

POWER SECTOR IN 2021

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Year 2020 ended with a whimper for the Power Sector. It has sadly burdened all – both, the national economy and individual wealth. And the onerous happenings of the sector seem to have constricted all else – so much so, that the Honourable Prime Minister was forced to proclaim the power sector as a nightmare.¹

What exactly were the issues.? Were these issues continuing as a legacy or were they created distinctly in 2020? Issue of availability of power somehow remained off-radar for most of the customers (mostly clustered in the Punjab), but did raise its ugly head in rest of the provinces including Khyber-Pakhtunkhwa, Sindh and Baluchistan. K-Electric’s jurisdictional areas in Karachi Metropolitan area had ups and downs and again Baluchistan towns of Bola, Uthal, Hub, and Winder were left to the elements. These towns and their denizens were probably not considered important enough. As these towns were subject to the revenue based load shedding² (a term invented by K-electric and

accepted by the national regulator) hence higher-ups were not invested in a thorough audit of state of affairs.

At best, such constriction of supplies could have been considered for a short duration during which the non-compliant could be main-streamed (in other words to be cajoled/forced to start paying-for and to not illegally abstract electricity being supplied to such areas), has been ignored and the situation has continues as such. Meanwhile, the fact that such a course results in lowering of demand, compatible less drawl of available generation capacity, bloating of capacity charges leading to increased electricity tariff for the complaint customers, skewed planning for new generation, transmission and distribution infrastructure, compromised planning and future assessments, loss of investor interest etc., has unfortunately been ignored. Besides, the discontent in the three provinces of KPK, Sindh and Baluchistan too has been ignored, which may impact the federation. Strangely enough Tabish Gohar, who once headed KESC and resigned as the Special Assistant to the Prime Minister on Power at the start of the year, in his last days in office agreed that the above policy was only

¹ “PM Imran Stresses Need for Reforming Power Sector Immediately,” *The News*, August 17, 2020, <https://www.thenews.com.pk/latest/701863-pm-imran-stresses-need-for-reforming-power-sector-immediately>.

² Salman Siddiqui, “Karachi and K-Electric - a Flickering Bond,” *The Express Tribune*, July 9, 2020, sec. Business, <http://tribune.com.pk/story/2254121/karachi-and-k-electric-a-flickerin-bond>.

good a decade ago and has no place in the present environment.

Similarly, in terms of affordability, 2020 was as disastrous as were the three earlier years – with myriad increase in the consumer end electricity tariff. The strange part is that the increases during the last two and a half years are being touted as just an effort to catch up with the non-increase in tariff during the period 2017-18. This was on the face of the various proclamations that steadily the power tariff would reduce. Meanwhile, the Government was able to somewhat blunt the increase by notifying special tariff dispensation for the industry through a budgeted subsidy for the current financial year. Whether it can be sustained in the long run remains uncertain.

The onerous burden of the ever-increasing circular debt too reached its zenith to a staggering Rs.2.3 trillion³ and continues to add-up with no respite. It was because of the fact that none of the reasons for its resurgence were tackled during 2020 – rather, more of the negatives were added to the fray. Unfortunately, the sectoral managers are not equipped enough to tackle such issues.

³ Mushtaq Ghuman, “Circular Debt Soars to Rs2.3 Trillion,” *Business Recorder*, December 5, 2020, <https://www.brecorder.com/news/40037724>.

Governing Power Sector

At present, governance of the power sector, squarely lies with the Power Division (just a part of the earlier Water & Power Ministry) of the Energy Ministry⁴. As the Power Division is devoid of related technical expertise, it could not graduate from being just a drag for the Power Sector. Consequently, the sector has been reduced to the level of meter reading and supply issues only. Even the focus on issues of losses and recovery is being undertaken in a very sterile manner. The rest of the few hundred other facets of operations have been relegated to the distress of the sector. Consequently, neither losses have reduced nor recovery has improved. The very fact that the circular debt is increasing by the day proves this. Additionally, now the defaulters owe upwards of Rs. 1.5 Trillion to the distribution companies up from Rs. 1.2 Trillion at the end of December 2019.

About the so-called reform process, 2020 saw a clear stalemate as even the meaning or direction of such an activity has been lost in the rigmarole of the below-par governance of the sector. Instead of addressing issues like

⁴ Farooq Tirmizi, “Govt Wants the PTCL Model to Fix the Power Sector. But Can It Work?,” *Profit by Pakistan Today*, August 30, 2020, <https://profit.pakistantoday.com.pk/2020/08/30/govt-wants-the-ptcl-model-to-fix-the-power-sector-but-can-it-work/>.

empowering the management of the Power Sector Corporatized Entities (PSCEs) through permanent CEOs, replacing the non-professional BoDs, deciding where exactly the official management company vs PEPCO stands, deciding what would be the law under which the PSCEs are to operate and where would the GoP stand when the above entities had been corporatized long ago, how could the provincial Governments be made to support, especially, the DISCO operations, more direct control by the Power Division has been seen. On the intellectual plane expectedly, instead of approving B2B sale of power arrangements, the same has been stifled and new scheme called “Competitive Trading Bilateral Contract Market” (CTBCM) is being touted as the new panacea of all ills. Thus, the year 2020 has ended-up with more confusion, senseless prancing by a plethora of so-called advisors and special assistants, and a sleepless Prime Minister (as per his own admission). The only silver lining was the performance contract that has been got signed by the hapless Minister of Energy. That the Minister has since resigned from chairs of the PPIB, AEDB and, NEECA BoDs is disturbing, but as per expectations.

Outlook for 2021

Based on the development of 2020, the future state of affairs is predictable. For any

improvements, immediate focus should be on governance of the sector instead of obsessing with availability of power, as this aspect alone can assure success or defeat of any operation.; For a decade, governance of the sector has been taken over by the Power Division (after the Ministry of Water and Power morphed into the Power and Petroleum Divisions and the Ministry of Water Resources). By the looks of it, no change seems to be evident in the scheme of things, and the Division is destined to retain its stranglehold on the GENCOs, the NTDC and DISCOs and as long as the mis-management stays, it becomes next to impossible for any change to manifest itself for the better. The shenanigans at the K-Electric would stay with more blackmail and misery for the Karachites and whatever SSGC or the NTDC would claim.

As long as governance modules remain the same, as there are no chances for the present managers to ever cede space to the professionals, no new agenda will be in the offing and thus, the continuing issues in proper billing and receipt of full payments by DISCOs would preclude any chance of relegation of the most unjust and callous revenue based load shedding clustered mostly in three provinces. Consequently, the Revenue requirement based on projected usage as

stipulated by the Regulator (after due petitions by the GENCOs, the NTDC and the DISCOs) will not be collected. The ensuing gap would further add on to the circular debt, which in turn would reduce the sector's capacity to pay for its generation bills. This would result in reduced generation, while capacity payments would increase in relation to the energy charges – again, requiring an increase in consumer end tariff. Here, the IMF's conditionalities for continuation of the Fund's program would come into play requiring further increase in tariffs as otherwise the gap could not be ever bridged. IMF, meanwhile, only focuses on balancing the books, and choice is to be determined by the government: either through full recovery of cost of service or by compatible increase in the consumer end tariff – incidentally, this is what is happening at the moment. Here another road seems to have been built and laid down in the shape of the up-coming National Electricity Policy 2020⁵. This document only plans to assure full recovery of the cost of supply (not service) coupled with the burden of the cross-tariff subsidy amounts. Meaning thereby, that the consumer-end electricity tariff would be further jacked-up to the detriment of the poor

⁵ Dr Shahid Rahim, "National Electricity Policy 2020: High in Intent but Low in Content," *Daily Times*, February 14, 2020, <https://dailytimes.com.pk/558147/national-electricity-policy-2020-high-in-intent-but-low-in-content/>.

hapless people and would also result in ensuing reduction in recovery by the DISCOs.

In view of the continuation of 2020 policies, management modules (including the non-professional stewardship of the sector), same policies and the merry go around amongst the special assistants/advisors at the Power Division and the lackluster BoDs (down the whole chain of utility companies), the Power Sector would remain in the same position as in 2020.

Thus, no change is envisaged. There would be increase in tariff; constricted supplies would result in load shedding in much of the country - especially during the period May to September, 2021 and serious consumer discontent will be seen; embedding of professionals/experts in the Power Division would remain a dream, placement of permanent CEOs in the PSCEs would not be possible and temporary appointees would carry on obeying the directives issued by Power Division, and lastly the Pakistani customers would remain at the receiving end.

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