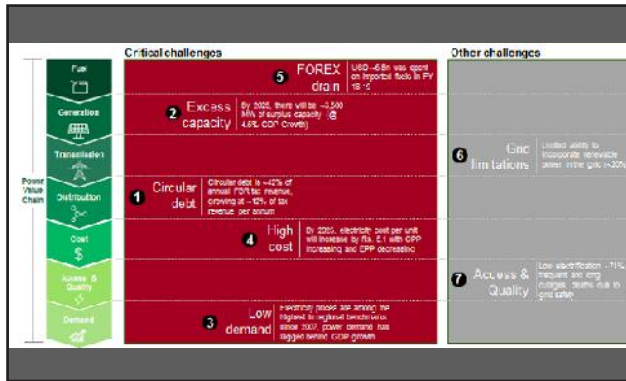


Fixing power sector issues

The webinar highlights challenges in the power sector and identifies solutions to these challenges.



High circular debt equivalent to 42% of Pakistan's tax revenue per annum; it is rising by Rs. 500 billion annually. Poor governance of the DISCO's is one of the primary reasons for the circular debt. The government is not going to the sources of the problem, instead chooses for temporary fixes and bail out the inefficient DISCOs; while consumers are bearing the financial burden. Besides, there is excess generation capacity in the country not because of low demand but because of revenue based load shedding of about 5000 MW in several areas.

Experts suggested bringing DISCOs in the retail business along with other competitors from the private sector. However, competition should not be allowed without looking at the dynamics of the city. For introducing competition, rules have to be fair. If any competitor comes, for instance, in Karachi, it should provide services to the high loss areas as well. Otherwise, the government should provide electricity services in high loss areas and allow competition in better performing areas.

Furthermore, leasing the major loss-making DISCOs or a set of feeders for 15 to 20 years is a more viable option than privatisation. This way, the assets would remain under government control; as opposed to K-Electric, where assets are under the control of the private management. The leasing should be under the condition that whoever gets the contract, would commit to upgrade system. Make PEPCO a holding company with representation from all DISCO's, managed by experienced professionals and not the government officials. The holding company would act as a centralised decision-maker and manager for the DISCO's.

Electricity tariffs in Pakistan are 26% to 28% higher than in other countries in the region. Although energy purchase price has reduced over the years because of switching towards cheaper fuels, but the capacity purchase price has increased mainly because of rupee devaluation. Our fuel mix is unsustainable, that is, 60% or more of thermal resources and that too imported, hydro is only 30%. It should have been the other way, more hydro and other renewables.

There are challenges in investing in transmission and distribution networks. Current regulatory framework incentivises generation companies while no incentives are there for transmission and distribution companies. There should be a balance in regulatory incentives given to generation companies and transmission and distribution companies. Regulatory certainty and policy consistency is critical for investor's confidence. There is need to revise current regulatory framework.

Each government comes in unprepared and makes ad hoc decisions. An integrated energy planning is required. Reforms introduced in the late 1990s were unplanned and remained incomplete. Strategically wrong decisions were made.

Finally, develop an electricity market. To start the process, bring in state-owned plants and soon-to-be-retired power plants under free-market trade. For competitive market development, all future generation contracts should be through competitive bidding, the preparation for these contracts should start from now.