

The circular debt challenge

The menace of circular debt was first recognised in 2008, which was at Rs 108 billion. Thereafter, each year, as the state governance particularly country's energy sector, deteriorated the circular debt soared.

The PPP government inherited a circular debt of Rs 108 billion. The tenure of PPP government - from 2008 to 2013 - witnessed the rampant introduction of rental power plants and power plants based on high-speed diesel (HSD). All of this and poor governance added to the circular debt.

The PML government started its tenure in May 2013 with a circular debt of around Rs 500 billion. The tenure of PML government from 2013 to 2018 opted for a change in fuel mix by introducing LNG and coal-based power plants expecting a more cost-effective solution resulting in tariff stabilization. This did not happen and circular debt continued to soar.

In both the said tenures, the power add-on was random and driven more out of vested interests than a genuine quest to find a viable solution to provide the nation with an affordable and reliable power availability.

Today, the nation is provided with the most expensive electricity in the region where a great amount of power cannot be evacuated because the government lacks funds to pay for it.

The PTI government inherited a circular debt of Rs 1.1 trillion.

During the tenure of PPP government, circular debt increased by five times, whereas it doubled during the rule of PML-N. All eyes are now on PTI government as to how it manages the circular debt challenge.

As of today, circular debt stands at around Rs 1.4 trillion of which Rs 755 billion is attributed to Power Holding Company Limited while Rs 607 billion is described as Standby Term Finance Facility loans, according to Power Division Secretary Irfan Ali who briefed the Public Accounts Committee (PAC) earlier this week at Parliament House. The meeting was chaired by opposition leader Shahbaz Sharif.

The decade-old history of circular debt is a history of gross misgovernance, vested-interests and vote politics.

During the past decade, attempts were made to plug the gap through financial manipulations, subsidies and tariff hikes, thereby making the consumers pay for the misdeeds of governments. It rendered our industry uncompetitive while our exports were thrown out of the competitive global market.

No serious attempt has ever been made to explore the core cause of circular debt because of the influence of a strong lobby that does not want it to happen. The result is that circular debt has always bounced back, each time with more ferocity.

The solution to circular debt is not financial; it is an issue of gross misgovernance along the whole supply line of the power sector, starting from the import of oil by PSO, the conduct of IPPs and the public utilities, the role of consumer in power theft abetment and non-payment of utility bills.

The solution lies in addressing all these issues which is extremely challenging, but is the only sustainable solution to effectively deal with circular debt.

Over the next years, the circular debt crisis will further worsen as over 12,000MW power plants are to be completed with a \$ 25 billion investment in energy sector under the CPEC.

Giving the details of the sector-wise demand-based payables of circular debt as on 30 Nov 2018, the power ministry stated that Rs 36.2 billion was payable to generation companies running plants on gas and re-liquefied natural gas, Rs 83.5 billion to oil-based companies, Rs 450.5 billion to independent power plants, Rs 28.6 billion to nuclear plants and Rs156.7 billion to the National Transmission and Dispatch Company/Wapda.

The ministry also stated that with \$ 900 million assistance of the Asian Development Bank, the government was going to launch the Advance Metering Infrastructure (AMI) project in the areas covered by the Lahore Electricity Supply Company and the Islamabad Electricity Supply Company. In the second phase, the project will be extended to the Peshawar Electricity Supply Company, Multan Electricity Supply Company, Hyderabad Electricity Supply Company and other areas with high power theft cases.

It was further stated that the Power Division has launched a drive to bring to book the elements involved in power theft, including those within the distribution companies. It was added that an indiscriminate operation was being carried out against thieves and relevant police stations had been approached to lodge 15,746 FIRs against 21,475 "thieves" and 11,356 of them had been registered so far.

Electricity theft is an issue but not the major one - if one evaluates the whole power sector supply chain.

Presently, the total installed capacity is 33,836 megawatts (MW) of which de-rated capacity is 31,006MW as against 18000MW in 2008. Each increase has resulted in a corresponding increase in circular debt.

In the last 10 years, no serious attempt has been made to really improve the energy mix to make it more affordable.

Total hydel power production is 9,730MW and total generation by Gencos is 5,682MW of which 4,177MW is de-rated production. Total capacity of thermal plants run by IPPs is 15,186MW and their de-rated capacity is 13,973MW.

Total installed capacity of nuclear plants is 1,345MW and de-rated capacity is 1,246MW. Solar capacity is 400MW, wind 1,185MW and Bagasse-based plants' installed capacity is 306MW with a de-rated capacity of 295MW. Hydel contributes 27 percent of the total installed capacity, LNG 26 percent, natural gas 12 percent, furnace oil 16 percent, coal 9 percent and renewable and nuclear 5 percent each.

The renewable energy remains out of focus of the government - much against the global trend of maximising growth in renewable energy. This trend is characterised by the advantage of innovation and price competitiveness.

However, under strategic planning, the plan is to take the share of renewable energy in the energy mix to 25 percent by 2025. Also the plan includes the upgradation of the national grid as well as the introduction of regional grids.

The PTI government is expected to take a more realistic approach to resolve the circular debt issue. A realistic solution will emerge from a detailed audit of the power sector supply chain, energy mix diverted towards renewable energy like hydro, solar and wind while making use of the technology and price competitiveness.

(The writer is President of Overseas Investors Chamber of Commerce and Industry)

FARHAT ALI