Power sector woes

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Improving decision-making processes is crucial for establishing a fair and sustainable electricity sector. In Pakistan, the Power Division (PD) in the Ministry of Energy manages the power sector but lacks professional and innovative management. As a result, the sector experiences operational, financial, and commercial inadequacies, inappropriate policies, and a suboptimal energy mix. Decision-makers often raise consumer tariffs without realizing it increases financial losses and inefficiencies.

The PD has a limited understanding of technical aspects, leading to superficial discussions on losses and recovery issues. They overlook crucial realities on the ground and rely heavily on the guidance provided by donors. This approach has yet to result in improvements. Receivables are increasing, and circular debt (CD) continues to rise. Moreover, sanctioning investments in inappropriate projects and endangering essential projects for personal interests or incompetence is causing significant damage to the sector.

The government's involvement in the sector through the PD has grown stronger over time instead of becoming more decentralized. Furthermore, despite being centralized, there is no coordination across various energy departments under the PD, whose number, excluding distribution and generation companies, is more than twenty—several with overlapping functions and no effective contribution, only a fiscal burden.

The appointment of CEOs in energy companies, including state-owned distribution companies (Discos), is without merit. CEOs often get rotated among companies. No clarity regarding the laws regulating these companies despite their corporatization.

For a while now, privatization has been proposed as a way to tackle the ongoing issues in the distribution sector. The argument is that the private sector is better equipped to bridge the service delivery gap and work around financial limitations. It's commonly held that state-owned utilities lack the incentive to improve, which is somewhat valid. Political pressures and rent-seeking activities often hinder their ability to operate efficiently.

It is also a fact that even after unbundling, DISCOs in Pakistan have not been able to establish themselves as proper institutions. It will not be wrong to say that these are not allowed to do so. They are separate corporate entities only on paper; their boards lack effectiveness and power. The PD makes all the decisions, even approving the agenda for Discos' board meetings.

The power sector requires decentralized decision-making and a complete management overhaul. Companies need visionary management with a business plan focused on commercial success. They should be capable of adapting to new technologies, particularly pre-paid smart meters, to improve bill transparency and manage demand while reducing reliance on meter readers.

> Competition is central to service efficiency and lowering tariffs. Privatization of a natural monopoly does not guarantee competition. Research published by PIDE suggests that privatization may not reduce the government's financial burden. Instead, dividing the distribution companies into smaller units and appointing apolitical board members and professional management with innovative ideas could solve issues.

To be effective, these professionals must understand Discos' culture, socio-economic context, and consumer attitudes toward electricity usage. They should also be empowered to make critical decisions. Holding management accountable for decisions and finances can improve the sector's financial viability. The DISCOs will only see improvement if unprofessional bureaucracy stays out of their managerial affairs. Furthermore, eliminating a uniform tariff policy and an effective regulatory framework may help develop a competitive market.

It is crucial to have compulsory disclosure of all public sector energy companies on the stock market, with a maximum of 5% ownership by a single shareholder. Institutional investors should be allowed to control and run the business, not private conglomerates.

Improving coordination among different parts of the electricity supply chains is crucial. Shutting down some and consolidating the remaining 20+ entities will increase coordination in the energy sector while cutting government costs.

Over 40% of power generation in Pakistan depends on imported fuel, which can lead to power outages and exacerbate the country's energy crisis. However, reallocating resources, such as prioritizing local gas to RLNG-based power plants, can help reduce costs. Additionally, managing loads and prioritizing electricity dispatch based on economic merit order (EMO) can decrease generation costs. The operation of power plants often violates EMO, sending expensive electricity into the system; mismanagement is at every stage.

Over the years, little attention has been given to improving transmission capacity. A Transmission System Expansion Plan (TSEP) has yet to be developed. The system limitations in FY2022 resulted in a financial loss of Rs 3670 million. Immediate action is needed to address transmission inadequacies.

Capacity payments are increasing despite the revision of Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs) under the 1994 and 2002 policies. CPEC power projects commissioned (8913 MW) or in the pipeline (7028.7 MW) under the 2015 Power Generation Policy remained untouched. Another reason for rising generation costs is the dollar-denominated payments, even for power plants that use local coal.

According to NeprA tariff determinations, capacity payments have risen from Rs 1.25 trillion to Rs 1.95 trillion in one year. The main reason is the limited use of the existing capacity, due to fuel shortages, rising electricity prices, revenue-based load shedding, transmission constraints (especially for newer renewable energy plants), and decreased economic activity. Although energy costs have fallen by 22%, they are overpowered by a 56% increase in capacity charges.

Consumers pay capacity charges through their bills, provided they consume this energy. Making grid electricity more appealing to productive sectors (service provision is cheaper for the industry than domestic consumers) is necessary to recover capacity payments, i.e., by offering them tariffs without cross-subsidy.

It is imperative that the revenue-based load shedding of 3000MW to 5000MW comes to an end. This policy was initially introduced only for a few years to regulate defaulters, not meant to be a long-term solution. Its adverse effects outweigh the benefits for the power sector. As mentioned above, technology and management with creative ideas can address non-compliant areas and integrate them into the mainstream.

There is also a need to verify IPPs' claims regarding power-supplying capability. IPPs may be receiving compensation for electricity they are unable to generate. If not a complete forensic audit, an energy audit of these companies should be performed to monitor their actual capacity and availability. Otherwise, the capacity burden will rise even if 10000MW of solar is added. At least for the short to medium term, a complete moratorium on new IPPs is required.

Serious steps are required to address energy issues, not merely policy statements.