



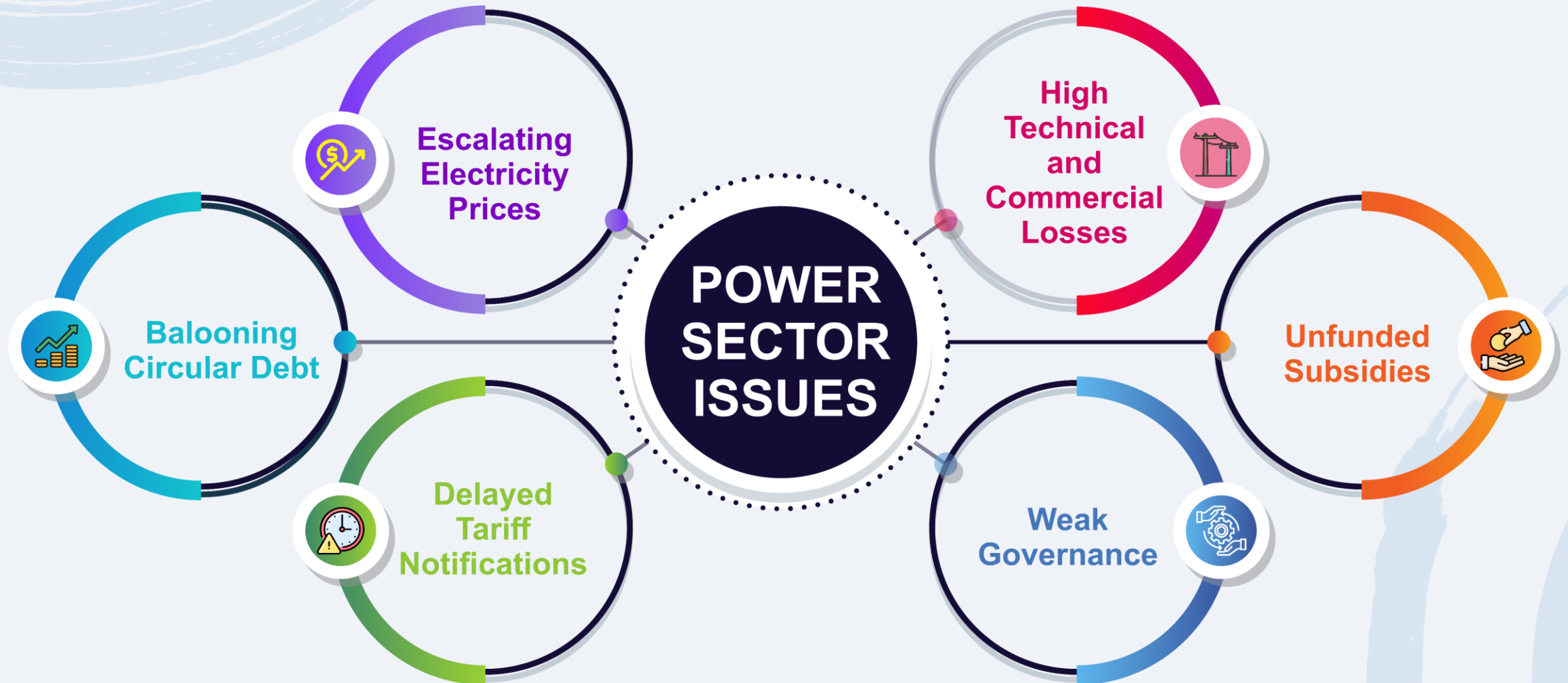
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# Reforms in Pakistan's Power Distribution

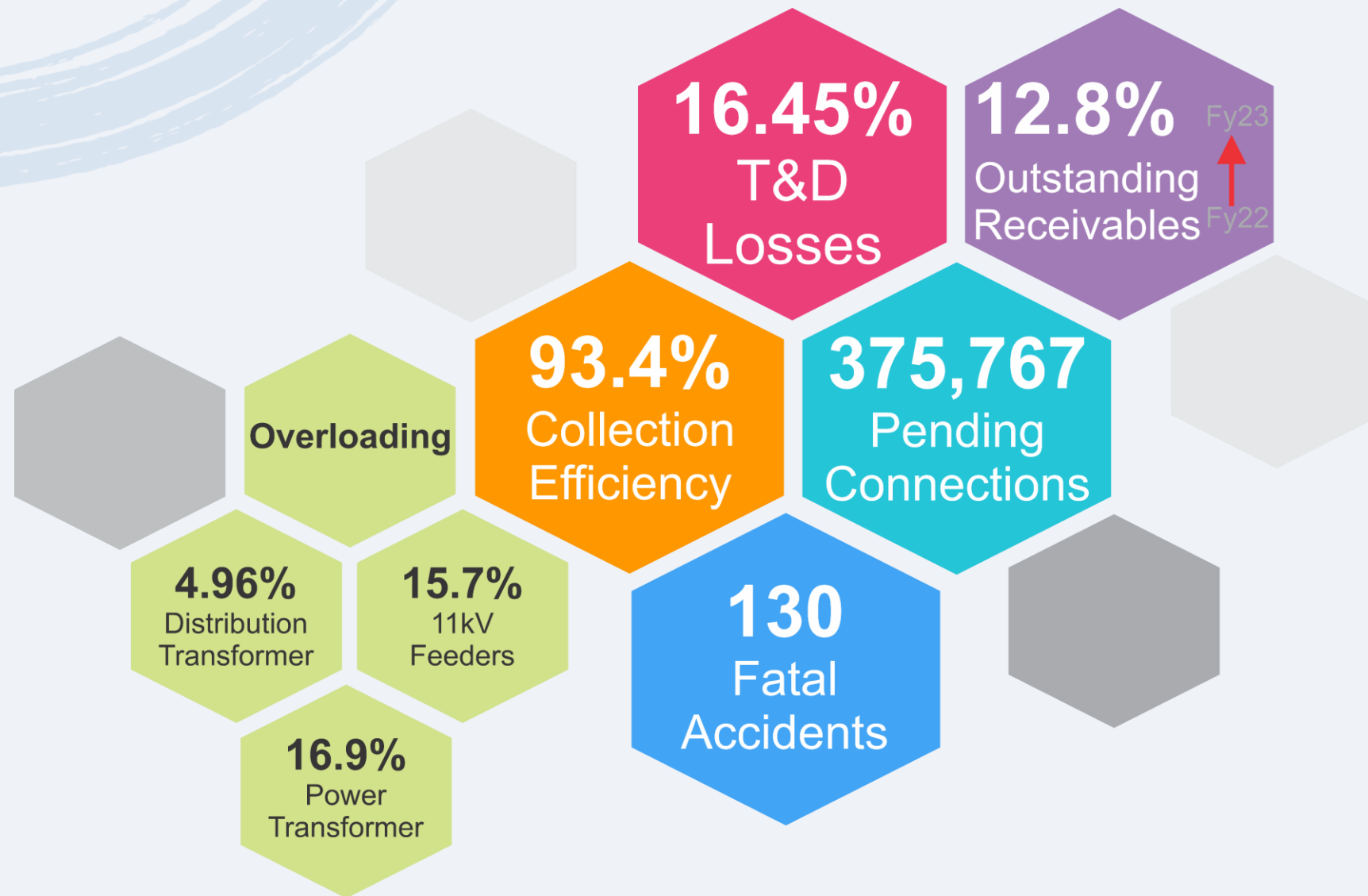
Challenges and Opportunities

October 2024 | Islamabad

# Persistent power sector deficits are weakening Pakistan's financial stability



## Continued technical and operational issues have led to a financial hemorrhage in DISCOs



# Weak governance and lack of access to capital have been additional causes of DISCO dysfunction

## Weak governance

- Historically, DISCO boards were disempowered, and board members often had conflicts of interest or lacked relevant knowledge/skills
- Government has reconstituted the boards in an effort to ensure more transparency and operational efficiency

**BR** Business Recorder

Boards of Discos: Power Division fails to discourage 'conflict of interest'

**THE NEWS** The News International

Govt revamps Disco leadership, appoints new board chairs

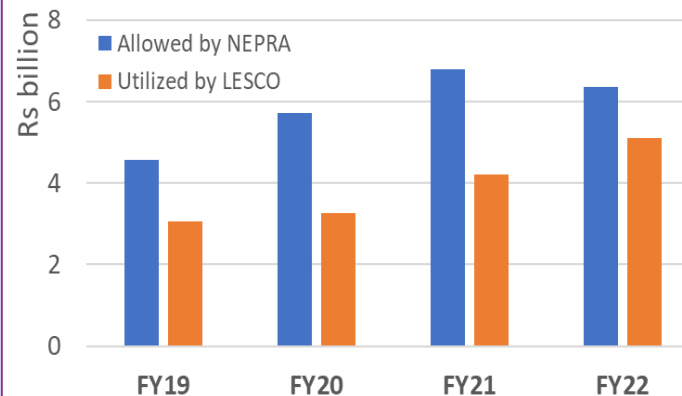
**P** Profit by Pakistan Today

Ministry of Energy appoints independent directors to Discos' boards

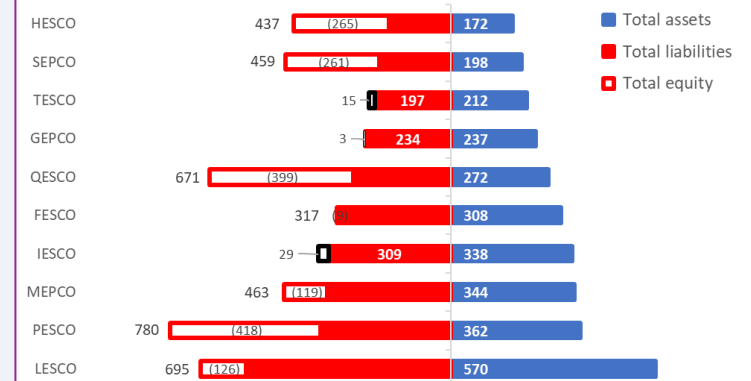
## Inadequate access to capital:

- Distribution/supply is capital-intensive
- Due to weak financial health, DISCOs have limited access to commercial borrowing
- DISCOs are not able to invest to reduce losses and increase sales
- Investments allowed by NEPRA are not always made

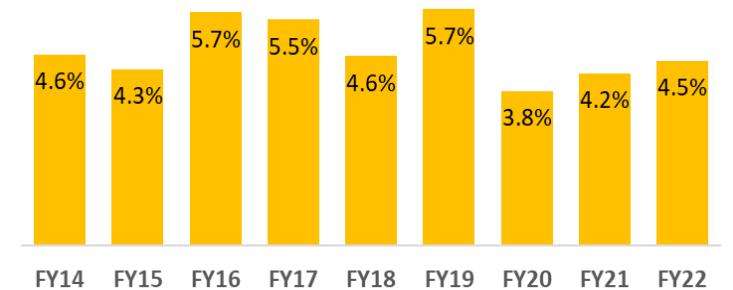
### LESCO: Sub-Trans Grid Investments



### Most DISCOs in negative equity in FY23: liabilities exceed assets



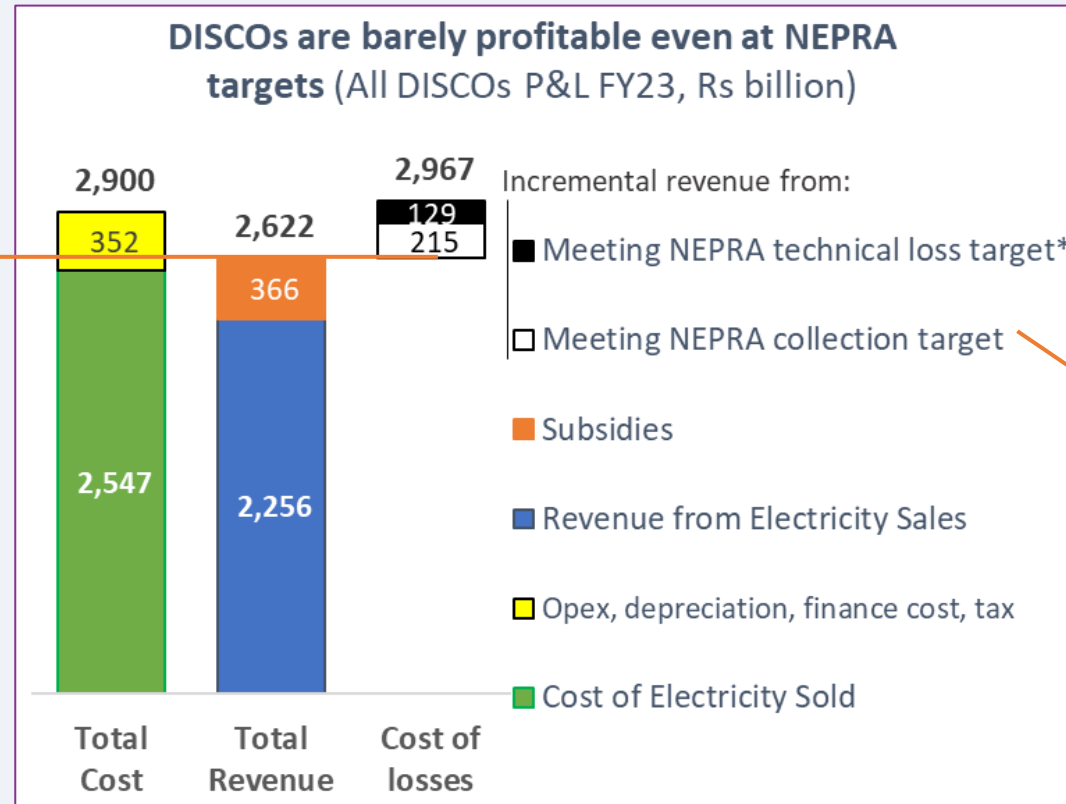
### DISCO capex is constrained All DISCOs capex as % of total revenue



# To eliminate circular debt, DISCOs need to perform even better than NEPRA targets

Total revenues/subsidies to all DISCOs  
Rs. 278 billion **below**  
total cost of all DISCOs in FY23

→ Directly contributing to circular debt



## TECHNICAL LOSS & THEFT (as % of electricity purchased)

DISCOs actual  
16.45%

NEPRA target  
11.70%

All DISCOs 2023

## COLLECTIONS (as % of electricity billed)

NEPRA target  
100%

90.51%

All DISCOs 2023

\*Valued at Pakistan's average tariff in FY23

Source: DISCO financial statements FY23, NEPRA

## Private Sector Participation (PSP) in DISCOs can address several critical challenges leading to enhanced delivery of services

- International experience suggests that PSP leads to the enhancement and improvement of service delivery and operational efficiency in DISCOs
- Through PSP, government with limited fiscal space can mobilize resources from the local, regional, or international private sector





**The success of PSP  
depends on a  
variety of factors...**



# The government has made some important gains, but the momentum must continue...

## PROGRESS ACHIEVED

- 2018 NEPRA Act Amendment separated DISCO licenses into supply and distribution
- Five-year Multi-year Tariff Regime
- Comprehensive regulatory framework notified, which includes
  - Eligibility criteria rules
  - Licensing regulations
  - Performance standards for suppliers
  - Power procurement regulations
- Preparation on DISCO performance standards
- Preparation of tariff guidelines
- Distribution code being updated
- CTBCM has completed testing phase and awaiting CMOD

## EMPOWER NEPRA

- Notify tariffs at full cost recovery
- Provide level playing field for new entrants
- Monitor and enforce high service quality

## TRANSPARENT TARIFF FRAMEWORK

- Assess current framework w.r.t. uniform tariffs
- Identify any gaps in framework for successful PSP

## NEXT STEPS

## ACCURATE ASSESSMENT OF UTILITIES' PERFORMANCE

- Assess audited financial statements of DISCOs
- Identify options to address and clean DISCOs balance sheets
- Identify and develop options for cleaning outstanding debt and claims

## ADDRESS HR CONCERNS

- Listen to concerns of employees and labor unions through continuous engagement
- Involve labor representatives to ensure that their input is considered in the transition process

## CLEAR COMMUNICATION

- Identify the who, what and how of communicating PSP engagement to each stakeholder
- Develop an action plan on communication methods, messaging, and trusted channels for each stakeholder





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**Thank You.**