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Govt moves law to pass circular debt to consumers

ISLAMABAD: The government has moved to secure the powers required to impose surcharges on consumer electricity tariff and special wheeling charges on industrial sector consumers in a bid to contain the runaway circular debt which is now close to Rs1.8 trillion.

The Power Division has introduced a bill in the National Assembly for Amendments to the Nepra Act 1997 (Regulation of Generation, Transmission and Distribution of Electric Power Act 1997) for regaining the powers that are crucial to reviving the $6 billion Extended Fund Facility (EFF) with the International Monetary Fund.

The surcharges so imposed will be used to finance the debt servicing cost of the power sector loans raised from time to time by the government to ensure payment of dues to the power and fuel suppliers. The exact size of the surcharge and on the consumer categories will be decided later this year in line with financial plan to be agreed with the fund.

Informed sources said the government tried to introduce these changes through the Finance Bill 2020-21 but was advised against it by the Law Division and office of the Attorney General of Pakistan since a Supreme Court decision prohibits the government from creating such powers via a finance bill.

Energy Minister Omar Ayub Khan on Thursday briefed the National Assembly's Standing Committee on Power. The bill was deferred for further discussion in the next meeting. The NA body constituted a sub-committee on the bill as well as issues relating to power sector of Sindh province.

The committee expressed concern over rising power sector circular debt that is approaching Rs1.9tr and continued to haunt the economy.

The National Assembly Secretariat quoted the payables to have hit Rs990bn mark and loans and liabilities parked in PHPL at Rs800bn and the tariff increasing by 12.5 per cent to 30pc.

Earlier, the All Pakistan Textile Mills Association (Aptma) had complained to the chairman Senate that the Power Division was seeking to amend the Nepra Act through the Finance Bill 2020-21 after its petition to impose Rs10 per unit additional charges on wheeling and fixed charges on connected load to discourage wheeling and captive power was rejected by the regulator.

The move was aimed at making captive power so expensive that industrial consumers could not exit the national grid now facing expensive and surplus power. Aptma complained that the government wanted to not only impose additional surcharges but also restricted the consumers from leaving the national grid for three years using the finance bill.

Talking to Dawn, the energy minister categorically said that there was no move whatsoever to amend the Nepra Act through the finance bill. However, he said the amendments to Nepra law had been introduced in the National Assembly "to follow proper and due legislative process even if it takes a time consuming and longer route."

He explained the government was moving towards multi-buyer and multi-seller electricity market and a series of steps would be needed to reform the power sector to self-sustainability.

He said about 65-70pc work on reforming the Central Power Purchasing Agency to multi-buyer and multi-seller market was to be done by the power regulator. Some definitional changes were also required in the existing law relating to wheeling, wholesale and distribution power, he added.

The draft bill seen by Dawn suggests the government was seeking amendments in Section 31 of the Nepra Act to get powers to impose and adjust such surcharges on any or all categories of consumers as it may deem necessary, in addition to the tariff, rates and charges worked out by the Nepra.

"The amount of such surcharges shall be deemed as a cost incurred by the distribution company and included in the tariff notified by the federal government," it read.

The government in the bill argued that such surcharges would be levied to raise funding for any public sector project to the extent decided by the government or for fulfillment of any financial obligation of the federal government with respect to electric power services.

Under another amendment, the bill seeks any bulk power purchaser to give a three-year advance notice before leaving the national grid and still be required to continue to make payments to the distribution company equal to the amount of cross-subsidy for uneconomic service for which it would otherwise have provided through purchase of electricity by the bulk power.

The bill also binds the Nepra to make quarterly tariff adjustments within 15 days on account of capacity payments and transmission charges, impact of transmission and distribution losses, variable operation and maintenance.

Under the IMF programme, the government is required to reduce the annual flow of circular debt from the current level to around Rs50-75bn by FY2023 through improving collection and reducing losses, streamlining tariff updates, and rationalising subsidies.

For this to achieve, the government has committed to the Fund for eliminating delays in tariff adjustments and reintroducing the government's power to introduce tariff surcharges.

The government has committed in writing to give the regulator the power to determine and notify quarterly tariffs, ensure timely submissions of quarterly and annual petitions by the Discos, eliminate the gap between the regular annual tariff determination and notification by the government to a maximum of 30 days.

The government is also obligated to reinstating its power to levy surcharges over and above the system's revenue requirements under the Nepra Act.