

Country: Pakistan
Sector name: Infrastructure and Real Sector
Name of the initiative: Punjab Energy Project

*Presented at the Public-Private Dialogue 2015 Workshop
(Copenhagen, March 10-13, 2015)*

1- Background and Context

The persistence of an increasingly uneconomical electricity power generation and its inefficient use is undermining growth, investment potential and competitiveness in Pakistan. The total electricity power generation capacity for Pakistan is about 16,000 MW. The total peak demand is about 24,000; hence, the shortfall stands at 6000 MW (Ref. National Regulator (NEPRA); "State of Industry Report 2012"). According to the "Planning Commission" of Pakistan, the power shortfall crisis has erased between 3 and 4 percent of Pakistan's potential GDP growth during 2011 (Ref. NEPRA, Industry Report 2012).

The Punjab province in Pakistan consumes almost 2/3 of the total electricity generated in Pakistan. Around 50% of the total national electricity shortfall occurs in Punjab causing up to 16 hours of rolling daily blackouts in industrial cities. Electricity power shortfall in Punjab mostly stands to around 4,000 MW, or nearly 45% of the total provincial demand and is increasing by 6% annually. More than 55% of Pakistan's economic growth originates from Punjab. The province is home to around 60% of the country's industrial base. Excessive electricity load shedding is eroding Punjab's growth capacity and competitiveness. Industrial profits are slashed in half while over half a million industrial jobs has been lost in the province.

2- Issues of the Private Sector



The private sector is increasingly depending on captive generation to meet their energy needs. But the truly promising potential for captive generation lies with the sugar, mainly using renewable resource bagasse. However, the sugar industry has been reluctant to scale up its captive generation capacity. This is due to the presence of significant legal and regulatory barriers to the sale of excess power especially to private customers as well as uncertain efficiency standards.

At present, the government lacks legal, regulatory and operational capacity to systematically promote Decentralized Generation (DG)/CPPs and private-to-private (P2P) sales models. At the same time, certain legal and regulatory barriers, complex and cumbersome tariff setting processes and procedures are also hindering private participation in harnessing such a DG/CPP business model.

3- Program Goal:

The overall goal of this project is to increase investments in captive power generation and energy efficiency by taking the private sector into confidence and engaging with them on a continuous basis. Removing legal & regulatory barriers to private captive generation and private-to-private sales models and improving the regulatory and institutional response to industrial energy efficiency opportunities in Punjab will accomplish this. Promoting DG/CPP and P2P sales will improve the supply of electricity. This can make immediate contributions including: i) reduction in load shedding in Punjab, ii) improvement in the industrial sector performance; and iii) improving the operational efficiency of distribution companies in the province as these models will lead to competition in the sector.

4- Partnership, Structure and Processes

To this date the structure of the public-private dialogue (PPD) is informal but there are plans of formalizing the structure and aligning it with existing institutions to maximize the institutional potential. The private sector should have its voice heard in a structured format to ensure that policy makers listen to its concerns and solutions and there are



right incentives in place to warrant private sector involvement. Secondly, the private sector has a capacity and know how in many areas and if that is channeled to the government sector it can be very useful to them. The program will bring together the World Bank Group, Trade & Competitive Global Practice (GP) and Energy & Extractives GP in a concerted and urgent effort to improve the energy situation for industries existing in the private sector in Punjab. It will build support for these reforms through active PPD tools. The implementation of the project will be led by the Energy Department, Government of Punjab, as primary client of World Bank Group.

a. Main Stakeholders:

The reform agenda will be championed by the Energy Department, Government of Punjab, and implemented in consultation with the private and public sector stakeholders including the industry. It will also work very closely with the regulators and the Distribution Companies (DISCOS).

b. PPD Typology:

Area: Provincial

Scope: Energy Sector but implications for the whole economy

Permanent Institution for PPD: In the development phase

Focus: Specific focus

Main Actors: Energy Department and its related outfits, regulators, other public sector organizations, DISCOS), industry and related private sector organizations

c. Results so far/ Outputs:

Public-private dialogue has been adopted to achieve the intended goals of the program. Although a formal PPD structure is quite in a nascent stage, two major events have been held to involve the private sector and seek their inputs. This is a first step towards the reforms process aiming to improve the business environment, address the shortfalls and generate more electricity, ease the regulatory requirements for the private sector and thus improve the overall investment climate. The initial steps that have been taken are as follows:

1. In March 2014, a two-day conference titled **“Addressing Power Deficit: Shifting from Single-Buyer to Multi-Buyer Market”** with an aim to look into various models for encouraging greater private sector investment in captive power



- generation and supply for reducing load shedding was held in Lahore, Punjab. It had participation from the highest echelons like the Chief Executive of the Province, the State Minister for Water and Power, Advisor to the Prime Minister on energy, the Secretary of the department and various private sector experts, professionals, academia, industry people and international consultants. The Conference provided public-private stakeholders a platform to discuss critical policy, regulatory and financial bottlenecks to private-to-private (P2P) supply models that are effectively preventing increased investment in captive power generation. The event helped to define a reform agenda, identifying roles and responsibilities, a roadmap to remove these barriers and unleash the potential of brownfield captive generation projects linked to bulk industrial consumption that can help reduce the current power deficit in Punjab.
2. The second conference titled **“Consultative session on Wheeling & Private Grids”** was held in January 2015 to seek inputs/insights on the Green Paper from power sector stakeholders, to have an in-depth discussion on the recommendations given in the paper and the background to these recommendations in a PPD setting. It was attended by the private sector in huge numbers apart from the Advisor to the Prime Minister on Water and Power, Additional Chief Secretary Energy, local and international consultants. Regulatory, technical and financial issues were discussed in depth as far as wheeling and private grids are concerned and the inputs were sought regarding the drafted recommendations from the private sector.

d. Main outcome to date

The Green paper, which highlights the issues and recommendations regarding Wheeling and Private Grids, is the first major outcome of the critical public private dialogue process carrying forward its constituents, conclusions and recommendations. The comments have been received from the private sector and are being factored in to develop the White Paper, which will then be sent to the Federal Government, the Council of Common Interests and the Regulator for action.



Apart from these two major conferences held there have been many individual discussions with the private sector to identify issues on their end, to address their concerns and seek their inputs to finalize the Green Paper.

e. Expected Project Results:

Towards project completion, key development results shall include:

- Three (3) Sector laws, policies and regulations relating to Captive Power Plants, allowing open access policy with minimum licensing requirements, developed and enacted.
- Two (2) Sector laws, policy or regulation related to improved energy impact areas (standards on motors/ boilers)
- Two (2) Regulatory barriers, such as sector policies and regulations
- Objection Certificates by DISCOS

f. Exit Strategy:

Success for this project means implementing the recommended reforms. The project team will utilize PPD and will engage the private sector in order to ensure sustainability and continuity of reforms beyond the project since the Energy sector reform is an ongoing and evolving agenda. A structured PPD institution/body will be set up which can later take up a permanent role in the facilitation process and act as a link between the government and the private sector organizations.

g. Role of the Development partners:

- Encourage, facilitate and promote the PPD
- Build capacities and share the global lessons learnt
- Create a formal structure for PPD in consultation with the Government and the Private sector
- Develop a sustainability plan so that PPD is a part of the system and not an adhoc initiative/process

h. Challenges:

- Current power deficit in the country
- Dealing with the diversity of the Private sector
- Fragmented public sector organizations in the energy sector
- Fixed/ rigid mind set of the regulatory bodies



- Trust deficit of the Private sector in the Government
- Weak enabling environment
- Level playing field for small and large industries together with the public sector is missing
- Finding the right champions
- Quality and capacity issues regarding participation in the dialogue process
- Transparency & Accountability

i. Funding

The main source of funding for the project implementation comes from DFID.