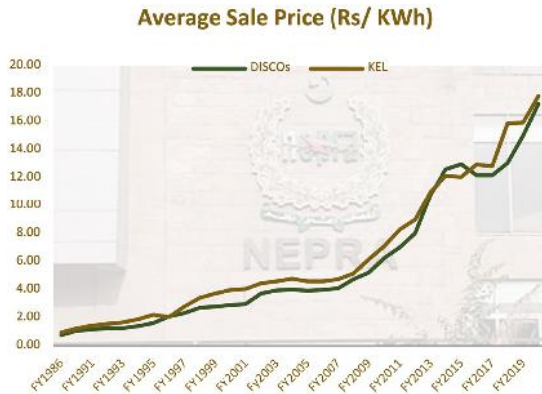


# Electricity pricing and regulation

There is no clarity on how the energy sector is being regulated; whether we have state of the art pricing frameworks. NEPRA is the regulator, yet the final decision-making is done at the energy ministry.



Our pricing system is based on load suppression model. This model was introduced when there was a shortage of energy and social welfare system was in place. After reforms, it should have changed, but we are continuing with it. In the generation cost-plus tariff, there is a lot of scope for improvement. But over the years, NEPRA has not come up with some good cost-plus formula.

Both NEPRA and the government are responsible for the recent long term contracts

with capacity payments. In 2005, NEPRA came up with power procurement regulation, which has no provision for long-term contracts. NEPRA has a strong advisory role under the law, but unfortunately, it is not exercising.

NEPRA neither has the capacity nor the authority to take decisions which are assigned to it under the law. Similarly, NEPRA does not have the authority to check the inefficiencies of the DISCOs, as they are not independent corporate entities. They are under government control. The regulator does send an advisory to the government on various issues but is incapable of asserting its authority.

After the amendment in NEPRA Act, 2018, a new law is in place. But how it is going to be implemented is not clear.

Our energy law making or policy making is flawed. It should be transparent and done after thorough consultations with all the stakeholders and local experts who understand the ground realities; and not at the behest of donors.

For consumer tariff, the regulator must determine the actual cost of supply, which thus far has not been done effectively. Now there is excess capacity and the issue of capacity payments, there is a need for a new pricing regime, like for instance, the more you use the less you pay. This will encourage demand and also solve the issue of huge capacity payments.

If nothing is done to lower consumer tariffs, people will eventually move towards other solutions, that is, renewables. This will have a devastating impact because of huge capacity payments.

There is no simple solution to a complex power sector issues in Pakistan. It is the job of the regulator to come up with a new innovative formula that worked well for the sector as well as for the overall economy. NEPRA needs reform to build its capacity to play a role more effectively in the power sector, just like SBP is doing in the banking sector. NEPRA should act as people's body and not as a government entity.