

No. Tariff/Subsidy/2021  
Government of Pakistan  
Ministry of Energy (Power Division)  
Power Policy and Finance Wing

For information Kuf  
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9/2/21  
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The Registrar NEPRA  
NEPRA Tower Attaturk Avenue (East),  
Sector G-5/1, Islamabad.

Dated: June 09, 2021 - M  
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MR

**Subject: POLICY GUIDELINES UNDER SECTION 31 OF REGULATION, GENERATION, TRANSMISSION DISTRIBUTION OF ELECTRIC POWER ACT, 1997 FOR PROVIDING BASIS FOR RE-TARGETING POWER SECTOR SUBSIDIES IN FUTURE**

National Power Policy, 2013 approved by the Council of Common Interest stipulates that "the low-end consumers will be protected from any price escalation, and tariff rationalization will be done to eliminate subsidy with industrial, commercial and bulk consumers as well as a level playing field will be created by providing power at comparable prices to all industrial users. ECC approved the National Power Tariff and Subsidy Policy Guidelines, 2014.

NEPRA determined uniform tariff to be charged from the electricity consumer, including the impact of subsidy and inter-DISCO tariff rationalization, in term of section 31 (4) of NEPRA Act, 1997. The latest uniform tariff in filed has been notified on February 12, 2021.

In order to make effective utilization of tariff differential subsidy it is essential that it should be target to lower income group of the society rather than flat application on slab-based consumption below 300 units per month. Accordingly, the residential subsidies should be more targeted and it is essential that exclusion criteria are applied on the slabs below 300 units per month so that electricity subsidies for the residential consumers should be restricted to the lowest socioeconomic class of consumers.

Now after completion of Ehsaas survey and linkage of residential electricity meters with CNICs, it will become possible to use Ehsaas socio-economic registry for provision of electricity subsidy. Until then electricity consumption itself can be used as a proxy for determining the socioeconomic status of the consumers and determining their eligibility for subsidy, because electricity consumption itself is a recognized measure of socio-economic status.

In view of the above, Prime Minister on 10<sup>th</sup> February, 2021, principally approved subsidy reform proposal and accordingly ECC of the Cabinet approve the three phased proposals for subsidy reform which placed at **Annex-I**. As per the first phase tariff structure to be modified / adjusted to ensure that the most vulnerable residential consumers are identified through electricity consumption so that they are fully or partially protected from future price increases.

Keeping in view above, the following policy guidelines as approved by Federal Government (**Annex-II**) for incorporation of the same through modifications / adjustments in the DISCOs Schedule of Tariffs (SOTs) as well as uniform SOT as was determined by NEPRA and notified through SRO Nos. 374(1)/2018 to 383(1)/2018 dated March 22, 2018 as modified by SRO Nos. 01 to 10 of 2019 dated January 01, 2019 and SRO Nos. 182(1)/2021 to 191(1)/2021 dated February 12, 2021 including the KE Schedule of Tariff currently in field is hereby conveyed for consideration of Authority:

- I. Expanded definition of the lifeline consumers to include residential Non-Time of Use (ToU) consumers having maximum of last twelve months and current month's consumption  $\leq$  100 units; two rates for  $\leq$  50 and  $\leq$  100 units will continue.

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- II. Create a new category of protected consumers (those consuming < 200 kWh per month consistently for the past 6 months).
- III. Break the 301-700 slab into four slabs – 301-400, 401-500, 501-600 & 601-700 with the same marginal tariff.
- IV. Each of these slabs would continue to get the previous slab benefit of < 300 kWh slab as today.
- V. The Federal Government intended to implement the proposal modified / adjusted tariff structure as mentioned I to IV above with effect from 1st June, 2021.

  
(Syed Mateen Ahmed)  
Section Officer (Tariff)

## Three Phases of subsidy reform

### 1. Phase I of subsidy reform:

Restructuring the tariff structure for **residential consumers** with the following parameters:

- a) Separate identification in the tariff structure of vulnerable consumers who would be protected from future price increases fully or partially;
- b) For this purpose a new consumer category would be created whose consumption does not go beyond 200 units consistently for six months;
- c) In order to ensure that in future the effective electricity rates can be made more progressive and all consumers can benefit equitably from the Incremental Block Tariff structure the consumption slab 301-700 units would be broken into smaller equal sized slabs; 301-400, 401-500, 501-600 and 601-700.
- d) The reforms in this phase will ensure that effective rates for all categories of consumers are not affected

### 2. Phase II of subsidy reform:

#### Residential Consumers

- a) Gradual reduction in total net subsidy for Unprotected Group of residential consumers;
- b) Reduction in cross-subsidy between slabs for Unprotected Consumers (flatten the average tariff curve)
- c) Removal of previous slab benefit (incremental block tariff)

#### Agricultural Consumers

- a) Divide the Agriculture (tubewells) slab into two categories based on a simple criteria (e.g. plot size or motor capacity);
- a) Reforming subsidies to QESCO tubewells by:
  - i. Partially exchanging electricity subsidies to subsidize solarization and modernization of tubewells;
  - ii. Gradually decrease and eliminate subsidies as solarization progresses

### 3. Phase III of subsidy reform:

#### Residential Consumers

- a) Reduce number of slabs (e.g.)
  - Protected (subsidized directly by Annual Budget)
  - Unprotected <X (below cost recovery cross-subsidized by high users)
  - Unprotected X-Y (at cost recovery)
  - Unprotected >Y (above cost recovery to cross-subsidize low users)
- b) When DISCO/CNIC data are validated – integrate with NSER and delivery of electricity subsidy to the neediest based on their welfare score (not on consumption)

## Industrial, Commercial and Agricultural Consumers

- a) Adjusting tariffs of industrial, commercial, and agriculture user slabs to have zero net subsidies

## Other Subsidies

- b) Delinking FATA and AJK subsidies from electricity tariffs

## Appendices:

Appendix A – Analysis for first phase of subsidy reform for residential consumers.

Appendix B – Electricity Consumption Quintiles (Bottom 40%)

Appendix C – Seasonality Exclusion Criteria

Appendix D – Structure of Revised SOT of Domestic Non-ToU Consumers

### Analysis for first phase of subsidy reform for residential consumers

a) Under the current system, around 99% Residential Non-ToU consumers are receiving subsidy. Total number of residential non-ToU consumers is 24.5 million. Out of these, 22 million (89%) consume less than 300 units in at least one month of the year. Such consumption accounts for 84% of the total non-ToU residential consumption. Another 10% consumers fall in the consumption slab of 301-700 units per month and get the benefit of the subsidized rate of the previous slab (201-300).

b) Ideally provision of subsidy to the consumers should be based on socio-economic status of the consumers. With the completion of National Socio-Economic Registry survey by Ehsaas, identification of such consumers would become easier. Ehsaas systems can also be used for provision of cash subsidy if so decided. The only problem with this approach is that the electricity meters are not linked to CNIC of the consumer and ensuring that a specific beneficiary is a consumer is difficult in the short to medium term.

c) Electricity consumption itself is a recognized proxy for socio economic status. The only problem with using it for the provision of subsidy is that it contains considerable seasonality over the year and consumers falling in higher socio-economic slabs quite often fall below the subsidy threshold of 300 units per month. In order to make the subsidy more targeted, the seasonality factor in consumption has to be neutralized. Seasonality factor may be neutralized by identifying consumers eligible for subsidy on the basis of usage over a period longer than one month.

d) Analysis of HIES 2018-19 reveals that around 92% of the bottom two income quintiles consume less than 200 kWh per month. (Appendix B). Applying a cut-off threshold of 200 kWh per month allows to minimize the risk of excluding consumers in the poorest 40%. It is observed from billing data that around 18.7 million consumers consume below 200 units per month (in at least one month of the year), whereas number of households in bottom 40% is around 10 million. In order to mitigate leakages to non-poor when adopting 200 kWh threshold, the seasonality criteria can be used to close the gap (Appendix C). Accounting for seasonality by considering consumption consistently below 200 kWh per month for six months, allows to get closer to the number of households in the bottom 40%. The 6 months' time period is preferred to 12 months in order to avoid risk of excluding consumers deserving of protection.

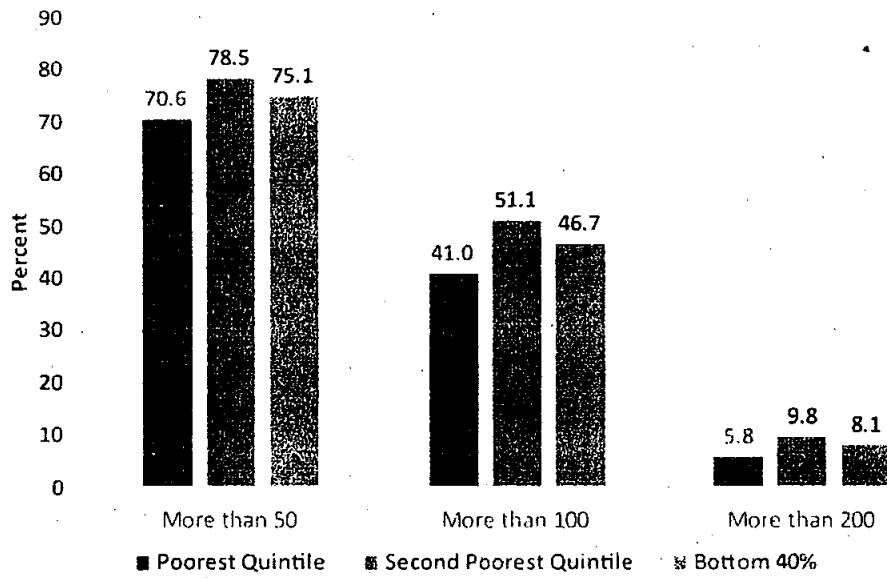
e) The tariff reform will include a new category of protected consumers including those whose consumption is below 200 kWh consistently for the past 6 months. (Appendix D). In the future, this category of consumers will bear a lower share (if any) of tariff increases. This category of consumers may also be exempt from future QTAs

(as opposed to the current exemption applied to all units below 300 kWh) which widens the base for the QTA application.

f) If subsidies are to be provided on the basis of socioeconomic status, it is important that the consumption slabs are rationalized in such a manner that the difference in consumption reflects difference in socioeconomic status to the extent possible. Currently, the consumption slab of 301-700 units per month is too large a slab containing significant differences. The slab needs to be broken down into smaller slabs for the subsidy schemes in future.

g) In view of the recent rebasing of tariff by NEPRA amounting to Rs. 3.34 per unit, out of which Rs. 1.95 was passed on to the consumers in March, it is important that no further price shocks may be passed on to the consumers. Any subsidy reform proposal, therefore, has to be designed to minimize such shocks.

### Electricity Consumption Quintiles (Bottom 40%)



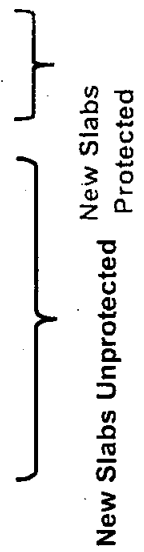
## Seasonality Exclusion Criteria

	%protected		# meters protected
	consumption	meters	
Average 12 months below 200	53.51	75.49	18,762,982
Average 6 months below 200	55.49	74.87	18,609,671
Max 6 months below 200	18.36	44.41	11,038,157
Max 12 months below 200	11.77	35.72	8,878,606



Structure of Revised SOT of Domestic Non-ToU Consumers

Current tariff structure		Proposed tariff structure	Tariff rate
[0-50] lifeline	Protected	[0-50] lifeline	3.95
		[0-100] consistently below 200kwh past6M	7.74
		[101-200] consistently below 200kwh past6M	10.06
[0-100]	Unprotected	[0-100]	7.74
[101-200]		[101-200]	10.06
[201-300]		[201-300]	12.15
[301-700]		[301-400]	19.55
		[401-500]	19.55
		[501-600]	19.55
		[601-700]	19.55
700+	700+	22.65	


 A vertical bracket on the right side of the table groups the top three rows (lifeline and two consistent slabs) under the label "New Slabs Protected". A second vertical bracket groups the remaining seven rows (unprotected slabs and 700+ slab) under the label "New Slabs Unprotected".

Note-I :At any point of time, if the consumption exceed 200 units during previous six months, then the said consumer would not be classified as protected consumers for the billing month even if its consumption is less than 200 units.

Note-II: For one slab benefit in the unprotected category slabs from 301-700, the slab rates of 201-300 slabs would be used for previous slab benefit upto 300 units.