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Editorial

Burdening the consumer for system inefficiencies

Umer Ayub, Energy Minister, briefed the National Assembly Standing Committee on Power on a proposed amendment to the Nepra Act (Regulation of generation, transmission, and distribution of Electric Power Act 1997), envisaging the regulator regaining powers to impose surcharge(s) payable by consumers as agreed with the International Monetary Fund (IMF) under the ongoing 6 billion dollar Extended Fund Facility programme. Shazia Marri reportedly stated that there is a need to review the amendment and the bill was deferred for further discussion.

The IMF's objective in proposing the amendment to the Nepra Act, as per the EFF documents, is to eliminate power sector losses on a sustainable basis that would require both new pricing policies and improvements in governance and infrastructure. To achieve these objectives the proposed amendment envisages giving the regulator the power to determine and notify quarterly tariffs, ensure timely submissions of quarterly and annual petitions by Discos, eliminate the gap between regular annual tariff determination and notification by the government and reinstate the power of the government to levy surcharges over and above the system's revenue requirements. In the electricity consumers' parlance the amendment, if passed, would imply that the consumers pay for sector's inefficiencies.

The Pakistani authorities in the Memorandum on Economic and Finance Policies, a component of the EFF documents, pledged to "prepare by end-September 2019 a comprehensive circular debt reduction plan in collaboration with international partners (structural benchmark) with quarterly targets for losses, collection and accumulation of arrears (flow) by Discos. Element of the plan would include…(v) addressing the stock of circular debt to service the interest on accumulated power sector debt."

It is relevant to note that on 29 May 2015 the Lahore High Court, with Justice Mansoor Ali Shah (currently a judge of the Supreme Court) and Justice Ayesha Malik, declared surcharges unconstitutional and illegal, a verdict suspended by the Supreme Court. In 2017, the Nepra Act was amended ending the power of the government to impose surcharges; however, in line with recommendations made by the IMF in March 2018 the government decided to re-enact three surcharges on power consumers amounting to 1.55 rupees per unit to cover the 110 billion rupee power theft, non-recovery by power companies and system losses.

On 6 January 2020, the Economic Coordination Committee of the Cabinet (ECC) under the Chairmanship of Adviser to the Prime Minister on Finance Dr Hafeez Sheikh approved the draft amendment bill to the Nepra law submitted by the Power Division envisaging the reintroduction of surcharges in electricity bills enabling the government to pass on the sector's considerable inefficiencies associated with distribution and transmission losses as well as the interest on the accumulating debt estimated at around 1.7 trillion rupees at the time (which has risen to 1.9 trillion rupees today) to the consumers.

In the event that the amendment to the Act was not passed by parliament, the ECC on the Power Division's request, allocated on 20 May 2020 10 billion rupees from the Corona stimulus package as a stop gap arrangement for payment of interest on 200 billion rupee Sukuk II for a period of six months or "amendment in the Act whichever is earlier."

The Act if passed would imply a rise in the input costs of the manufacturing sector that in turn may fuel an output decline greater than the negative 41 percent growth in manufacturing revealed by the Pakistan Bureau of Statistics last week.

The foregoing sadly reveals another flaw in the EFF design that reflects the failure of the Pakistani team leaders to identify the legal lacunae in accepting specific conditions (another is revisiting the National Finance Commission award which requires agreement by all provinces before it can be implemented). Given that the two economic team leaders were non-resident Pakistanis till their appointment on 20 April and 12 May 2019, respectively, they may have been unaware of the legal issues and economic fallout in accepting these two conditions, however going forward, one would hope that these legitimate concerns are raised during deliberations on the pending second review of the EFF.