

SUCCESS STORY

CREATING A COMPETITIVE, OPEN, AND AFFORDABLE WHOLESALE ELECTRICITY MARKET IN PAKISTAN

Despite a comprehensive reform program initiated over two decades ago, Pakistan's power sector continues to face significant challenges. The centralized control and regulation of state-owned utilities and a single-buyer market model has often led to decision-making that is disconnected from on-the-ground realities, created unnecessary roadblocks, and resulted in poor performance monitoring and accountability of service providers. For electrical utilities, transmission and distribution losses remain high and bill collection falls below regulator-set targets. These factors continue to inhibit private investment and participation in Pakistan's power sector unless investors are provided attractive tariffs and state-backed guaranteed rates of return. Such concessions make electricity supplies costly and impose a significant payment liability on the government.

USAID HAS PROVIDED NECESSARY RESOURCES ACROSS MULTIPLE DOMAINS—HUMAN, MANAGEMENT, PROCESSES, AND SYSTEMS—TO THE TIMELY OPENING OF THE WHOLESALE MARKET.

The long-standing government policy of providing electricity to consumers across the country at uniform rates—that are lower than the actual cost of supplying the electricity—requires paying unaffordable levels of subsidies to compensate for the higher cost of purchased power. In addition, long-term fuel supply contract obligations and spot price volatility, system losses,

infrastructure, and management constraints have also resulted in a rapidly increasing 'circular debt' that significantly undermines the sector's financial sustainability, stymies further investments and private participation, and impedes necessary reforms.

According to the Central Power Purchasing Authority (CPPA), Pakistan's circular debt stood at Rs. 2.5 trillion in March 2022; this is equivalent to 3.8 percent of Pakistan's gross domestic product and represents 5.6 percent of Pakistan's government debt. Circular debt is a specific situation when one entity facing cash problems holds back payments to its suppliers and creditors; the cash problems then cascade throughout the payment system. At the current rate of debt growth, the circular debt will reach an estimated Rs. 4 trillion by 2025—this requires urgent power sector reforms (Pakistan Economic Survey 2021–2022).

As a solution to Pakistan's current power sector challenges, the Government of Pakistan implemented a wholesale power sector market, the **Competitive Trading Bilateral Contracts market (CTBCM)**. The idea behind CTBCM is to create opportunities for greater private sector engagement in the power markets to make them more transparent and competitive. Additionally, the CTBCM would incentivize increased use of energy efficiency and renewable energy for cleaner, more reliable, and more affordable power in the country.



CPPA-G announcing that it received its market operator license from NEPA, Pakistan's market regulator.

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Since 2010, USAID has actively supported the Government of Pakistan in its planned transition towards the open market and the adoption of competitive procurement policies to liberalize and modernize Pakistan's power sector. Through its assistance under projects such as the **Power Distribution**

Program (PDP), Sustainable Energy for Pakistan (SEP), and most recently, the **Power Sector Improvement Activity (PSIA)**, USAID has provided necessary resources across multiple domains—human, management, processes, and systems—to the timely opening of the wholesale market.

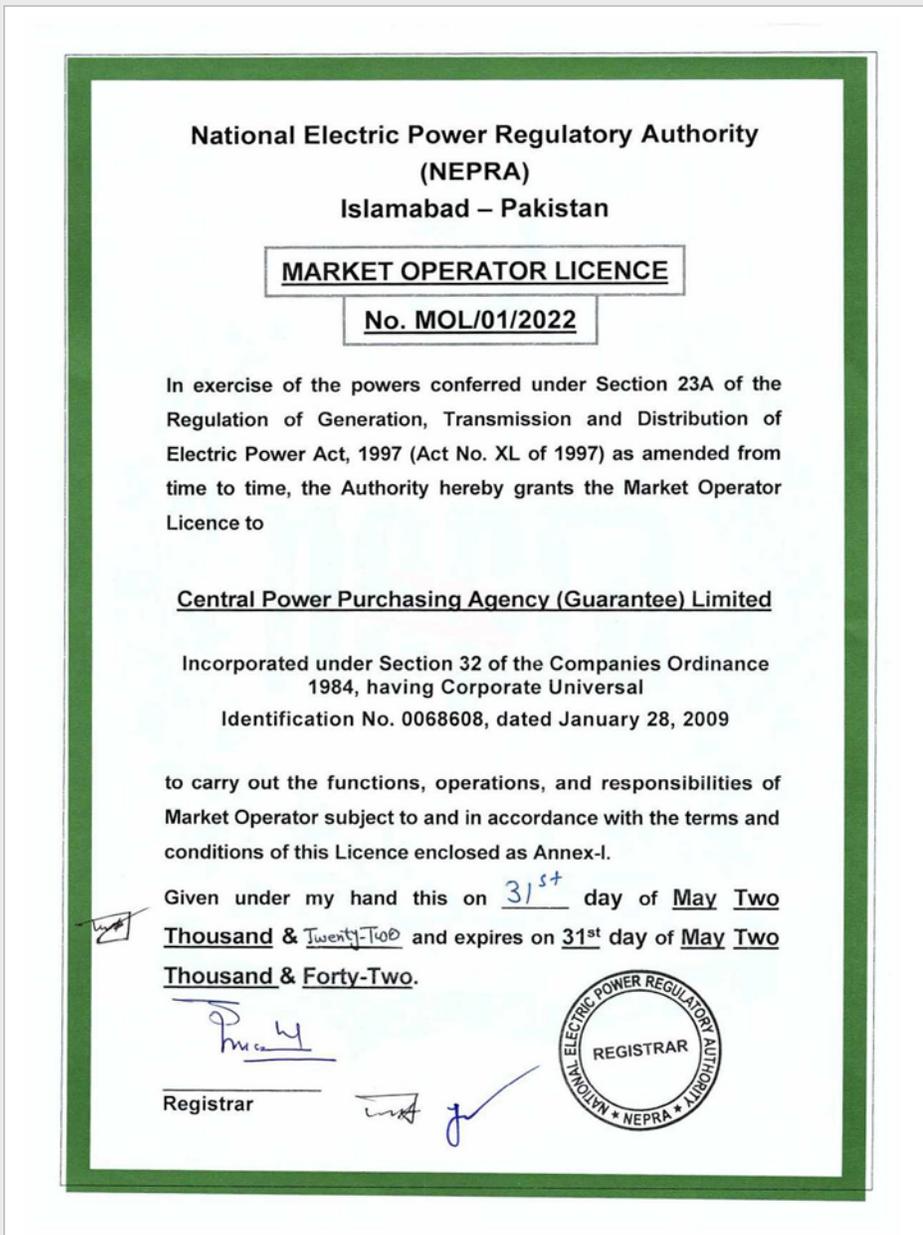
As a result of USAID's past and current technical support under PSIA, on May 31, 2022 the National Electric Power Regulatory Authority (NEPRA) granted Pakistan's market operator, the Central Power Purchasing Agency-Guarantee (CPPA-G), its market operator license and the commercial code, which is the guiding document that lays out the principles and steps to operationalize CTBCM. This legally marks the opening of the wholesale market after 24 years, unbundling it with the Water and Power Development Authority.

CPPA-G's Head of Market Operations and Development, Mr. Omar Haroon Malik, stated *"through an integrated approach, CTBCM will combine the whole power sector supply chain in the delivery of reliable, affordable, and sustainable electricity to the consumer."*

This landmark approval of the commercial code and granting of the operator license effectively opens the wholesale market for the first time in Pakistan. The next step will enable CPPA-G to operate the new wholesale market in parallel to the prior market for the next six months as a trial period. During this time, the CPPA-G will test and implement (without any financial implications for any players in the market) the market commercial code and the processes, IT systems, and methodologies developed under the new system. USAID's PSIA will support CPPA-G during this trial period by providing technical, commercial, and legal advice on various market aspects and requisite approvals.

Through these vital interventions, USAID brings Pakistan another step closer to a more energy-secure future.

CPPA-G (Market Operator) license.



The Power Sector Improvement Activity (PSIA) project is funded by the United States Agency for International Development (USAID). For information, please contact:

Mr. Nadeem Habib, Contracting Officer's Representative (Nhabib@usaid.gov)

Mr. Kashan Saeed, Chief of Party (Ksaeed@pk-psia.org)

Ms. Thayer Tomlinson, Communications Director (thayer@energyandsecurity.com)