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**IMPACT OF POWER POLICIES  
ON SOCIAL AND PRODUCTION  
SECTOR**

**BY**

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# **IMPACT OF POWER POLICIES ON SOCIAL AND PRODUCTION SECTOR**

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**Rehmatullah Javed (\*)**

The importance of energy sources for smooth running of an economy cannot be under estimated. In the current century nearing its end, electric power has emerged as the most widely used energy source. Infact, all forms of energy that is solar energy, petroleum, gas, turbine wind-mill and even nuclear energy has to be transformed into electrical energy before being put to any use.

Two heads of the energy sector which have shown robust growth in 1995-96 are electricity and gas distribution. The estimated growth in these sectors has been 13.4% for 1995-96. This high growth is the result of very lucrative terms, offered by Government of Pakistan to foreign investors. This accelerated growth has given rise to the questions : Do we need this energy ? How it is going to affect our energy price structure? How it is going to affect our balance of payments? Answers to these questions do not sound favourable for the economy of Pakistan.

The way these source of energy are produced and priced has its bearing on the economy as a whole. In Pakistan the electrical power is produced in two ways; hydro-electric generation and thermal generation. Hydel-power is generated at a number of dams. Thermal generation involves the inputs of coal, gas and petroleum. In Pakistan the share of hydel and thermal generation has been alternately fluctuating between 45 to 55 percent.

According to a WAPDA estimate, there is going to be 8,157 MW capacity of surplus electricity in the country by 1998-99. In that year WAPDA would be getting 3,508 MW more from its own system and 3,770 MW through IPPs and 210 MW from KESC. This will lead to a total of 6,097 MW from private system and 14,157 MW from public sector in the year 1998-99 against a net demand of 12,072 MW. The World Bank, admitting the fact that 34 projects having letter of support (LOS) for thermal power generation would result in far too

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much power, if materialized, has stressed the GOP to accept them to avoid serious backlash of investors.

In the recent years, this energy sector has been subject to policy changes both in spheres of pricing and production. It has been estimated that electricity tariff both domestic and industrial registered an increase of 300 percent on average since July 1988. The most substantial changes occurred in August 1993, November 1994 and July 1995. Even to-date WAPDA has enhanced its Tariff structure increasing the rate of additional surcharge.

These changes had their impact upon the common man in two ways. The direct effect was in the form of increased utility bills. The indirect effect was the one which was further translated into increased factor cost of production in the manufacturing sector. These eight years also witnessed a cost-push price spiral where the prices of many essentials registered substantial increases.

The other policy instrument has been to introduce private participation in the electric power generation. Till 1993, the power generation has been very much the concern of state sector autonomous bodies like WAPDA and KESC for Karachi. In that year, under pressure from IMF the government resorted to increase in utility rates of power for domestic, commercial and industrial users. The goal apart from revenue generation was to provide incentive to the private sector to get into power generation. The year 1994 witnessed massive participation of American and British investors in the electric generation sector through a number of MOUs. The estimated cost to be charged by these units was fixed at 6.5 cents per Kwh , the rate estimated to be much higher than the tariff rates prevalent in the European countries.

The increased rates of electricity does not go down well with the manufacturing sector, yet it has been able to attract the private sector to invest in this lucrative field. This policy instrument has had a different reaction from various sections of the same sector. The rate per unit was lucrative enough alongwith other incentives which include fiscal incentives like exemption from corporate income, sales tax, iqra, flood relief and other surcharges as well as import licence fee.

It appears that the foreign sponsored power projects are going to recoil upon the country's economy, instead of making any significant contribution. Extremely liberal conditions have been offered to the foreign investors including : guarantee to purchase power generated by them at 6.5 cents / Kwh, compared to 4.8 cents given by Indians and 2.3 cents by Chinese; life time tax holiday compared to 5 years in India and none in China; Free import of plant and equipment as against 20% to 30% duty in India and no waiver in China; guarantee to pay capacity price of power generation; irrespective of their actual generation. It is common knowledge that capacity utilization of all projects, do not exceed 60% to 70% but we have agreed to pay 100% capacity from the first year.

Furthermore, under the incentives provided by WAPDA, the hydropower plants up to 20 MW would be selling their power to WAPDA at the rate of 6.1 cents per Kwh for the first ten years, 6.0 cents / Kwh for plants ranged between 21 MW and 300 MW for 10 years and 4.7 cents for the period of first 25 years. The payments will be made on the basis of actual energy sold to WAPDA during the month or in case of non-dispatch by WAPDA, for 95% of the energy that could have been generated by the hydropower plant. The "Take or Pay Basis" will ensure that the hydropower plant is given priority in load dispatch as compared to thermal source and that the investor / sponsor receives an assured minimum amount every month to meet the O&M , debt earning, insurance charges and ROE etc.

The final consumers obviously are not all domestic ones but commercial and industrial ones also. How this increased rate of electricity is going to effect them is anybody's guess. The rates of tariff translate into increased costs of production which obviously also effect the rate of wholesale and retail prices charged by the producers from the consumers.

To begin with despite the fact that Pakistan is a labour surplus country, the investments are mostly capital intensive which means that the usage of machinery involves increased use of power sources in the production processes. With ever increasing power rates, the consequent impact on the manufacturing sector is that the inputs costs are constantly on increase resulting in cost-push inflation.

The increased production of electricity through the privatization of power generation system does seem to help out the other sectors in meeting their needs like the education, health and social services sector. Increased capacity will ensure more and more rural electrification which is imperative for the setting up of network of educational and health care facilities. Yet the same principle of increased costs also applies here. If a school or health care unit is not subsidized by the government and has to fend for itself then how can it be assumed that such an entity will be able to provide the consumers with cheap social services. The increased availability of power sources is nullified when the same surplus availability negates the principle of cheap availability and is rather available at much higher rates.

To sum up the prevalent power policies need to be executed in a balanced manner. The emphasis should not just be the "Economic Utility of Greed" but also of "Social and Economic Costs". These costs should be avoided. In the absence of which, our economy may not be able to confront the world once the tariff walls are removed nor it will be able to benefit its countrymen in the true spirit of a welfare economy.