**[Reimagining the energy sector](https://www.dawn.com/news/1764661/reimagining-the-energy-sector)**

[Tabish Gauhar](https://www.dawn.com/authors/10480/tabish-gauhar) Published July 14, 2023

IN the backdrop of the recent IMF deal, and renewed chatter on a Charter of Economy, much ink has also been spilled on the need to restructure Pakistan’s energy sector without which all band-aid solutions will remain just that. But beyond the well-meaning discussions and analysis, what are the fundamental factors that conspire to frustrate the turnaround of this space?

The root cause of the problem is the entrenched societal belief that it should be the government’s primary responsibility to provide energy, as an essential service, to the economy and population at large.

Our earlier policy experiments of privatising natural monopolies, without giving consumers a fair choice of suppliers, yielded mixed results at best. Likewise, frequent abuse by the private sector of its market power, due to cartelisation and weak regulatory oversight, unnerves even those policymakers who otherwise believe that the state should not be in the business of running businesses.

There are, of course, many examples of well-run state-controlled energy companies (in China and a few Gulf countries, for instance) but Pakis­tan’s own experience in this regard is hardly insp­iring. Moreover, our relatively underdeveloped sociopolitical ecosystem is such that our elected politicians and career bureaucrats are not incentivised to cede control of the energy sector to those that can run it much better if truly allowed to do so.

Notwithstanding these ground realities, we need to boldly break the status quo by restricting the government’s role to issuing effective and consistent policy guidelines (implemented by independent regulatory agencies) to allow the free flow of electrons and molecules between private suppliers and customers at market clearing prices.

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The traditional rent-seeking ‘lazy’ capital could be replaced with more entrepreneurial pockets of domestic and international financing by removing, in the first phase, all impediments to the direct exchange of energy products between private sellers and commercial and industrial buyers.

Rather than stretching its already weak balance sheet by buying distressed LNG and crude oil cargoes here and there (and all new independent power output), the government should, inst­e­­ad, act as the ‘matchmaker’ between such suppliers and our fertiliser, textile and other industrial companies forever clamouring for state subsidies in the name of regionally competitive energy tariffs.

While the state remains politically obliged to prioritising the supply of rapidly dwindling indigenous natural gas to residential users, it must embark on a massive incentive drive to electrify urban cooking and space heating with subsidised consumer finance schemes.

Similarly, a progressive slab-based tariff regime, and a targeted (ideally direct) subsidy programme for the most vulnerable segments of the population, will continue.

However, petrol and diesel pricing should be fully deregulated, with the private refineries, oil marketing companies, and retail dealers effectively competing against the state-controlled PSO and PARCO network for a market share based on competitive pricing and quality of service.

It is the government’s prerogative to increase or decrease petroleum taxes and levies to meet its budgetary needs, but it should not be the prime minister’s job to prescribe retail petrol prices every 15 days.

But what about those legacy ‘take or pay’ IPP contracts (backed by sovereign guarantees) that have also contributed to the massive recent increase in power prices, demand destruction, and build-up of circular debt?

Unfortunately, there are no low-hanging fruits to grab here to undo the policy actions, inactions, and mistakes of successive governments. However, doing nothing would be an even worse option now.

Renegotiating settled contracts is a double-edged sword that damages investor confidence in the long run, but we need to reprofile the project finance debt of the newer IPPs to provide some breathing space to the rate payers under a holistic reform plan.

Likewise, all existing imported coal power plants should expeditiously be converted to cheaper Thar lignite, as much as it is technically and logistically feasible via rail network.

As one of the most vulnerable countries to climate change, Pakistan can mobilise significant international funding under a ‘Just Energy Transition Partnership’ programme. Rich countries may provide some compensation for the ravages of floods and heatwaves, but they are more likely to fund a specific programme to, say, buy out the expensive (and idle) oil-fired power plants in favour of cheaper renewable energy.

On the other hand, the upcoming power commodity exchange can potentially transfer some sovereign liability to the private market when the wheeling regime is fully operationalised and appropriately priced. Creating a unified federal ministry of energy for more coordinated policy setting (while retaining Ogra and Nepra as separate regulatory agencies) is another long overdue reform agenda.

Conventional wisdom rightly holds that the government should not pick winners and losers in the economy and provide a level playing field to all market participants. Under a liberalised set-up, our state-controlled power and gas distribution companies would, however, lose out unless they too are privatised-cum-provincialised.

A ‘reimagined’ energy sector will result in the creative destruction of a few for the greater good, and there will remain some unproductive ‘stranded’ costs that cannot be wished away. A light-touch government footprint (other than for strategic G2G transactions or the financing of nuclear, dam-based hydro, and cross-border projects) is needed to yield a more sustainable and competitive energy sector. The devil is always in the detail, but the stakeholders should also evolve a Charter of Energy to address the Achilles’ heel of our economy.

*The writer is former special assistant to the prime minister on power & petroleum.*

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