**Not too late yet**

BY S O H A I B R . M A L I K 2020-12-05

ANALYST S of ten highlight the need for capable leadership in Pakistan`s energy ministry. Those at the helm of decision-making have persistently succeeded only in strengthening that view. The unceremonious and abrupt reshuffling of the Power Division recently indicated how the federal government was struggling to get a handle on the sector`s state of affairs. Now there`s a new special assistant to the prime minister and a federal secretary. This analyst spoke with SAPM Tabish Gauhar to learn about his vision and priorities, which have yet to get a formal nod from the federal cabinet.

We are well aware that the inefficiencies of the distribution segment, ie distribution companies or Discos, are wreaking havoc on the entire electric power value chain. Naturally, it gets top priority in the reform agenda. Instead of outright privatisation, Discos are suggested to be owned, partly or wholly, by provincial governments. Private firms will have performance-based management contracts under a public-private partnership mechanism and draw their management fees through a reduction in losses. Provincial and federal governments may consider full privatisation of Discos at a later stage. The public-private partnership model makes sense for those who can take a long-term view of the power sector vis-à-vis provincial autonomy. Nonetheless, it will likely receive diverging responses from provincial administrations.

The federal government has an attractive incentive to push for this devolution and absolve itself of Discos` future losses. What it `loses` is the ownership and control of a set of state-owned enterprises which it doesn`t manage proficiently. On the other hand, provinces may wonder how they benefit f rom shouldering the burden of annual losses of billions of rupees. Ultimately, this will become a political question and needs to be seen in that context.

Interestingly, the worst-performing Discos are mostly serving the provinces that demand and rightly so greater provincial autonomy and minimal federal control.

The PPP-led Sindh government champions the cause of provincial autonomy. It is enabling power plant installations in the province and aims to establish a regional grid company. It should wel-come the proposal and take the responsibility for its Discos` future health. The PTI`s plan should f ace little resistance in its stronghold of KP because the province is seeking a licence for a grid company and has vast power-generation ambitions.

Balochistan and Punjab have a different standing.

The former has serious resource constraints and shouldn`t be burdened at the outset. The latter has better-performing Discos, of fering an incentive for the federal government to retain their part or full ownership. This magnifies the need for a carefully crafted devolution strategy that gives due consideration to such matters.

The second set of ideas professes deregulated delivery and pricing of electricity. It suggests the creation of a competitive power exchange, or Competitive Trading Bilateral Contracts Market, wherein buyers and sellers trade electric power as a commodity. Given the intricacies the exchange entails, it would be rolled out in phases. The first phase targets major single buyers, representing about 15 per cent of the country`s total power consumption. The market will gradually transition to a stage where every consumer can contract electricity from multiple sellers, just like they can opt for any mobile service provider today. This is how power markets function in most industrialised countries.

The idea is not new in Pakistan. The exchange was a logical next step to the power sector unbundling of 1997. Successive regimes paid little heed to the original plan and the power sector regulator, Nepra, grew into a bureaucratic organ lacking the capacity to sustain the required momentum. The previous government of the PML-N revived the process but didn`t recognise how its excessive focus on power capacity expansion through sovereignbacked agreements would stem future prospects of a deregulated power market. Resultantly, the abundance of `take-or-pay` power purchase agreements confronts the accelerated development of the power exchange. As a matter of fact, policymakers have no choice but to tread this path no matter how bumpy and trying it turns out to be.

The plan requires enormous sums of money to settle long-standing liabilities. Most importantly, the proposal to clear Discos` dues through a fewinstalments involve hundreds of billions of rupees that the federal government should allocate. Even if all relevant ministries agreed to the suggestion, it remains to be seen how the Ministry of Finance and Ministry of Energy (Power Division) work out a plan to mobilise the required resources. The presence of an IMF programme makes it all the more difficult unless the Fund is on board, which may give rise to a set of unnecessary expectations that the government must satisfy.

No matter how convincing or urgent these measures may seem, they will face a plethora of opposition. Some of Gauhar`s fellow cabinet members may believe that the federation should advance its role, not decrease it. Politicians would vie to maintain the status quo that facilitates their undue interference in Discos` affairs serving their constituents. Bureaucracy may resist change for it demands of them to unwind their past decisions and upskill themselves. Many local firms will likely oppose the move because they are the most notable beneficiaries of the sector`s obsolete, uncompetitive structure.

Gauhar`s appointment as an SAPM indicates that he has the backing of the prime minister, which is necessary to tackle the aforementioned challenges. The retention of Omar Ayub Khan as a federal minister, however, may make Gauhar`s job more dif ficult. Khan has had an unimpressive stint so far and has yet to demonstrate a firm understanding of the challenges faced by the sector, let alone an ability to charter a clear, compelling path forward.

The PTI government has enough time in its current term to refine the reform plan. Only time will tell if they have the stomach to implement it amid voracious vested interests. Furthermore, this is going to be a multiyear process whose dividends will become evident gradually, ultimately and hopefully triggering a virtuous cycle. Therefore, it must be developed in a participatory manner to ensure consistency and ownership across the political spectrum.  The writer is an analyst.

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