

## **Surcharges: keeping the system going**

Page No.02 Col No.03

The inefficiencies in the power sector have resulted in a financial drain of massive proportions. This circular debt has reared its head again and again but the stop-gap solutions have only aimed to clear or reduce it through payment. No effort has been made to address the underlying issues of distribution, recovery and transmission and project delays.

One of the main ways to pay for circular debt and project delays has been imposition of surcharges. Unable to finish Neelum-Jhelum in time or at original cost. No worries. Neelum-Jhelum surcharge to the rescue! A 10 paisa per unit surcharge in 2007 which has since been extended in line with the massive cost escalation.

A financing cost surcharge of Rs0.43/kWh to make up for the debt servicing on account of late payments and mark-up costs to IPPs, fuel suppliers and generation companies. This has been applicable to almost all consumer categories. Then there is inarguably the most inequitable tariff rationalisation surcharge.

This is a clever ploy by the power division to establish a uniform tariff across all regions. What it actually does, it covers up the losses and lack of recoveries in inefficient DISCOs such as HESCO and SEPCO and piling their receivables on efficient and higher recovery DISCOs such as LESCO.

Recently, it has come to light that the former PML-N government adjusted the financing of Rs180 billion commercial loans for the power sector in the consumer tariff through imposition of a surcharge just before completing its tenure.

Recall that the circular debt had reached the Rs1 trillion marks. So to ensure that the power system did not break down before their tenure was over commercial financing was urgently availed to at least pay the energy payments and keeps the system running. The Rs180 billion was then built into the consumer tariff by the power division according to a briefing to Senate special committee on circular debt.

Using surcharges as a crutch to just keep the system barely running is hardly any progress when it comes to the financial viability of the power sector in the former government's tenure. For starters the provinces should be given the task of ensuring recoveries in their own provinces as the federal government simply cannot afford to put further strain on already thinly stretched fiscal space. Otherwise this surcharge gift will be a recurring one.

