

Concept Paper

Study on “Power Pricing for Cross-Border-Electricity Trade in South Asia”

Background:

Electricity is an essential requirement for all domains of human life. Electricity encompasses all sectors of the economy and its affordability is pivotal for their smooth functioning. Electricity generation and supply incurs cost which is recovered from electricity consumers through billing. As the magnitude of Cross Border Electricity Trade (CBET) continues to grow in the SAARC region and the mode of CBET is shifting from bi-lateral contracts to tri-lateral engagements¹, it is imperative that the SAARC Member States devise a coherent approach to design electricity tariffs. The tariff design must buttress the regional trade while conforming to the constraints of the individual Member State.

Electricity pricing and tariff design practices can play important roles in CBET growth and economic prosperity of the Member States. Electricity tariffs need to cater to needs of both consumers and suppliers as well as reflect SAARC region’s priorities with respect to its energy policy. The electricity tariff design for regional trade is a complex issue. It will require the government/independent regulatory bodies of all participating countries to balance the interests of various stakeholders. A uniform guideline, consistent with the internal dynamics of the power sector as well as external arrangements of regional CBET, is therefore a necessary requirement of the SAARC Member States.

Introduction:

In the context described above and upon the request of Member State Bangladesh, SAARC Energy Centre (SEC) under its thematic area of Programme on Energy Trade between the SAARC Countries (PENT), proposes a study on “Power Pricing for Cross-Border-Electricity Trade in South Asia”. The proposed study will be based on the survey of existing electricity tariff design practices in each of the SAARC Member States. The study will cover an overview of existing power procurement and tariff determination framework, norms of operation for each SAARC Member State and existing provisions for CBET tariff design. Based on the analysis carried out on the existing framework, recommendations will be chalked out to develop a cohesive approach towards electricity pricing mechanism that facilitates CBET in the region and enhances competition. The research report will also include relevant international case studies to share the lessons learnt in other regions.

Objectives:

The objective of the proposed study will be to share a uniform approach in devising electricity pricing mechanism with the respective regulators – or other entities authorised to design electricity tariff in the SAARC Member States – that provides lucidity on tariff and power procurement process

¹ Rajiv Ratna Panda, “Cross Border Electricity Trade in South Asia: Transitioning from Bilateral to Trilateral Trade”, in Asia Clean Energy Forum, June 2020, <https://sari-energy.org/wp-content/uploads/2020/06/CBET-in-South-Asia-Transitioning-from-bilateral-to-trilateral-multilateral-trade-RajivRatnaPanda-SA-Case-Study-ACEF-2020.pdf>

necessary to bolster the cause of CBET. A consistent approach towards CBET in the region will promote regional electricity trade, transactions and investments.

Major Contents in the Study Report:

The study report will cover the following major aspects of the proposed topic:

1. A brief overview of the power sector in each Member State.
2. Current power procurement policy and methodology including institutional, legal and regulatory frameworks with an overview of existing electricity pricing mechanism for CBET transactions.
3. Analysis of the existing methodology and identified shortcomings.
4. Recommendations for generation and transmission tariffs for CBET as well pricing mechanism for transit/wheeling services.
5. Implementation roadmap for recommended changes.