

Dealing with the energy mess

The power prices in Pakistan are probably the highest in the region, and are expected to go further high. To the surprise of many, the per capita energy consumption in Pakistan is not too low, but energy wastages are high. The inefficiencies in the generation, transmission, distribution and consumption are high while the power project returns are lopsided favoring the producers.

According to IEA and IMF data, in 2012, Pakistan per capita energy supply at 0.48 TOE was better than the Philippines at 0.44 while the GDP per capita in East Asian country is higher than Pakistan. This implies that in terms of energy supply, per capita income at home is much better than the Philippines. However, still load shedding - revenue based load management, is a problem in Pakistan while the energy unit prices are high too.

That trend is unsustainable. The top priority of the government should be to fix the energy mess - by bringing efficiencies at every level of energy chain. The Philippines two decades ago decided to bring energy house in order and they are today at efficient consumption pattern with lower supply.

The fault is at every level. First of all, the distortion in pricing has to be fixed. We are supplying around 80 percent of power to domestic and agriculture at subsidized rates at the cost of industry and commercial users. The latter cross subsidized the former and in turn our industry competitiveness is eroded. Recent efforts are there to fix the problem but slabs were revised abruptly resulting in embarrassment for the government.

In the past decade or so, the captive power generation has increased significantly. There is no survey to gauge the exact number of captive generation. The energy task force estimated at 3,500MW while a few experts opine that it is much higher. All these consume primary energy sources and are relatively inefficient than big power plants.

However, the government has incentivized textile industry in Punjab to use captive power by making its price lower than the grid. That was a wrong decision, the arrangement is till June, hopefully the finance ministry will fix it in the next budget. However, Sindh industry is still using the gas at much lower rates - this is a complex problem as it needs constitutional amendment. Let's hope the PTI government would fix this in its tenure.

The other problem is in contracts of IPPs - since 1994, every plant has guaranteed returns with the entire cost component being pass through. The problem is not in higher return on equity as even making it zero, the energy tariff would reduce by mere Rs0.50-0.75 per unit. The major component is debt and fuel cost. The fuel cost has significantly reduced in the past tenure with inclusion of high efficiency plants on better fuel options, but the debt problem has exacerbated.

A few are suggesting renegotiating these contracts, but that might be disastrous for fetching FDI as it would give a wrong signal to investors. The efforts are required to restructure debt by lowering the loan cost and extending the servicing period. But there is not much to gain from this. We have to live in this situation for next decade or so.

The last leg of the problem is in transmission and distribution where badly run Discos are making the situation worse. The FM wants these to be run under Sarmaya Pakistan while energy task force is recommending to improve them under current system by the power wing of energy ministry. The private sector wants the market to be deregulated.

None of these is an optimal solution. The best way is to privatize these companies. The government should concentrate on its core function of collecting taxes and improving social service delivery. Let the private sector run energy businesses while government should only regulate it. If the sector is deregulated, the private sector will start moving out of the grid by using and selling captive power generation or buying directly from IPPs, and the system electricity would become redundant.

The government has long term contracts with IPPs and these have to be paid irrespective of the usage. In case of deregulation of the distribution system, there would be a case of less buyers of the system electricity. There are new plants coming in the system and the need is to consume them along with existing in NTDC and KE systems. The gas should only be used for IPPs and fertilizer, rest all should gradually move to electricity. The system gas supply to all other kind of consumers should be phased out. Start bringing urban transport on electricity. No need to mention incentivizing solar use in commercial and domestic use along with full utilization of wind corridors.

We need to plan these holistically, the current way of piece meal solution could result in negative externality on the other. An integrated energy policy is warranted and to be implemented in letter and spirit. But these all may require strong political will, and capacity within the government to execute.

Ali Khizar