



State of the Power Sector

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The Ministry of Water and Power has issued a full one page advertisement (enclosed) in leading newspapers on the eve of the Independence Day. The title of the ad is 'Milestone by Milestone: Towards a Roshan Pakistan'. The objective is to highlight the achievements of the PML-N Government in the power sector in its first two years in office.

The claims include, first a significant improvement in management, measured especially in terms of the flow of funds in the sector. The gap between bills and payments to IPPs, PSO and gas companies is shown as having come down substantially from 2013-14 to 2014-15. Presumably, the intent is to demonstrate that the problem of circular debt is now under control.

Second, big savings in annual bills of up to 30 per cent are highlighted, due to lower unit prices from October 2014 to May 2015. The consistent relief to consumers, due to lower unit costs, is the key message. Third, figures on continuous reduction in incidence of loadshedding from 2013 to 2015 are presented. It is claimed that there has been a 40 per cent reduction (from 14 to 8 hours daily) for rural consumers, 50 per cent (from 12 to 6 hours) in the case of urban consumers and 66 per cent reduction (12 to 4 hours) for industrial consumers.

The reasons given for the substantial reduction in the incidence of outages are record power generation of 16866 MW and system improvements due to better management. Consequently, according to the Ministry, the improvements in the power sector have led to better economic indicators, optimization of industrial production, accelerated trade activities, generation of employment opportunities and relief for the people.

The one-page advertisement is an incredible distortion of reality. The common perception is that the power sector is in poor state and, if anything, that the performance has worsened. This is manifested first, in the petrol crisis in the beginning of 2015, due to problem that PSO had been experiencing in opening LCs for import. Second, despite a commitment to provide uninterrupted electricity during sehri and iftar in the last month of Ramadan, most areas of Pakistan remained in darkness during these hours. This led to large-scale protests in many cities and towns. Third, there has been a defacto power crisis in Karachi in recent weeks,

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with many hours of unannounced loadshedding daily.

This conflict between claims and perceptions need to be resolved by the use of objective indicators. We first examine the performance in terms of increase in generation capacity. During 2013-14 and 2014-15 (first nine months), the Pakistan Economic Survey shows a cumulative increase in installed capacity of 792 MW. This is equivalent to a rise of only 3 per cent in capacity in almost two years. The failure is attributable to the inability of the Nandipur Project, despite massive cost overruns, to generate electricity and to delays in the completion of the Neelum-Jhelum project.

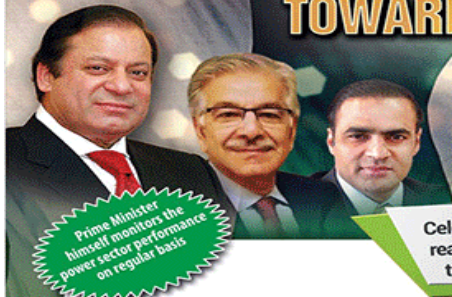
Second, the generation of electricity has actually shown a decline of 2 per cent in the first nine months of 2014-15. This is attributable partly to the shortage of furnace oil in the end of 2014 and beginning of 2015, due to the circular debt problem. In fact, there was a continuous decline in power generation within the PEPCO system from September 2014 to February 2015. It is only in the month of May 2015 that a significant increase in power generation has been registered.

Turning to losses, the NEPRA State of Industry Report for 2014 reveals that there was no reduction in 2013-14. Transmission losses remained high at 20 per cent, while the under recovery of billing by the DISCOs was as much as Rs 106 billion, equivalent to billing losses of 10 per cent. NEPRA also indicates that by end-June 2014, the arrears in payment of bills had reached a colossal Rs 513 billion, with 39 per cent due from Government entities. The budgeted amount of the tariff differential subsidy was Rs 185 billion in 2014-15. This was exceeded by Rs 36 billion, indicating that losses during the year were larger than projected.

The problem of large outstanding circular debt was largely resolved by the PML(N) government soon after it assumed office in 2013 by a massive injection of Rs 480 billion into the power sector. But it has come back in a large way during the last two years. PSO's receivables which had fallen to Rs 76.7 billion by June 2014, rose rapidly to Rs 221.9 billion by end-September 2014. They stand at Rs 175.4 billion, as of the end of March 2015. Among IPPs, the largest entity is HUBCO. Its receivables had fallen to Rs 24.8 billion in end-June 2013. They have also risen to Rs 68.8 billion by March 2015. The same pattern is revealed in the case of other entities in the power sector like KEPCO, K-Electric, SNGPL, etc. Clearly, despite the Ministry's claims, the problem of the circular debt has persisted and grown to over Rs 300 billion.

The tallest claim in the advertisement is the phenomenal reduction in loadshedding between 2013 and 2015. The best way to gauge this is to see the increase in consumption of electricity per consumer, among different types of consumers. Estimates from NEPRA and the Pakistan Economic Survey reveal that the increases have been small from 2012-13 to 2014-15. They are 6 per cent by domestic consumers, 4 per cent by industrial consumers, 3 per cent by commercial consumers and actually a fall of 3 per cent in the case of agricultural consumers. With such small increases it is impossible that loadshedding could have come down by 50 per cent in urban areas, by 40 per cent in rural areas and by 66 per cent in industry.

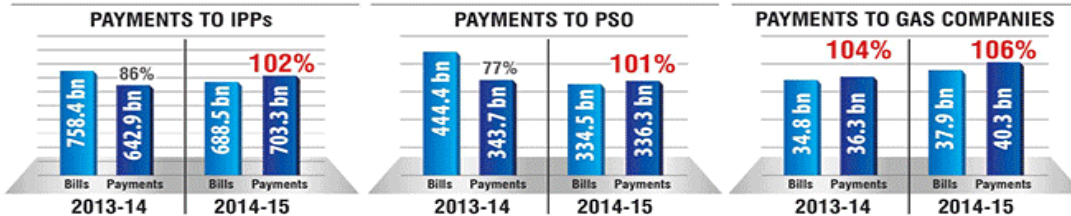
MILESTONE BY MILESTONE TOWARDS A ROSHAN PAKISTAN



Prime Minister himself monitors the power sector performance on regular basis

Celebrating Independence Day, Ministry of Water and Power reaffirms its resolve of leaving no stone unturned to realize the dream of a rising, prosperous and Roshan Pakistan.

SIGNIFICANT IMPROVEMENT IN MANAGEMENT



BENEFITS OF BETTER MANAGEMENT

30% SAVINGS
in Annual Bills

REDUCTION
in per unit cost

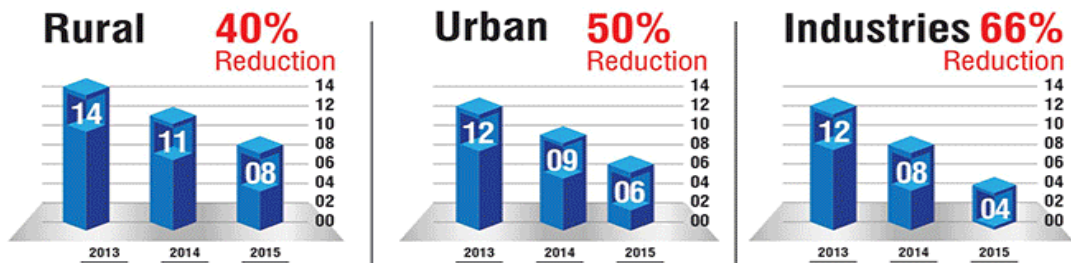
CONSISTENT RELIEF
to the consumers

Passing Benefits of Oil Price Reductions to Consumers in Electricity Tariffs Every Month (Per Unit Price)



MONTH	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015	May 2015
REDUCTION PER UNIT	Rs. 0.4795	Rs. 2.9672	Rs. 3.2426	Rs. 2.0841	Rs. 4.4260	Rs. 3.62	Rs. 1.86	Rs. 2.68

CONTINUOUS REDUCTION IN LOADSHEDDING



Reasons
behind this substantial reduction in Loadshedding

Record Power Generation of upto
16866 MW

System Improvements
Better Management

Benefits

Overall Improvement in Economic Indicators	Accelerated trade activities
Optimization of Industrial Production	Relief for the people
Generation of Employment Opportunities	



The reduction in unit price of electricity is examined next. The ad gives figures of the price reduction only from October 2014 onwards. This is essentially due to the impact of falling prices of oil, including that of furnace oil. NEPRA has done a good job of transmitting this fall to consumers through negative monthly fuel adjustment charges. But the Government has taken steps recently to reduce this benefit to consumers. First, a regulatory duty of 7 per cent has been introduced on the import of furnace oil, along with a statutory import duty of 2 per cent. Second, the sales tax on electricity produced from High Speed Diesel oil has been raised from 17 per cent to 36.5 per cent.

More importantly in an effort to reduce the tariff differential subsidy by half in 2015-16, the Government has got NEPRA to introduce a large tariff surcharge from June 2015 onwards. The maximum surcharge in the case of domestic consumers, excluding life line consumers, is Rs 3.25 per kwh, and for industrial consumers, Rs 3.35 per kwh. This is equivalent to increases of up above 25 per cent. As such, the unit price of electricity will now be significantly higher for most consumers, despite the big and continuing fall in oil prices globally.

The Ministry of Water & Power must realize that the poor management of the power sector is causing heavy losses to the economy. It has reduced the GDP growth rate by almost 1.5 percentage points annually. Unemployment has increased by more than 1.5 million and exports have been reduced by almost \$ 3 billion. Instead of issuing false advertisements, the Ministry is advised to work intensively to ensure that power loadshedding is largely eliminated by the end of 2017, as promised by the Prime Minister.