Improving state-owned Discos

Afia Malik

A story about the privatisation of electricity distribution companies (Discos) is circulating in print and social media. It says that the prime minister has approved a plan to privatise Discos, starting with the Islamabad Electric Supply Company (Iesco), Faisalabad Electric Supply Company (Fesco), and Gujranwala Electric Power Company (Gepco) in the first phase.

The argument in favour is that despite repeated government advice, Discos have not improved their performance. It is believed that the private sector can bridge the service delivery gap and work around financial limitations. However, the ‘who is currently running these Discos?’ factor is overlooked. Are these utilities independent corporate entities? The answer is no.

Decisions about finance, employment, pricing, or any other administrative decision in Discos are not without government (political) intervention or approval. Their board members are political appointees. Board decisions and, in some cases, meeting agendas are influenced by the Power Division. It is true that in such a scenario, these companies cannot improve or grow as institutions. So, is privatisation the way forward?

Prioritising revenue-generating areas over those with critical issues only exposes the insincerity in addressing power sector challenges.

> The focus should shift from the ownership question to strengthening managerial practices of state-owned distribution companies to actually encourage improvement

K-Electric’s privatisation is often cited as a success story that other distribution companies can emulate. It’s important to note, though, that K-Electric is a vertically integrated utility, not just a distribution company. It would be unfair to compare its financials with those of standalone Discos. However, even when considering only the distribution part of K-Electric, we can see its performance lagging behind some of the state-owned Discos.

For instance, in terms of operational losses (T&D), Iesco, Gepco, and Fesco lost 8.1 per cent, 8.6pc, and 8.8pc, respectively, compared to K-electric losses of 15.3pc in FY23, as reported in the National Electric Power Regulatory Authority (Nepra) reports. Likewise, bill recovery in K-Electric was 92pc less than that of these three utilities in FY23.

Regarding load-shedding, K-Electric’s performance is comparable to Peshawar Electric Supply Company (Pesco), Quetta Electric Supply Company (Qesco), and Hyderabad Electric Supply Company (Hesco), with a reported load-shedding duration of 4.5 to 10.25 hours.

These utilities carry load shedding as per aggregate transmission and commercial losses (AT&C) losses criteria, which is not in line with the Performance Standards (Distribution) Rules 2005. In contrast, the load-shedding hours in Iesco, Gepco, and Fesco were two to three hours on average in FY23, demonstrating their efficient operations.

K-Electric is a private company with the objective of maximising profits. About 25-30pc of the areas in the K-Electric jurisdiction face revenue-based load shedding, which is justifiable from the company's perspective but not from the consumer perspective.

The total receivables for K-Electric have increased to Rs229 billion in FY23. This increase is not solely due to the non-payment of federal and provincial departments. Their share was 22pc, while private consumers accounted for 78pc of the receivables.

All these facts are not meant to negate K-Electric's improvement over the last ten years, but to highlight that the improvement is coming from its competent management and corporate governance practices rather than because of its ownership.

Furthermore, making and implementing privatisation contracts requires expertise Pakistan's bureaucratic circle lacks. There are grave chances of making the wrong decision, as happened in some instances in the past with expensive independent power products (IPP) contracts.

Efficiency in electricity service and reduction in consumer tariffs can only be guaranteed through competition. Privatisation of a utility (natural monopoly) does not guarantee competition. The privatised monopoly increases profits at the expense of consumers and employees. Any possible privatisation along K-Electric's pattern is far from a solution to the power sector's challenges.

Moreover, the sector is in a state of confusion. Discussions about privatising Discos and implementing the Competitive Trading Bilateral Contracts Market scheme are ongoing, while the National Electricity Policy 2021 indicates that the uniform tariff policy will continue.

This policy discourages inefficient Discos from improving. It is also not an incentive for privatised companies or effective market operations. It is noteworthy that K-Electric is receiving significant tariff differential subsidies due to this uniform tariff policy despite being a private company.

To improve the electricity distribution sector in Pakistan, the focus should shift from the question of ownership to enhancing and strengthening the managerial practices of state-owned distribution companies, with a laser focus on financial discipline.

This will be possible through decentralising power and when Discos CEOs are made the principal accounting officers. Commercialisation is a necessity. The mandatory listing of these companies on the stock exchange for institutional investors and not for business conglomerates is a crucial step towards this goal.

Pakistan should strive to advance and transition towards empowering consumers through distributed generation — off-grid and on-grid. Adopting technology like pre-paid smart metres is a way to go.

The writer is a senior research economist at the Pakistan Institute of Development Economics.

X: @malikafia2021

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