**[The Rs400bn quandary](https://www.dawn.com/news/1826360/the-rs400bn-quandary)**

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THE financial instability of distribution companies has led to a conundrum for decision-makers whereby the federal government, under the IMF programme, seeks to alleviate the burden of circular debt and considers shedding the Discos. On the other hand, the provinces and private sector remain cautious about assuming associated liabilities. Their fate remains unclear, as the Power Division, the Special Investment Facilitation Council, the Privatisation Commission, and the provinces fail to reach a consensus on the future of Discos.

Discos are struggling, with multifaceted challenges and structural deficiencies within the broader power sector contributing to their financial instability. A uniform tariff regime equalises the tariff of all Discos based on a national average; it is subsequently reduced through government subsidies from the federal budget. Such regulatory hurdles and lack of corporatisation hold back competition for performance improvement, exacerbating financial woes.

In FY2022, Discos reported a staggering net negative equity of Rs1,426 billion primarily driven by transmission and distribution losses of 16.3 per cent. Last year, low recovery rates and theft resulted in a staggering loss of Rs236bn. Abolishing this regime also risks social backlash and political repercussions, particularly in high-tariff areas.

The culmination of these challenges manifests in annual net losses of Rs400bn, begging the question of how to proceed. Multiple options are being explored, including complete or partial privatisation, management contracting, provincialisation, handing over to the army, or maintaining the status quo.

Complete privatisation: The 1990s privatisation programme succeeded in privatising 167 entities worth about Rs476bn. However, recent attempts have largely failed, with only one success in the past decade. Successful privatisation demands strong political commitment, resolution of legacy contracts, settlement of liabilities, and negotiations with a sizable workforce. For instance, pressure from 3,500 employees at the Pakistan Steel Mills thwarted multiple privatisation attempts. With Discos employing over 100,000 individuals, gaining employee buy-in for any potential transaction appears highly unlikely.

Power distribution companies face many challenges.

Further, KE’s privatisation has been problematic, with the need for a massive Rs171bn subsidy last year due to regulated consumer tariffs. The current uniform tariff regulations provide little incentive for entities like KE to adopt cost-effective, cleaner alternatives. According to a study by Renewables First, an energy and climate think tank, integrating renewables into its generation mix could have saved KE $457 million over the past two years.

Moreover, aligning privatisation with liberalised market interventions, such as the Competitive Trading Bilateral Contracts Market, adds complexity. Since the wire business of Discos is a natural monopoly crucial to CTBCM success, determining the cost of using wires for bilateral contracts is a pertinent question. Also, corporatisation is essential, but some Discos lack formal boards, while others are intertwined with political affiliations.

Concession model: Concession models offer an alternative, permitting government ownership retention while outsourcing Disco operations to enhance efficiency. This public-private partnership model, akin to successful infrastructure projects in provinces such as Sindh, necessitates tailored approaches for each Disco, with awareness of potential job displacements.

Provincialisation: Provincialisation as a solution to the po­­w­er sector’s circular debt addresses me­­r­ely the symptoms, and not the disease. Provincial capacity to manage Discos is the same as, if not less than, the federal government’s. Imbalances could arise, with wealthier provinces subsidising tariffs, while others face increased tariffs, exacerbating economic disparities. For instance, Tesco (Tribal Areas Electric Supply Company) receives around Rs20bn in subsidies from the federal government for its expenses, with almost negligible recoveries. This makes up some 2pc of the provincial budget set aside for Tesco only. Although incorporating this amount into the NFC award has been proposed, historical issues with timely and complete NFC disbursements remain unresolved.

Maintaining Disco’s status quo may seem politically favourable but risks worsening the circular debt and relations with the IMF. Resolving Discos’ issues requires assessing social and financial costs, managing assets, and building stakeholder consensus. Regardless of the chosen path, consumers will bear short-term costs, with substantive benefits materialising in the medium term. The government should adopt forward-looking strategies in consultation with stakeholders.

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