms & conditions of License, tariff determination and other applicable documents. The salient points of the Show Cause are as under:

"3. **WHEREAS**, the Authority issued an Explanation to the Licensee under Rule 4 (1) and 4 (2) of NEPRA Fine Regulation, 2021 on 05.11.2024. The basis of Explanation to the Licensee included the following;

*3. **WHEREAS**, NEPRA received a Circular Debt Report for the month of June, 2024 from CPPA-G through an email dated 30.07.2024. The report reveals that DISCOs electricity purchases for the FY 2023-24 have been reduced to 115,142 GWh i.e., 1% as compared to 116,696 GWh for the FY 2022-23. Further, DISCO's losses during FY 2023-24 have increased to 18.31% as compared to 16.84% during FY 2022-23 i.e., increase of 1.47%; and*

*4. **WHEREAS**, NEPRA's allowed average target of T&D Losses for the FY 2023-24 was 11.77%. Thus, DISCOs have breached the target by 6.54%. This breach of target contributed around Rs. 276 billion in Circular Debt for the FY 2023-24 despite the fact that DISCOs have been allowed an investment amount of Rs. 163.1 billion for the FY 2023-24 to improve their network; and*

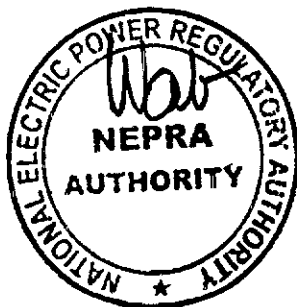
*5. **WHEREAS**, while reviewing the losses of each & individual DISCOs as given in CD report, it is noted that the Licensee has also contributed in such increase of overall losses and subsequent financial impact. It is a matter of fact that the T&D losses of the Licensee have been increased to 27.62% in FY 2023-24 as compared to 27.53% in FY 2022-23. Due to this increase, the financial loss has also been increased to Rs. 23.2 billion in FY 2023-24 as compared to Rs. 15.1 billion; and*

*6. **WHEREAS**, pursuant to Section 7 (2) (ac) of the NEPRA Act, the Authority shall ensure efficient tariff structures and market design for sufficient liquidity in power markets; and*

*7. **WHEREAS**, pursuant to Section 7 (3) (a) of the NEPRA Act, the Authority shall determine tariff, rates, charges and other terms and conditions for supply of electric power services by generation, transmission and distribution companies and recommend to the Federal Government for notification; and*

*8. **WHEREAS**, pursuant to Section 31 (2) (c) of the NEPRA Act, the Authority, in the determination, modification, or revision of rates, charges and terms and conditions for the provision of electric power services shall keep in view the encouragement of efficiency in licensees, operations and quality of service; and*

*9. **WHEREAS**, pursuant to clause 61.2 of the Authority's Tariff Determination dated June 02, 2022 in the matter of petition filed by the Licensee for determination of distribution tariff under MYT regime for the FY 2020-21 to 2024-25, the Authority observed that the MYT petition filed by the Licensee has been for the multiyear tariff i.e., for a period of five (05) years, keeping the responsibilities and*



functions including but not limited to rehabilitation, augmentation and expansion in system through ELR projects for reduction in T&D losses and improving quality parameters including performance indices as laid down in NEPRA Performance Standards (Distribution) Rules, 2005. However, the Licensee has failed to prudently utilize the investments as the T&D losses have been increased in FY 2023-24 as compared to FY 2022-23; and

**10. WHEREAS,** pursuant to clause 61.16 of the Authority's Tariff Determination dated June 02, 2022 in the matter of petition filed by the Licensee for determination of distribution tariff under MYT regime for the FY 2020-21 to 2024-25, the Authority directs the Licensee to prioritize its investments claimed under STG, DOP, and ELR etc. In this respect, removal of system constraints for transferring power from NTDC system must be first priority, followed by reduction in T&D losses and improvement in metering system through ELR and overloaded grids and 11kV feeders. However, the Licensee failed to do the same, which has resulted in an increase in losses in FY 2023-24 as compared to FY 2022-23; and

4. **WHEREAS,** the Licensee has not submitted any response in this regard. Hence, it is assumed that the licensee has nothing to say in its defense; and
5. **WHEREAS,** therefore, the licensee is in violation of NEPRA Act, Rules, Regulations, codes and other applicable documents; and... "

7. In response, the Licensee vide its letter dated March 20, 2025 submitted its reply and requested NEPRA to withdraw the SCN based on the grounds mentioned therein. A summary of the same is as under:

**"Para 3:**

It is added that HESCO increased the overall purchase of electricity in FY 2023-24 (5,121 GWh) as compared to FY 2022-23 (4,917 GWh). So, in view of this there is 204 GWh increase in overall purchased by HESCO with 4.14%age increase.

**Para 4:**

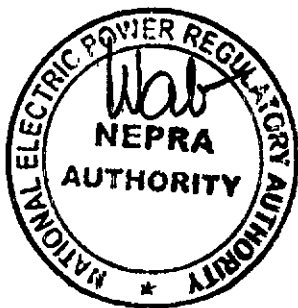
It is added that NEPRA allowed Rs. 21,195.0 million investments to HESCO for FY 2023-24 in MYT under different heads. The expenditures incurred for the respective year is Rs. 5,564.0 million.

The reasons for less investment by HESCO are as under please;

- i. Restrictions on opening of Letter of Credits,
- ii. Due to COVID-19 Pandemic / Post COVID-19 era,
- iii. Fluctuations in Dollar / Market Instability,
- iv. Non-Availability of land for new Grid Stations / RoW issues,
- v. Austerity Measures,
- vi. Due to less / non allocation of funds by GoP under Federal PSDP.

**Para 5:**

It is added that HESCO comprising on 77,160 square kilometers out of 140,914 square kilometer of Sindh province which becomes 54.76% of total Sindh, which consists upon 13 District out of 29 total District of Sindh Province. Out of 77,160 square kilometers, 1,000 square kilometer pertains to kacha area (involving 10 Sub Divisions) including 3,000 square kilometer of Coastal Belt (involving 08 Sub Divisions) and desert area of Thar (involving 05 Sub Divisions).



Further to above, it is also added that HESCO is a domestic based company and 82% consumers belong to the domestic tariff.

T&D losses have been increased, due to various reasons, but not limited to following reasons;

- i. High prices of electricity,
- ii. Poor socio-economic condition and non-payment culture,
- iii. Ethnical / Political interferences from the different sects of society,
- iv. Electricity stealers creating law and order situation including blocking the highways / roads whenever caught in stealing the electricity,
- v. Shortage of Technical Staff,
- vi. Scare resources of logistic support."

8. In order to proceed further as per law, a hearing in the matter of Show Cause Notice was scheduled for May 21, 2025. During hearing, following submissions were made by Licensees's representatives:

- i. The CEO of HESCO submitted that the Regulator has allocated a requirement of Rs. 76 billion to HESCO, which is expected to be utilized by the end of June 2025. He further stated that the petition dated June 2022 was received two years ago. However, HESCO has been unable to utilize the allocated funds due to several challenges and deficiencies;
- ii. Consequently, the delay was the impact of the COVID-19 pandemic, followed by restrictions on the opening of Letters of Credit, which hindered procurement processes. As a result, HESCO was unable to purchase materials on time. However, many of the required materials have now arrived. The CEO assured further, that the allocated expenditure will be fully utilized in the upcoming fiscal year.

#### FINDING:

9. Keeping in view the above submission of the Licensee given in its reply against Show Cause Notice and during the hearing, following are the findings:

- i. The Licensee has submitted that Transmission and Distribution (T&D) losses have increased due to a variety of reasons. These include high electricity prices, poor socio-economic conditions, and a prevalent culture of non-payment. Additionally, the company faces significant challenges from ethnic and political interference by various segments of society. The situation is further aggravated by electricity theft, which often leads to law-and-order issues, including the blocking of highways and roads when offenders are caught.

The Authority has considered the submissions of the Licensee and completely disagrees with HESCO assertions, finding them to be unsubstantiated and lacking credible evidence. Further, the Authority also observes that some of the claims made by the Licensee appear to be exaggerated or misleading, and do not fully align with the ground realities or available data, raising concerns about the accuracy and reliability of the justifications provided.

- ii. The Licensee has further submitted that NEPRA approved an investment of Rs. 21,195.0 million for the fiscal year 2023-24 under various heads in the Multi-Year Tariff (MYT). However, the actual expenditure incurred by HESCO

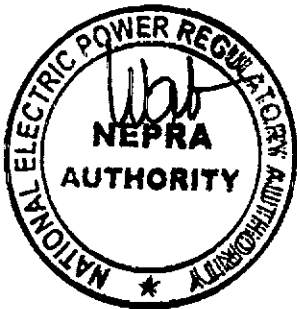


during the respective year amounted to Rs. 5,564.0 million. The shortfall in investment has been attributed to several factors, including restrictions on the opening of Letters of Credit, the impact of the COVID-19 pandemic and the subsequent post-pandemic challenges, fluctuations in the dollar exchange rate and overall market instability, as well as issues related to the non-availability of land for new grid stations and right-of-way (RoW) constraints.

The Authority has examined the submissions of the Licensee and observes that the factors for underutilization of the allowed investment given by the Licensee appear to be invalid as the same pertains to FY 2021 and FY 2022 rather than the period for FY 2023-24 during which losses have increased. The Authority further observes that the need for timely execution of approved investments to ensure system reliability and service improvement is the sole responsibility of the Licensee which it failed to do. As far as non-availability of land and right-of-way (RoW) are concerned, the Authority has noted with concern that the Licensee should have been taken proactive measures to address these concerns which were not taken by the Licensee.

- iii. Additionally, the Licensee has stated that its service territory comprises of 77,160 square kilometers out of 140,914 square kilometer of Sindh province which becomes 54.76% of total Sindh, which consists upon 13 District out of 29 total Districts of Sindh Province. Out of 77,160 square kilometer, 1,000 square kilometer pertains to kacha area (involving 10 Sub Divisions) including 3,000 square kilometer of Coastal Belt (involving 08 Sub Divisions) and desert area of Thar (involving 05 Sub Divisions). The Licensee has further added that it is a domestic based company and 82% consumers belong to the domestic tariff.

The Authority has gone through the the submissions of the Licensee and observes that the Licensee has tried to justify the decline in its performance with respect to T&D losses by giving reasons like vast geographical area of kilometers including challenging regions such as kacha areas, coastal belts, and the Thar desert—and serves a predominantly domestic consumer base (82%). However, such reasons do not justify the continued increase in Transmission and Distribution (T&D) losses and could not absolve the Licensee from its responsibilities. The rise in losses is a result of inadequate planning, weak enforcement, and insufficient implementation of technical and administrative measures. The Authority further added that the Licensee should have raised such concerns while getting its license from NEPRA for all such area with a commitment to fully supply reliable power supply with continuous improvement in different parameters including losses. The Licensee is hereby reminded that it remains fully responsible for ensuring system efficiency and loss reduction, regardless of operational challenges.



#### Decision

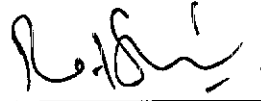
10. After due deliberations and taking into account the facts, submissions/arguments made by the Licensee, and in light of the NEPRA Act, NEPRA (Fine) Regulations, 2021, and other applicable documents, the Authority is of the considered opinion that the Licensee has failed to provide any satisfactory reply to the Show Cause Notice served to it. Therefore, the Authority hereby decides to impose a fine amounting to PKR

25,000,000/- (Twenty Five Million) on the Licensee due to its failure pertaining to improvement in T&D losses and Recovery in FY 2023-24 as compared to FY 2022-23.

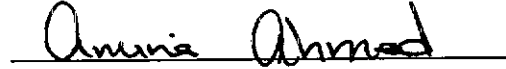
3. The Licensee is directed to pay the fine amount of PKR 25,000,000/- (Twenty Five Million) in designated bank of the Authority within a period of 15 days from the date of issuance of this order and forward a copy of the paid instrument to the Registrar Office for information, failing which the Authority may recover the amount due under section 41 of the NEPRA Act as arrears of the land revenue or through any other appropriate legal means in addition to taking any other appropriate legal action against the Licensee for non-compliance.

**AUTHORITY**

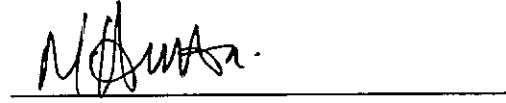
Rafique Ahmed Shaikh  
Member (Technical)



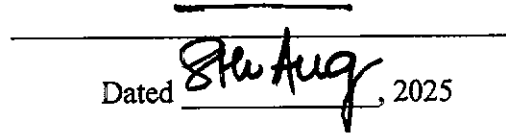
Amina Ahmed  
Member (Law)



Engr. Maqsood Anwar Khan  
Member (Development)



Waseem Mukhtar  
Chairman

  
Dated 8th Aug, 2025

