

PAKISTAN ENERGY SECTOR REFORM

PROGRAM TECHNICAL MEMORANDUM FOR DEVELOPMENT POLICY OPERATIONS

The purpose of this document is to detail and clarify the required content and scope of each policy actions in the matrix of the Pakistan Power Sector Reform operation(s). The program is designed as a series of annual single tranche operations. Approval and disbursement of each tranche is subject to completion of the policy actions defined in the matrix for the corresponding operation.

The overall objective of the program is to support the implementation and goals of the GOP National Power Policy 2013 to develop an efficient and consumer oriented electric power system that meets the needs of its people and economy sustainably and affordably. The operation focuses particularly on policy and institutional actions that will restore financial viability and thus reduce the burden of public financing for the sector. Within this overall strategic focus, the actions prioritize ensuring a sustainable least cost generation mix for affordability, and a transparent and predictable policy and regulatory framework to attract and finance investments, protect consumers and strengthen the credit worthiness of companies in the power sector.

1 FIRST OPERATION

1.A Managing Tariff and Subsidy

1.A.1 Goal: Adoption of clear policies on tariffs and subsidies to target low income consumers; ensuring policy implementation through NEPRA rules and regulations; and reduction of discretionary policy decisions and lag in tariff approval and implementation.

Prior action 1: Economic Coordination Committee (ECC) approves the Tariff and Subsidy Policy directive, including instruction for NEPRA to ensure that tariff rules and regulations are consistency with policy.

Scope for completion of the action:

The policy directive includes among others:

- Objectives
- Legal background and principles for electricity tariffs and subsidies.
- Principles and policy for low-income domestic consumers (lifeline tariff), and clarification of subsidy funding (e.g. direct subsidy from the government or cross subsidy from other domestic customers, or a combination of both).
- In the determination of electricity tariffs, NEPRA will take into account any subsidy amount informed and provided by the government.
- Policy principles and approach for annual distribution tariff determination.
- Objective, conditions and policy for the implementation of multiyear tariffs (MYT) in DISCOs.

- Policy principles and approach for transmission tariff determination.
- Policy principles and approach for [generation prices and] for bulk sales by CPPA to DISCOs and KESC.
- Objectives and policies for fuel adjustment in tariff.
- Transitional tariff equalization mechanism under current uniform tariff approach for DISCOs based on Federal Government subsidies, and goal/objective of achieving differentiated electricity tariffs per DISCO.
- NEPRA to notify rules/regulations and procedures with (i) methodology for determination of transmission services revenue requirement and tariff/charges, (ii) methodology for distribution margin, revenue requirement and tariffs.
- Policy approved by the ECC.

Prior action 2: NEPRA publishes for consultation draft regulation for DISCO tariff determination covering principles, methodologies, timetable, formula and procedures for both annual and multi-year tariff (MYT), and including (a) procedure for DISCO to submit investment costs prior to filing of petition; and (b) adjustment mechanisms during the year including formula based forward-looking automatic fuel price adjustment (FPA).

Scope for completion of the action:

- MWP will instruct DISCOs to submit to NEPRA by April their respective planned investments and costs for the subsequent fiscal year.
- NEPRA drafts regulation for DISCO tariff determination covering principles, methodologies, timetable, formula and procedures for both annual and multi-year tariff (MYT), and including (a) procedure for DISCO to submit investment costs prior to filing of petition; and (b) adjustment mechanisms during the year including formula based forward-looking automatic fuel price adjustment (FPA). The draft regulation will cover:
 - DISCO tariff determination regulations, based on rules, methodology and formulas used under current practices and included in tariff determination;
 - To enable sufficient time for NEPRA tariff determination with reasonable consultation, regulations establish obligation of each DISCO to submit investment plans and costs, including their justification, by April each year prior to filing petition, for NEPRA review and request DISCO additional information or clarifications for the petition;
 - To clarify deadline for DISCOs to file the petition not later than July / August each year), including investment information as completed in previous bullet, and process to carry out determination within 4 months in normal circumstances;

- Draft will be based on previous MYT rules and experience (e.g. FESCO), and after consultation notifies multi-year tariff (MYT) rules with the methodology to be applied to DISCOs, including among others:
 - i. Type of control regulation and duration of the multi-year tariff control period.
 - ii. Relevant quality of service indicators.
 - iii. Principles and methodology for the determination of the distribution margin, revenue requirement, regulated asset base, depreciation and capital costs to meet expansion and upgrade needs to deliver required quality of service.
 - iv. Principles and methodology for determination of operation expenses including operation and maintenance, administration, billing, working capital, etc.
 - v. Principles for allowed level of losses and path for improvements.
 - vi. Principles and methodology for cost of capital and taxes
 - vii. Index based formula for annual tariff adjustment
 - viii. Intra-annual adjustments (e.g. quarterly power cost adjustment and fuel price adjustment).
 - ix. Transitional arrangements for initial implementation, if needed.
 - x. Review process for each next/new tariff control period.
- Methodology with forward-looking based formula and benchmark based inputs, as a procedure/methodology/guideline.
- NEPRA publishes draft DISCO tariff determination for hearing/ consultation process.

1.B Improving Sector Performance and Opening the Market to Private Participation

1.B.1 Goal: Loss reduction and improving collections in DISCOs

Prior action 3: MWP issues a policy directive to (i) establish that collection of the feeders with losses 50% or above in PESCO, SEPCO, HESCO and QESCO be outsourced to the private sector; (ii) instructs all DISCOs to implement revenue protection program that ensures correct billing, reduces losses, in particular theft, and improves collections; (iii) MWP submits for CCI decision on mechanism to automatically adjust amount of receivables owed by provincial governments and agencies; and (iv) Federal Government adjusts any current arrears of federal agencies or entities.

Steps and scope for completion of the action:

PESCO, SEPCO, HESCO and QUESCO will implement outsourcing of collections of the feeders with losses of 50% or above and publish progress and completion report;

DISCOs to implement revenue protection program covering the following:

- DISCOs complete the on-going feeder smart metering system and implement smart metering for large customers [5 kW and above, to be discussed during mission] for remote reading.
- DISCOs implement software tool for data management of remote readings from smart meters in a security-protected database, and management and maintenance data tools with modifications restrictions (tamper proof except to authorized user).
- DISCOs implement database monitoring procedures to (i) identify irregular behavior in energy consumption; (ii) investigate if due to theft or problems in meter; and (iii) address the problem and/or assess / estimate non-technical losses.
- DISCOs use the metered data from the tamper proof database in the calculation of each DISCO losses
- DISCOs invoice customers using metered data from the tamper proof database.

Government will make available on monthly basis information of the arrears of federal agencies or entities.

1.B.2 Goal: Managing generation cost through Least Cost Planning (LCP), and ensuring new generation entry follows the LCP.

Prior action 4: MWP issues a policy directive establishing the principles and process for NTDC to prepare the long-term least-cost generation and transmission expansion plan and its periodic update, and that new generation entry will follow that plan.

Steps and scope for completion of the action:

MWP issues policy directive including:

- The least cost system expansion plan will cover at least a 10-15 years horizon, and will be updated every 3 years. The plan will correspond to the least cost generation expansion, taking into consideration imports, to supply demand, within the goals and standards set in the policy as described below.
- The plan will integrate renewable energy targets and energy conservation measures, and track expected results in GHG emissions.
- MWP will provide as inputs the goals or targets regarding the share of renewable energy in total generation, and greenhouse gas emissions per unit of generated electricity. [MWP/MPNR] will provide [two or more] scenarios on availability of domestic and imported resources for the power sector. MWP will provide security of supply target that will be applied in the long term least cost expansion plan as an input.
- NTDC will prepare the least cost generation expansion plan and the associated transmission expansion plan, following the principles, goals and standards set in the policy and the provisions and processes in the Planning Code of the Grid Code, as amended to comply with the policy. NTDC and the Grid Code Panel will review the Grid Code and submit amendments necessary to ensure consistency with the policy directive, for NEPRA approval.

- Demand projections and generation expansion planning will integrate the expected impacts of demand side management and conservation programs on energy and peak demand consumption. The demand projections (not less than 15 – 20 year forecasts) and expected generation capacity available and planned new generation entry for the planning studies will use inputs from generation (existing and new investors), distribution entities and customers directly connected to transmission grid, as established in the Planning Code of the Grid Code plus additional information as may be necessary. NTDC will exchange information (inputs and results) with these entities.
- The transmission expansion plan will comply with the power system studies and other technical provisions in the Planning Code of the Grid Code.
- NTDC will carry out technical consultations with relevant stakeholders prior to finalizing and submitting the demand projection and expansion plan for approval. The generation and transmission expansion plan will be reviewed by [NEPRA], and approved by [MWP] after consultation process.
- Before the end of each year, NTDC shall carry out studies on expected system operation and dispatch for the next year, and submit an “Annual System Reliability Assessment and Improvement Report” (ASRAIR) for the next year, including transmission capacity availability and estimated congestions, and updates to transmission investments and other measures to address problems identified and minimize negative impact to the least cost merit order dispatch of generation, as required in the Grid Code. The report will also include an update on actual demand, actual generation availability and new generation entry compared to projections in the approved expansion plan.

1.B.3 Goal: Increasing gas supply and opening the gas market to direct contracting sales to gas large consumers

Prior action 5: (i) MPNR discloses the 2013 Model Petroleum Concession Agreement on their website; (ii) MPNR announces the award of the 2013 bidding round; (iii) OGRA issues at least 3 pricing notifications under the 2012 Petroleum Policy; and (iv) Cabinet approves the Gas Theft (Control & Recovery) Act/ Ordinance.

Steps and scope for completion of the action:

- MPNR to obtain comments from the provinces on the draft 2013 Model Petroleum Concession Agreement, incorporate the comments and publish on the website.
- MPNR to provide list of concession holders who have applied for conversion (by 15 December 2013).
- Provide list of executed supplemental agreements based on the list of applicants.
- MPNR to prepare and complete the draft Gas Theft (Control & Recovery) Act/ Ordinance.

1.B.4 Goal: Commercialization and improving performance of public companies in the power sector

Prior action 6: MWP signs performance contract with at least 3 DISCOs.

Steps and scope for completion of the action:

MWP signs performance contracts with at least 3 DISCOs that include:

- Responsibilities of the Board of Directors to develop and implement an approved strategic business plan to achieve the performance improvements and targets set in the contract.
- Indicators and actions to improve operational and commercial performance;
- Reporting of financial performance
- Reporting and survey on customer satisfaction
- Training of staff
- Targets on safety performance

1.B.5 Goal: Commercial Operation of CPPA as an independent company agency to buy power on behalf of DISCOs, and implementation of a multiple buyers market by allowing generators to contract sales directly with large consumers

Prior action 7: [CPPA's Articles of Association establish CPPA an agency that is independent of NTDC; and NTDC/CPPA signs on behalf of DISCOs PPAs with at least 2 GENCOs, with energy price based on heat rate testing] and novation clause [on the executing party from NTDC to CPPA] as soon as CPPA becomes fully operational as an independent agency.

Steps and scope for completion of the action:

- CPPA created as an independent agency to act as agent for DISCOs power purchases.
- CPPA signs on behalf of DISCOs PPA with the power plants of 2 GENCOs, including heat rate cap/target and periodic heat rate testing, pricing, invoice and payment, and management of delayed payment and dispute resolution.
- Novation clause to be built into the PPAs to ensure that CPPA becomes the executing party to the PPAs (not NTDC) as soon as CPPA becomes fully operational.

1.C Accountability and Transparency

1.C.1 Goal: Increasing access to information in the energy sector

Prior Action 8: NTDC/CPA implements web-based access to operational information including generation merit order and daily payment instruction to generation.

Scope of information in the website for completion of the action:

- Hourly load, and monthly energy and peak load generated, estimated daily and monthly load shedding published daily.
- Daily generation availability (maximum capacity, fuel availability or constraints, and hydro availability or constraints) published daily
- Daily merit order published, identifying when applicable “must run” (out of merit order) generation and the corresponding justification (system security standards, transmission congestion, test of a unit, etc.)

Prior action 9: DISCOs include subsidy amount in customer’s bills; and publish on their website monthly billing and collection aggregated by consumer category.

Steps and scope for completion of the action:

- DISCOs to include subsidy amount in the invoice of each customer based on the subsidy allocated to each tariff category in the tariff notification.
- DISCOs to publish the monthly billing and collection data aggregated by consumer category.
- Invoice of DISCOs for each tariff category shows the subsidy amount provided by GOP, if any, for that customer.

1.C.2 Goal: Monitoring and Surveillance

Prior action 10: GOP instructs to establish a Delivery Unit with terms of reference to include monitoring of energy sector, reporting on quarterly basis and public disclosure.

Steps and scope for completion of the action:

- The Delivery Unit will monitor the progress and status of the implementation of the 2013 National Power Policy and publically disclose its report on quarterly basis.
- The Delivery Unit will conduct audit on the performance of NEPRA and publishes the result in the quarterly report for public disclosure.

2 SECOND OPERATION

2.A Managing Tariff and Subsidy

2.A.1 Goal: Adoption of clear policies on tariffs and subsidies to target low income consumers; ensuring policy implementation through NEPRA rules and regulations; and reduction of discretionary policy decisions and lag in tariff approval and implementation.

Indicative Trigger 1: After hearing and consultation, NEPRA notifies regulation for DISCO tariff determination covering principles, methodologies, timetable, formula and procedures for both annual and multi-year tariff (MYT), and including (a) procedure for DISCO to submit investment costs prior to filing of petition; and (b) adjustment mechanisms during the year including formula based forward-looking automatic fuel price adjustment (FPA).

Steps and scope for completion of the action:

- After hearing/consultation process, NEPRA reviews and modifies DISCO tariff determination regulation.
- NEPRA notifies DISCO tariff determination regulation and publishes the regulation on NEPRA website by April 2014.
- NEPRA identifies amendments required to other to tariff regulations and procedures, and amends as necessary.
- NEPRA notifies Amendments to NEPRA Tariff Rules (as needed, to be determined after policy directive issued)

2.B Improving Sector Performance and Opening the Market to Private Participation

2.B.1 Goal: Loss reduction and improving collections in DISCOs

Indicative Trigger 2: The DISCOs identify and assess existing consumer receivables and their respective recoverability and to reflect, in accordance with the Companies Ordinance and the General Accounting Practices, re-classification, provisioning of the qualified receivables in the audited accounts for the next fiscal year.

Scope for completion of the action:

- MWP to instruct the DISCOs to identify and assess existing consumer receivables and their respective recoverability.
- DISCOs to reflect the findings and necessary changes in the audited accounts for fiscal year ending 30 June 2014.

2.B.2 Goal: Improving demand side efficiency and strengthening energy conservation

Indicative Trigger 3: MWP issues regulation on Minimum Energy Performance Standards (MEPS) for at least 3 energy-intensive consuming appliances or technologies, and labeling.

Scope for completion of the action:

- Formulate Minimum Energy Performance Standards (MEPS) for at least 3 energy-intensive consuming appliances or technologies.
- Roadmap for the phase out of appliances or technologies that do not comply with MEPS.
- Determine criteria for selecting products for labeling and label energy-consuming appliances based on the criteria.

2.B.3 Goal: Managing generation cost through Least Cost Planning (LCP), and ensuring new generation entry follows the LCP

Indicative Trigger 4: MWP updates policy framework, procedures and documentation for competitive and unsolicited bids from IPPs for new capacity.

Steps and scope for completion of the action:

- Policy framework, procedures and documentations for competitive bids for new capacity by IPPs are reviewed and updated, based on previous experiences and taking into consideration strategy and targets in National Power Policy 2013.
- Policy framework, procedures and documentations for unsolicited bids for new capacity by IPPs are reviewed and updated, taking into consideration experience and strategy and goals in the National Power Policy 2013.

2.B.4 Goal: Increasing gas supply and opening the gas market to direct contracting sales to gas large consumers

Indicative Trigger 5: MPNR notifies rules for enhancing gas production from producing, dormant or under-producing concessions.

Steps and scope for completion of the action:

- MPNR to implement program to identify dormant, under-producing, and/or mature fields needing remedial work and take action to withdraw license if concession remains dormant in particular in highly prospective blocks.
- Determine potential value of private farm-ins to transfer knowledge, increase productivity and extend the life of mature fields. Take subsequent action.
- Consult with industry on how to “screen in” investments that increase production, for incentive pricing (review/revise baseline criterion for excess gas production incentive) taking into account the experience implementing the 2012 Petroleum Policy

- Notify, if necessary, amendments to the Pakistan Onshore Petroleum (Exploration & Production) Rules 2013.

Indicative Trigger 6: Government approves in principle the restructuring of the mid- and down-stream gas sector.

Steps and scope for completion of the action:

- MPNR to draft TOR for restructuring Study
- Identify source of financing
- Recruit consultants

2.B.5 Goal: Commercialization and improving performance of public companies in the power sector

Indicative Trigger 7: MWP signs performance contract including operational and financial performance indicators and the monitoring framework with all remaining DISCOs, GENCOs and NTDC.

Steps and scope for completion of the action:

- MWP signs performance contracts with remaining DISCOs that include
 - Responsibilities of the Board of Directors to develop and implement an approved strategic business plan to achieve the performance improvements and targets set in the contract.
 - Indicators and actions to improve operational and commercial performance;
 - Indicator/Target to submit investment plan by April and tariff petition by July each year.
 - Reporting of financial performance
 - Reporting and survey on customer satisfaction
 - Training of staff
 - Targets on safety performance
 - Monitoring framework
- MWP signs performance contract with NTDC that includes:
 - Responsibilities of the Board of Director in improving performance and achieving targets in the contract.
 - Operational performance indicators.
 - Indicator/Target for the preparation and submitting transmission expansion plan and cost of service study, before NTDC tariff petition.
 - Financial reporting
 - Target to complete the transfer of 133 kV and 66 kV network operation to DISCOs, and remove related NTDC staff from DISCOs

- Monitoring framework
- MWP signs performance contract with remaining GENCOs that includes:
 - Responsibilities of the Board of Directors to develop and implement an approved strategic business plan to achieve the performance improvements and targets set in the contract.
 - Indicators and actions to improve operational and commercial performance;
 - Reporting of financial performance
 - Reporting and survey on customer satisfaction
 - Training of staff
 - Targets on safety performance
 - Monitoring framework

2.B.6 Goal: Commercial Operation of CPPA as independent agency to buy power on behalf of DISCOs, and implementation of a multiple buyers' market by allowing generators to contract sales directly with large consumers

Indicative Trigger 8: (i) NTDC files request and NEPRA amends NTDC license to remove CPPA functions and NTDC's authority to purchase or sale electricity; and (ii) CPPA signs Energy Supply Agreement with each DISCOs and to procure power on their behalf.

Steps and scope for completion of the action:

Amended transmission license issued to NTDC, to eliminate the CPPA function among others:

- Eliminates condition and definitions related to market and CPPA, such as power procurement, electricity trading, settlement system, commercial code (market rules), and transfer price. Revise Article on Functional separation to eliminate power procurement, contract registration and bilateral trading.
- Obligation to offer non-discriminatory open access, and requirements to offer connection and use of system services.
- Obligation on transmission expansion planning.
- Revised Grid Code article to ensure consistency with least cost planning policy and include reference to Grid Code Panel
- Revise Article Tariff to ensure transmission tariff determination and NTDC petition shall follow NEPRA rules notified for transmission tariff determination.

NEPRA reviews and amends Interim Power Purchase Procedure and Standards Regulations to eliminating provisions for transmission purchases and sales, and replace for CPPA purchases and sales.

- Approval of articles of association

- Appointment of Board and CEO
- Initiate IPP PPAs novation to CPPAs where PPA provisions allow it.
- Draft Billing and Settlement Rules based on procedures implemented under NTDC/PPA, and revise as necessary
- Approve and implement Billing and Settlement Rules for CPPA sales to DISCOs, and purchases from generation (through PPAs)

Indicative Trigger 9: (i) CPPA signs PPA with existing WAPDA Hydel plants and PPAs with the remaining GENCO; PPAs signed by NTDC with GENCOs (DPCI) novate to CPPA; and CPPA administers pre-existing IPP PPAs on behalf of WPPO, until PPAs are novated to CPPA; and (ii) CPPA implements Billing and Settlement Rules for CPPA including payment allocation rules in case there is a shortfall in payments due by DISCOs.

Steps and scope for completion of the action:

- CPPA signs PPA with WAPDA hydel, including pricing, invoice, payment and management of delayed payment and disputes,
- CPPA signs PPAs with GENCO, including heat rate cap/target and periodic heat rate testing, pricing, invoice and payment, and management of delayed payment and dispute resolution;
- All PPAs previously signed by NTDC with GENCOs will be novated to CPPA;
- CPPA is tasked to administer IPP contracts on behalf of WPPO until PPAs are novated;
- CPPA reviews and drafts market rules adding BPCs as market participants, and covering market registration, and balancing operations and pricing;
- CPPA expands Billing and Settlement Rules to include balancing and BPCs contracts;
- Stakeholders' consultation.

2.C Accountability and Transparency

2.C.1 Goal: Increasing access to information in the energy sector

Indicative Trigger 10: CPPA implements web-based access to monthly amount due and payment by DISCOs to CPPA, and by CPPA to generators.

Scope for completion of the action:

The website includes:

- Information on monthly energy sold by CPPA to DISCOs and settlement amounts and payment.

- Information on monthly energy bought by CPPA from generators, and settlement amounts and payment.

2.C.2 Goal: Strengthening NEPRA

Indicative Trigger 11: NEPRA publishes at least monthly in the website, monthly information provided by licensees on performance standards results and indicators.

Steps and scope for completion of the action:

- NEPRA carries out audit/monitoring process of each licensee's compliance with performance standards rules and Grid and Distribution Codes and other related reporting obligations.
- Report on performance standards targets and results, non-compliance, reason and measures taken or required to address the problem for each licensee.
- Information published in NEPRA website

3 THIRD OPERATION

3.A Managing Tariff and Subsidy

3.A.1 Goal: Adoption of clear policies on tariffs and subsidies to target low income consumers; and ensuring policy implementation through NEPRA rules and regulations; , to reduce and reduction of discretionary policy decisions and lag in tariff approval and implementation.

Indicative Trigger 1: Multi-year tariff piloted in at least 2 DISCOs.

Steps and scope for completion of the action:

- Not later than during operation 2, Decision by NEPRA of DISCOs (at least 2) that will be under multi year tariff (MYT) rules.
- Selected DISCOs file petition under MYT rules
- NEPRA to determine revenue requirement for the multi-year tariff control period, tariff and index based formula for annual and quarterly adjustments, in accordance with the notified multi-year tariff rules.
- Notification of tariff for each DISCO under MYT Rules includes the automatic adjustment formulas.

Indicative Trigger 2: Submission to Parliament of amendment to NEPRA Act to allow NEPRA determination and notification of the tariff, and MWP provides targeted subsidy amount to NEPRA before the determination is issued.

Scope for completion of the action:

- Add definition and provisions on Federal Government tariff and subsidy policy framework
- Amend Section 7 (“Powers and functions of the Authority”) paragraph (3) bullet (a) to authorize NEPRA determination and notification consistent with Federal Government tariff and subsidy policy
- Amend Section 31 (“Tariff”) to modify the first and delete the second paragraph in paragraph (4) to eliminate the role of the Federal Government in notification. Include instead GoP to provide information of subsidy to be provided to each DISCO tariff category, for NEPRA to take into consideration in the DISCO tariff determination.
- NEPRA prepares amendments to Tariff Rules and regulations.

3.B Improving Sector Performance and Opening the Market to Private Participation

3.B.1 Goal: Loss reduction and improving collections in DISCOs

Indicative Trigger 3: Revenue protection program implemented in at least 3 DISCOs.

Steps and scope for completion of the action:

- MWP issues written confirmation on the completed implementation of revenue protection program in place in at least 3 DISCOs.
- DISCOs prepare and submit to MWP a report on the implementation of revenue protection program.

3.B.2 Goal: Improving demand side efficiency and strengthening energy conservation

Indicative Trigger 4: National energy conservation policy coordination and implementation function established in the ENERCON.

Steps and scope for completion of the action:

- Approval of organogram by the Board and notified by the government[
- Publication of the setup of the function and its roles and responsibilities on ENERCON website.
- Periodic update of the activities of the policy coordination and implementation function on ENERCON website.

3.B.3 Goal: Managing generation cost through Least Cost Planning (LCP), and ensuring new generation entry follows the LCP

Indicative Trigger 5: NTDC submits and MWP approves updated long-term least-cost generation and transmission expansion plan.

Steps and scope for completion of the action:

- NTDC prepares and submits updated least cost generation plan and associated transmission expansion plan, following least cost generation expansion plan policy directive and relevant conditions in Planning Code of Grid Code.
- The updated long-term least-cost generation and transmission expansion plan is reviewed by [NEPRA], and approved by [MWP].

3.B.4 Goal: Increasing gas supply and opening the gas market to direct contracting sales to large gas consumers

Indicative Trigger 6: MPNR reviews and if necessary, notifies enhanced/revised 2012 Petroleum Policy to promote additional gas production from domestic on- and off-shore areas.

Steps and scope for completion of the action:

- Undertake a comprehensive review of the institutional structure, governance and functioning of the up – and downstream petroleum sector with a few of stimulating private investment in the petroleum sector. This review should include but not be limited to: (i) benchmarking the Pakistan institutional, legal and regulatory

arrangements against practices in relevant countries with recommendations for improvements; (ii) possible restructuring and or privatization of downstream (gas transmission and distribution) activities; (iii) consolidation of former policies and non-traditional pricing formulas into one policy; (iv) possible introduction of regulatory practices which would improve efficiency in gas transportation and distribution including programs for UFG; (v) review of retail gas pricing policies; (vi) review of adequacy of procurement practices of wholly or partially Government owned E&P companies.

- This review should be done in consultation with stakeholders.

3.B.5 Goal: Commercial operation of CPPA as an independent company agency to buy power on behalf of DISCOs, and implementation of a multiple buyers market by allowing generators to contract sales directly with large consumers

Indicative Trigger 7: CPPA submits and NEPRA approves the market rules, allowing generators direct contract sales to bulk power consumers, and covering market registration, balancing operations, and settlement and billing among market participants.

Steps and scope for completion of the action:

- Following the stakeholders consultation (DPC2), CPPA consolidates market rules and submits for NEPRA review
- NEPRA approval.

3.C Accountability and Transparency

3.C.1 Goal: Increasing access to information in the energy sector

Indicative Trigger 8: MWP to implement public web-based access to monthly information results of performance contract, provided by DISCOs, NTDC and GENCOs.

Steps and scope for completion of the action:

- MWP website includes monthly updates of the performance contract indicators of GENCOs, NTDC, DISCOs showing status of completion.

3.C.2 Goal: Strengthening NEPRA

Indicative Trigger 9: NEPRA publishes review of GENCOs, DISCOs, KESC and NTDC compliance with license provisions.

Steps and scope for completion of the action:

- Heat rate testing implemented in thermal power plans of all GENCOs.
- NEPRA carries out monitoring review and compliance study for GENCOs, DISCOs, KESC and NTDC.
- Compliance results published in website as open access information.

3.C.3 Goal: Monitoring and surveillance

Indicative Trigger 10: Public disclosure of audit report on the signed performance contracts including the result of inspections if any.

Steps and scope for completion of the action:

- [to be completed]

4 FOURTH OPERATION

4.A Managing Tariff and Subsidy

4.A.1 Goal: Adoption of clear policies on tariffs and subsidies to target low income consumers; and ensuring policy implementation through NEPRA rules and regulations; , to reduce and reduction of discretionary policy decisions and lag in tariff approval and implementation.

Indicative Trigger 1: Multi-year tariff piloted in at least 4 DISCOs.

Steps and scope for completion of the action:

- Not later than during operation 3, Decision by NEPRA of DISCOs (at least 4) that will be under multi year tariff (MYT) rules.
- Selected DISCOs file petition under MYT rules
- NEPRA to determine revenue requirement for the multi-year tariff control period, tariff and index based formula for annual and quarterly adjustments, in accordance with the notified multi-year tariff rules.
- Notification of tariff for each DISCO under MYT Rules includes the automatic adjustment formulas.

4.B Improving Sector Performance and Opening the Market to Private Participation

4.B.1 Goal: Improving demand side efficiency and strengthening energy conservation

Indicative Trigger 2: Notify national appliance energy efficiency standards in accordance with the approved Energy Conservation Act

Steps and scope for completion of the action

- [MWP] to notify national standards in accordance with the regulation on Minimum Energy Performance Standards (MEPS) issued under Policy Area B. Indicative Trigger 3 for the implementation of the Energy Conservation Law.
- The provisions of Building Code of Pakistan to be revised by the Pakistan Engineering Council based on the S.R.O. 249 (I)/2013, and to be implemented based on the revised one.

4.B.2 Goal: Commercialization and improving performance of public companies on the power sector

Indicative Trigger 3: MWP signs enhanced performance contracts with DISCOs, GENCOs and NTDC.

Steps and scope for completion of the action:

- After the completion of Operation 2 (at the beginning of Operation 3), MWP requests DISCOs, GENCOs and NTDC to submit recommendations for the enhancement of its performance contract.

- MWP the results and findings during performance contract implementation, including recommendations from GENCOs, DISCOs and NTDC, and drafts enhanced performance contract template for DISCOs, GENCOs and NTDC to take into account new features and modification of the original terms as required by but not limited to:
 - Enforcement of the contract thus far;
 - Financial performance of the companies and achievement of operational and commercial indicators;
 - The robustness of the reporting and monitoring system;
 - Customer satisfaction and complaints feedback; and
 - [Macroeconomic conditions.]
- MWP signs the enhanced performance contracts with DISCOs, GENCOs and NTDC.

4.B.3 Goal: Commercial Operation of CPPA as independent agency to buy power on behalf of DISCOs, and implementation of a multiple buyers' market by allowing generators to contract sales directly with large consumers

Indicative Trigger 4: CPPA (i) implements approved Market Rules allowing direct contracting; and (ii) provides capacity building to Bulk Power Consumers.

Steps and scope for completion of the action:

- CPPA starts commercial operation of market rules and sends to participants monthly settlement statement
- As from the approval of market rules, CPPA carries out dissemination of bilateral contracting arrangements, including workshops, to Bulk Power Consumers (BPCs) that could be market participants and contract directly.
- CPPA market reports inform number of BSCs registered as market participants and number of registered bilateral contracts with BSCs
- MWP to provide report on the status of implementation of direct contracting within the power sector.

4.C Accountability and Transparency

4.C.1 Goal: Strengthening NEPRA

Indicative Trigger 5: NEPRA publishes review for all IPPs on compliance with license provisions.

Steps and scope for completion of the action:

- [Heat rate testing for IPPs implemented as per PPA provisions]

- NEPRA carries out monitoring review and compliance study for IPPS.
- Compliance results published in NEPRA website as open access information.

5 FIFTH OPERATION

5.A Managing Tariff and Subsidy

5.A.1 Goal: Adoption of clear policies on tariffs and subsidies to target low income consumers; and ensuring policy implementation through NEPRA rules and regulations; , to reduce and reduction of discretionary policy decisions and lag in tariff approval and implementation.

Indicative Trigger 1: Multi-year tariff implemented in all remaining DISCOs.

Steps and scope for completion of the action:

- Remaining DISCOs file petition under MYT rules
- NEPRA to determine revenue requirement for the multi-year tariff control period, and index based formula for annual and quarterly adjustments, in accordance with the notified multi-year tariff rules.
- MWP to notify annual tariff and the automatic adjustment formulas under MYT for all DISCOs.

5.B Improving Sector Performance and Opening the Market to Private Participation

5.B.1 Goal: Loss reduction and improving collections in DISCOs

Indicative Trigger 2: Revenue protection program implemented in all the remaining DISCOs.

Steps and scope for completion of the action:

- MWP issue written confirmation on the completed implementation of revenue protection program in place in all DISCOs.