

Dr. Baichawa Zahira - II

DEBT IN THE ENERGY

SECTOR

Q: 2

## Introduction:

Circular Debt is a persistent problem of Pakistan that has caused significant economic and energy related challenges. Despite the efforts by successive governments, the ~~issue of~~ circular debt has not been ~~controlled~~. <sup>Though</sup> The circular debt emerged in ~~the~~ 2000s seeds were sown in ~~the~~ 1990s, with the implementation of short term plans with LPPs. Moreover, expensive power generation, flawed and delayed power tariff determination and unbudgeted subsidies are also the causes of contributing to the growing circular debt in power sector. The problem in power sector and circular debt can be addressed if the financial performance of DISCOs are improved, removal of electricity subsidies, and by reducing the cost of energy generation. The circular debt has negatively impacted Pakistan's economy. So, the problem of circular debt needs immediate attention.

## II - WHAT IS PAKISTAN'S CIRCULAR DEBT ISSUE IN THE ENERGY SECTOR ?

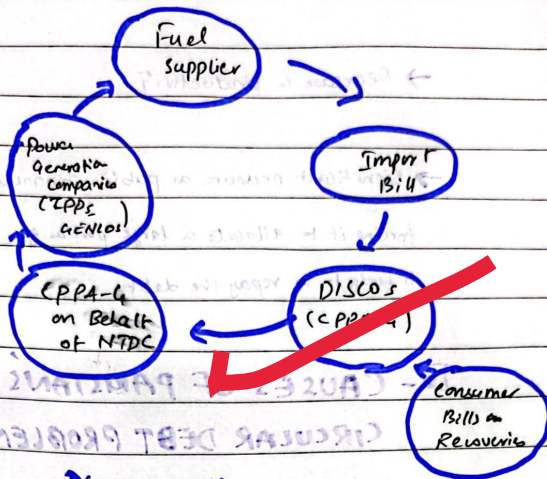
The Power Generation Companies, such as IPPs produce electric power which is sold to Power Purchasing Agencies, CPPA-G on behalf of distribution companies, DISCOs through the transmission companies, NTDC. The DISCOs supply power to the end users.

Similarly, Central Purchasing Power Agency, CPPA-G is to make payments to the power producing companies and NTDC on behalf of DISCOs within a given timeframe.

The Problem stems from the DISCOs being unable to make timely payments due to reasons including lower recoveries from the end customers and Transmission and Distribution losses. It will be discussed further. This in turn hinders CPPA-G in making payments to Power producing Companies and Transmission Companies.

So, the cycle goes on as the Power producing companies are unable to make payments to fuel suppliers. Under the PPA, the delayed payments to power companies bears mark-up and increases financial liability.

Keep the description of a single heading brief and divide it into subheadings



Diagrammatic Representation of Circular Debt

### III IMPACTS OF CIRCULAR DEBT ISSUE IN PAKISTAN

Circular debt has far reaching and damaging implications on the economy. Some impacts are:

- It had led to high tariffs
- High cost of doing business
- Decline in investment

→ Increase in power outages

→ Decrease in productivity

→ Significant pressure on public finances, forcing it to allocate a large portion of its budget to repay the debt

## IV- CAUSES OF PAKISTAN'S CIRCULAR DEBT PROBLEM:

### IV-A Flawed Contracts with the Independent Power Producers (IPPs)

Power policy in 1994 and successive power policies have provided lucrative incentives to IPPs such as tax exemptions, free repatriation of equity and dividends and guaranteed capacity repayments to Independent Power Producers (IPPs) for adding into the national generation capacity. Moreover, it has also added the checks on IPPs for adding expensive fuel utilization. These steps have added the generation cost of electricity. The dollar based rate of return to IPPs have further

Burdened the national exchequer as the rupee is devaluing.  
So, it causes the circular debt to increase.

#### IV-B High cost of Power

generation contributing to  
High rate of Circular Debt

Pakistan's energy mix is highly expensive  
as it has <sup>been</sup> relied on imported fuels for over 40 years. Over  
the years, Pakistan's reliance on ~~se-~~ gasified liquefied  
natural gas (RLNG) and imported coal has also increased.  
The high cost of electricity does not allow the people to  
pay the bills and as a result exacerbate the circular  
debt issue.

Add and highlight  
references.....

#### IV-C Pitfalls and delays

in the Tariff Determination

The Tariff determination rate is ~~also~~  
delayed by an average 9-12 months. It adds to  
repayment arrears. To ~~cover~~ the gap between  
actual cost and notified rate, the government  
notified tariff rate (less than recommended by NEPAA  
due to political reasons) the government provides  
subsidies to the DISCOs. Many a time, government delays

These payment and passed on the costs to compliant customers through taxes, surcharges and tariff hikes.

It puts burden on the customer leading to reduce electricity demand and lower bill collection by DISCOs. The bill lower recovery exacerbates the circular debt.

#### IV-D High Transmission and

Distribution losses and

Poor Revenue collection by

the DISCOs.

All the DISCOs including re-electric have been incurring huge Transmission and Distribution losses and facing low recovery of the billed amount which add to the circular debt.

Financial loss due to Transmission

and Distribution losses is 195 billion

rupees, according to Prime report

## IV-E Unbudgeted Subsidies

Government provides tariff differential subsidies to DISCOs for distributing electricity to end consumers at government notified power tariffs. But does not provide these subsidies fully to DISCOs. It led to increase in circular debt.

Add more arguments in this part.

## V- HOW THE PROBLEM OF PROSTANT CIRCULAR DEBT CAN BE MINIMIZED?

### V-A- Improving the Financial Performance of DISCOs

The performance of DISCOs must be improved. The bureaucratic management must be replaced with professional and decentralized management. The DISCOs must be divided into smaller units so the DISCOs are responsible for T & D losses. When DISCOs are centralized there is a large gap between control centers and operations that lead to the more transmission losses and less recovery bills. So, there is a need for dividing large geographical

domains of DISCOs into two or three parts

V-B Electricity subsidies must  
be removed.

The electricity subsidy must be reduced so that it will eliminate the perception that electricity is an entitlement of government. The people would use the electricity with care. Moreover, the government has subsidized electricity for the poor but the rich are also using the electricity at a subsidized rate. It has led to burden the country's economy. So, the electricity bill should be taken at the original rates, not the subsidized one.

V-C Use of technology for making  
electricity excludable to non-payers

Instead of blocking out the electricity of the whole area, some technological tools could be employed to make electricity excludable to non-payers.

Example

Lead-acid resistant cables must be deployed in high



thrift region so that electricity may not be  
 theft. It would increase the bill payments and  
 reduce theft and circular debt. smart metering  
 is also a technique that could be used by DISCOs  
 to know those areas who are consuming electricity but  
 are not paying bills.

#### IV-D Reducing the cost of Energy Generation.

The cost of energy generation must be  
 reduced. It can be reduced by:

- a- Replace the dollar-indexed tariff  
 return to IPPs with the one based on  
 Pakistani Rupee
- b- In order to reduce reliance on imported  
 fuel, government needs to work on  
 indigenous energy resources such as  
 coal and renewable energy resources

#### V- CONCLUSION

Circular Debt is a major challenge  
 for Pakistan's economy and energy sector. There are

many causes behind this problem such as flawed contract with IPPs, high cost of power generation, delays in tariff determination, high transmission and distribution losses etc. The problem of circular debt can be addressed by improving the financial performance of DISCO, removal of electricity subsidies, use of technology and reducing the cost of energy generation. If the problem of circular debt is solved, the economy of Pakistan can be

