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Foreign investors fret over Rs50bln/year addition in circular debt

ISLAMABAD: Foreign investors have voiced concern over an addition of Rs40 to 50 billion a year in circular debt of Pakistan's energy sector, which they said is swelling due to inept management in overcoming line and technical losses.

Overseas Chambers of Commerce and Industry (OICC) said the country’s energy sector saw a significant transformation over the past five years, with the power generation capacity increasing rapidly to over 39,000 megawatts by mid-2019, with the inclusion of two large re-gasified liquefied natural gas-based power plants, Thar coal project and imported coal-based power plants leading to a major shift in the energy mix.

“Despite the relative fast paced increase in the generation and transmission capacity, over 60 million Pakistanis do not have access to electricity from the grid, which not only impacts the economic growth of the country, but the economic exclusion has a social impact also,” OICCI said in an energy report 2019.

“On top of this, the mounting circular debt, in excess of Rs 1.9 trillion, and the inability of distribution companies to arrest the ever increasing technical and non-technical losses, continue to burden the national exchequer by an additional Rs40-50 billion annually.”

The report is based on the recommendations of the 31 leading international energy sector companies operating in Pakistan, who are members of the chamber. The companies are working in the areas of oil exploration, refining, marketing and distribution, coal mining and power generation segments. They cumulatively contribute over Rs600 billion annually to the national exchequer.

Abdul Aleem, secretary general of OICCI said the ministry of energy is playing a pivotal role in introducing structural reforms to address the country’s prevalent energy issues.

“However, it is imperative that relevant stakeholders, such as the OICCI, are involved for these to be successful,” Aleem said. “OICCI is aware of the government’s plan to offer 18 onshore exploration blocks for bidding, approval for 5 LNG companies to set up re-gasification terminals at Port Qasim and initiative to develop an integrated energy plan.”

Foreign investors advised the government to consider opening offshore blocks, while about 5-10 blocks should be offered every three to six months to streamline the oil and gas and power sectors. They underscored the need of a steady flow of new acreage to accelerate indigenous exploration and production activities.

The opening is in addition to an estimated 30 onshore blocks that might be available for bidding for the upstream oil and gas exploration sector.

OICCI members also said motor gasoline and diesel front and back-end price should be deregulated for the downstream oil refining and marketing sector.

"An integrated energy planning approach must be adopted and components of the power value chain should be liberalised to bring operational efficiency and reduce energy costs," the report said.

There are nearly 200 OICCI members that contribute about a third of the country's total tax collections. They invested nearly $3 billion last year and employ about one million people with a significantly larger contribution to the socioeconomic development of the community.