Pakistan Power Sector Reform Plan

KEY TO A SUSTAINABLE, AFFORDABLE, AND RELIABLE POWER SECTOR

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WHY THE NEED FOR REFORMS

• Key issues:
  b. Deficiency in cost recovery leading to the accumulation of circular debt.
     i. Deterioration in exchange rate required an increase in tariff of about 35%.
     ii. Increase in international fuel prices required an additional increase of 30%.
     iii. Deteriorating generation mix led to further short fall in revenue.
     iv. Deteriorating consumer mix: Addition of captive power units taking away the higher paying customers from the PEPCO system.
WHY THE NEED FOR REFORMS (Contd.)

c. Stalled WAPDA corporatization plan led to a situation whereby corporate governance ignored, controls vested with PEPCO making the Boards and management ineffective.

d. Efficiency in the state run power sector companies has deteriorated in all aspects of operations.

e. Weak financial state of industry has had a direct negative impact on fresh investments in the sector.
PILLARS OF THE POWER SECTOR REFORM PLAN

4. Energy Efficiency to be the Cornerstone of new Energy Policy.
5. Maximize use of Indigenous resources for generation.
OVER VIEW OF
POWER SECTOR REFORMS

• Reforms are multipronged and developed in close consultation with multilateral/bilateral development agencies and other stakeholders.

  i. Ensuring autonomy to power sector companies.

  ii. Ensuring effective corporate governance through the professional boards of directors and management.

  iii. Induction of modern technology and managerial practices.

  iv. Redressing the adverse fuel mix through a least cost generation expansion plan.
iv. Correcting the imbalances in fuel costs to realize maximum economic benefit from our resources.


vi. Empowering NEPRA through an amendment to directly notify tariffs to avoid the recurrence of circular debt through the application of cost recovery tariffs.
iv. Ongoing work to deal with circular debt.

v. Automated payment systems amongst the companies to minimize discretion.

vi. Economic despatch and curtailment of inefficient generation.
MONITORING PROGRESS OF THE REFORMS

• The GoP has set up a steering committee consisting of the Minister of Water & Power, Minister of Finance, Minister of Power Natural Resources & Deputy Chairman Planning Commission to oversee the reforms.

• The Steering Committee is assisted by a strong Transition Team chaired by the Deputy Chairman Planning Commission. The Transition Team works in close liaison with the multilateral & bilateral development agencies as well as with all other stakeholders.

• Progress to date has been strictly monitored and shared with all stakeholders, and has been fully on track.
CONCLUSION

Having embarked on these ambitious but achievable reforms, by July 1, 2011, we aim to:

1. Reach cost recovery levels of tariff through cost reduction and tariff adjustment directly notified by NEPRA.
2. A far more efficient cost effective, service delivery, while ensuring optimal use of resources.
3. Fully functional Boards of Directors.
4. Energetic and empowered management of the companies.
5. MoWP formulating polices to create an enabling environment.
   • Regular performance evaluation of the sector.
CIRCULAR DEBT

• The circular debt consists of 3 distinct portions:
  – Rs. 301 billion already placed in Power Holding.
  – Rs. 125 billion over dues of previous years tariff differential subsidy is in the process of being transferred to PHPL.
  – Current tariff differential being addressed through cost recovery tariffs to be notified directly by NEPRA and automated payment mechanism for payment through the supply chain. At the same time cost is being rationalized by efficiency measures curtailment of uneconomic generation and various other measures.

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