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Work begins on 'ailing' energy sector

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ISLAMABAD: The federal government has commenced work on a coordinated strategy to deal with the "ailing" energy sector aimed at addressing the root causes of the circular debt and Transmission and Distribution (T&D) losses.

Official sources told Business Recorder that all the cabinet members will submit their suggestions to resolve the energy sector crisis which is swallowing up around Rs 120 billion of the national exchequer annually in addition to roughly the same amount of subsidy allocated in the federal budget for domestic consumers using up to 200 units per month across Pakistan.

Circular debt has reached Rs 630 billion mark since June 2013 when the former government cleared Rs 480 billion in an "irregular" manner and National Accountability Bureau (NAB) is investigating this issue. In addition, Rs 582 billion is parked on the books of PHPL under the names of power Distribution Companies (Discos) from different commercial banks at Kibour plus 1.25 to 2 percentage points.

The consumers pay mark-up on these loans estimated at around Rs 70-80 billion per annum in their electricity bills as government has failed to pay back principal loans to banks.

The differential tariff for different power Distribution Companies (Discos) is also a key hurdle in implementation of actual tariffs of Discos calculated by the National Electric Power Regulatory Authority (Nepra). The government is expected to focus on fuel mix which is one of the major reasons for higher tariff than the regional average.

According to sources, Power Division will ask the cabinet to earmark funds to improve transmission and distribution systems which are burdening consumers. Power Division argues that the Finance Ministry should release subsidy which is around Rs 120 billion, as well as dues of AJK and provincial governments.

The incumbent government wants to conduct financial as well as efficiency audit of power sector to formulate a comprehensive strategy for the future for which the opinion of private sector has also been sought.

A couple of days ago, Auditor General of Pakistan presented a detailed report to the ECC headed by Finance Minister Asad Umar which included the audit conducted by former Auditor General Buland Akhtar Rana and a Senate Special Committee headed by Senator Nauman Wazir.

AGP held circular debt payment of Rs368 billion to Independent Power Producers (IPPs) on 20 June 2013 by Ishaq Dar as irregular and in violation of the laid down procedures.

Analysts argue that payment should have been made through the Accountant General Pakistan Revenue (AGPR) but the government ignored the due process and paid the amount to the IPPs through the State Bank of Pakistan (SBP).

The Finance Ministry in its response to the AGPR maintained that payments were made through the SBP in the past. However, the AGP remained unconvinced with this justification and left the matter for the PAC to decide.

The AGP further stated that while making total payment of Rs480 billion to clear the circular debt, the Finance Ministry did not adjust/deduct Rs23 billion which the IPPs were to pay to the government on account of liquidated damage.

The Finance Ministry in its reply to the AGP said that the deduction was because of pending litigation in the matter.

The AGP also pointed out that the payment made to clear circular debt includes Rs22 billion as surcharge for late payment which was a loss to the national exchequer and Rs7-8 billion loss was incurred because of government's failure to provide gas fuel to the IPPs.

The special report on circular debt also noted that Rs6-7 billion that was collected as GST from the IPPs was refunded to the private power houses.

Former AGP Akhtar Buland Rana had informed the PAC that any releases in the past made by the Ministry of Finance without fulfilling pre-audit conditions were illegal and in violation of rules and regulations of the government.

Buland Rana had stated that the Finance Ministry did not release funds from the consolidated funds without pre-payment verification.