

Power tariffs: tough sell

Power tariffs are again in the news. The latest revision came a few months back at the start of New Year. There are talks of another increase of Rs2 per unit. The IMF pressure must be obvious as the Fund would ideally want all subsidies be removed and all past dues clear in one go. But it is easier said than done and that is perhaps why the government while increasing the power tariffs in January 2019 opted for a phased approach.

Recall that Nepra had recommended an increase of Rs3.8/unit, and the government decided to go with one-third of it – in an aim to increase in three phases. Nadeem Babar, the Special Assistant to Prime Minister on Energy, had hinted last month in an interview with BR Research that the government will go for phased increase in power tariffs, preferably two rounds of Rs1.2 per unit each.

There is no denying that the power tariffs need to go up. Half of the remaining increase pertains to a one-time element of prior year's adjustments, which cannot linger on forever. But will the government have it to take such a potentially damaging step just six months after the last revision? The outgoing FM was very clear on this as he had told the IMF to wait on the matter. Will the new team have different priorities remains to be seen?

Should the IMF press for tariff increase, the government will have to take some blame. That is because the last exercise in the name of tariff increase, after facing subsequent changes, was actually an exercise of tariff relief, rather than tariff increase. But since the government failed to portray it as such, it is too late for them to now go back and tell the last price revision will actually yield the government lesser revenues than it would have earned had the tariffs remained unchanged.

The average power tariff across consumer categories according to the new tariffs is around Rs10.4 per unit. The average power tariff as per the previous regime comes to around Rs11.2 per unit – that translates into roughly Rs100 billion on account of power revenues lost. Recall that the government had given massive relief to agriculture and industrial consumers, which make up to 36 percent of total consumption. The element of unfunded subsidy only on account of revision in industrial subsidies amounted to Rs110 billion – which is still a big fiscal concern, as the allocated subsidy for FY19 is Rs134 billion, and this could overrun by at least Rs50-60 billion (see: "Power unfunded subsidies", published on Apr 9, 2019).

It is highly unlikely that the government would withdraw the relief extended to agriculture and industrial consumers, as the focus on export oriented industries and agriculture is believed to be a focal point of the government's agenda. That takes out 36 percent power units out of the equation.

Recall that in January 2019, domestic consumers using up to 300 units were exempt from any price increase, which makes another 37 percent of units. Even if the tariff is indeed increased for domestic consumers, it will not be increased for all categories alike. This leaves around one-fourth of power units facing the bulk of increase – which could be as high as 50 percent, in case the government goes for the proposed increase of Rs2 per unit.

In short, raising power tariffs this time around will be much more difficult than the last time. The failure to present the previous exercise as actually a relief one will definitely cause more troubles, selling this one. And while power tariff rationalization is a critical component of correcting the mess, it should not become the only and the most important step. The IMF has tried this in the past, without putting much sweat into actual reforms, and the results are for everyone to see.

The tariff increase can wait another six months. Meanwhile, steps to put the energy house in order should now be at the centre of the government's priorities. Increasing consumption, reducing fuel cost, privatizing ailing discos, and a lot more can be done along with tariff increase to correct the mess. Tariffs alone, never were, and never will be the solution.

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