Institute for Policy Reforms

Press Release

13 April 2015

Imported LNG would further hurt the power sector

Electricity produced from LNG would add to problems of the power sector, as cost of such electricitywould be higher than that from furnace oil.This was stated in a Fact Sheet issued today by the Institute for Policy Reforms. IPR has advised the government to learn lessons from past mistakes. So far, little is known about the import price of LNG. However, based on the estimated price paid for recent import of 147,000 cubic feet, cost of power from LNG would be higher than that produced from furnace oil.

NEPRA recently determined upfront tariff based on imported LNG. NEPRA's assumed cost of USD 12 per mmBTU for imported LNG is higher than the present cost of power from furnace oil. IPR also questions the need for government to seek upfront tariff from NEPRA. Upfront tariff guarantees return to investor, but do not require them to meet any efficiency or productivity criteria. The parameters for the power plant remain open. "All costs are passed through to the consumer while the power producer receives an assured return," says the Fact Sheet.Upfront tariff also does not require the investor to come through a competitive process.

Relying on imported LNG is no different from what took place under the 1994 power policy. That policy brought about change in fuel mix from hydropower to thermal power and gave extensive comfort to the investor. Upfront tariff was part of the 1994 policy.

The core problem with the present power sector is its high cost of production because of high reliance on furnace oil. To overcome this, government must seek lower cost solution not one that increases the cost. Imported LNG, whose input cost is higher than furnace oil, cannot help the power sector.

Government must also set right the many governance issues that hobble power supply. IPR estimates that about 30% of the sector's revenue is lost at the distribution stage. There are inefficiencies also with transmission and distribution of power. Tariff policy is skewed and circular debt uncontrollable. Almost every unit of power generated carries a subsidy. New generation also would face all of these issues and the sector would resultantly continue to underperform.

The Fact Sheet opines that reducing the suffering of the people and stimulating economy must be at the heart of any new initiative by the government. It counsels government to set the power sector house in order. For immediate relief to the people, it must increase allocation of domestic gas for power production. This will reduce cost and increase generation by bringing in capacity that cannot operate presently for want of gas. Government must take administrative measures to reduce DISCO losses. At the same time, it is necessary to look holistically at the power sector and reform the flawed policy, the crumbling structure, and broken governance. Increased power at high cost from imported LNG should not be its priority.