

ANATOMY OF HIGH POWER TARIFF
by
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Several years ago, a keynote address in a conference on "Water for the 21st century" pleaded for the resumption of the use of water, a free bounty of nature, for power generation. It exhorted for early development of large storage based hydroelectric projects and made passionate appeal for developing national consensus on Kalabagh to avert imminent disaster both in water and power sectors. The address stated that by not doing so, we were making a blunder of catastrophic proportions.

Water crisis of the last couple of Rabi crops followed by the recent price hikes in the power tariff reminded me of the above address and I exclaimed – how true! The increase is back-breaking indeed and the very thought that such increases may continue is really frightening. On every increase, Nepra admonishes Wapda for inefficiency, corruption and its failure to arrest losses. Wapda on its part puts the blame on the Government of Pakistan of most of its ills, in particular the exorbitant rise in fuel oil and natural gas prices. Non-payment of dues by the government-controlled departments is quoted as yet another reason. IPPs (Independent power producers) remain to be mentioned as one of the main reason for high rates. Wapda also debunks the inefficiency charges by quoting real or imaginary figures in support. It also emphasizes that it has reduced the losses from 42 to 24 percent. However, it fails to reveal the savings of the order of about Rs 30 billion in monetary terms that it ought to have achieved through loss reduction, if their figures are to be trusted. Politicians and analysts, in turn, put the entire blame on IMF. Wonder what the IMF has to say! Does it try to bring in the financial discipline or has some ulterior political motives? Perhaps both, but essentially discipline through improved management – failing which the conditionality to face the consequences as a part of macro level fiscal discipline. IMF's apparent objective is to let the utility stand on its own feet and not rely on nation's scarce financial resources for rescue. Infact, Nepra as an independent institution created by the Federal Govt. through an act of the parliament, is also mandated to bring about technical and financial discipline keeping the interest of both the utility and the consumers in view. Although it is difficult to comment on Nepra decision without access to detailed deliberations, it appears that after superficially admonishing the utilities, it by and large agrees to the petition and grants the tariff rise to the detriment of the consumers.

We as a nation are in the habit of jumping to the conclusions too soon without even studying the issue in any depth. Some blame IMF. Others blame IPPs. But every body invariably rebukes Wapda. However, some sympathizers of Wapda may even blame the government for the rise in fuel prices and the downturns in the national economic scenario, bringing into play, less than the projected power growth, inflation and escalation etc.

Every player in the power tariff game may have some valid reasons, at least apparently, to justify its position.

Nepra might say it joins the consumers in condemning the utility for inefficiencies but it cannot see it sink. Wapda may on its part try to shelter its inefficiencies (some inherent in large utilities operating in the given socio-political scenario) behind the government actions in increasing fuel prices although some people say the furnace oil prices remained by and large stable over the past four years. In any event, Wapda says, IPPs have done a lot of damage.

IPP's may argue that they themselves are victims of high fuel prices and rupee devaluation. Moreover, they are made to operate at levels lower than the optimal. If they were allowed to run at

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higher load factors, they would end up in cheaper product. Is less usage of IPP's because of Wapda's shortcomings in system operation or a force of circumstances Perhaps both. Government being all-powerful can say whatever it likes. Certain governments in the past had been helping Wapda deduct its dues from government controlled agencies at source but now these agencies do not agree to such arrangement any longer. About high oil prices, government may say that affluent people liable to tax don't pay. It is left with no option but to cover at least a part of its shortfalls by imposing upfront tax on fuel oil. After all, it gets distributed over the countrywide electricity consumers.

For downward slide of the rupee, successive governments blame each other for bringing about economic ills. The consumers have to accept the situation as a fait accompli.

Despite recent improvements, the national economy is essentially in turmoil. Power utilities as very important component of the national economy have been caught in a vicious circle. Higher electricity prices mean increased theft or lesser use of electricity, increased agricultural and industrial costs making both sectors uncompetitive; triggering inflationary trends. All these lead to economic stalemate, lesser exports, rupee depreciation, higher import prices, higher payment to IPP's yet higher oil prices and another round of power rate increase. Circular argument generating from vicious circle leads the hapless consumers nowhere. Instead of getting into an unending debate refreshed by every tariff increase now and then, Prudence demands that anatomy of this ever-increasing tariff be carried out below the skin surface.

Nation, particularly the younger generation, must know that the Pakistan power system was predominantly hydro and power used to be cheap and very affordable. Jabban (Malakand) hydel station existed before independence. Dargai, Rasul, Chichoki, Nandipur were constructed soon after. First major break through was achieved with the construction of Warsak hydel, quickly followed by Mangla and Terbela and then Full Stop. It was several years before the people who mattered, realized the fact of the looming power shortage. The system perforce started moving towards low gestation thermal projects, which later dovetailed, into more expensive thermal based IPP's (Independent power producers). In this not a happy situation, Wapda's in-house professionals foresaw the looming dangers and indigenously conceived some low gestation projects like low head hydel e.g. Chashma, Jinnah, etc and a medium head project named Ghazi Brotha. Unfortunately however, their implementation got delayed for whatever the reasons. Nevertheless, in the absence of a major reservoir based hydel development, the power system swiftly moved towards a predominantly thermal one and in the process power tariff increased steeply, other factors notwithstanding. It therefore transpires that the single biggest reason for high power tariff today and several years to come despite upcoming Ghazi Brotha is our continued disregard for large reservoir based hydroelectric projects. It doesn't require a person of high professional knowledge to tell how important such projects are for firming up water as well as power supplies.

May we now ask few questions from ourselves and evaluate our contribution as a nation towards high power tariff.

- a) Why wasn't a multi purpose project ready for construction soon after the completion of Terbela in early 1970's? It was certainly not the end of the world. Every concerned person knew very well as far back as early 1960's that another promising project namely; Kalabagh was a serious competitor to Terbela. For very valid reasons, it was decided to build Terbela first, to be followed by Kalabagh.
- b) Why the construction of Kalabagh was not started when belatedly, in 1985 its design and tender document were ready? Moreover, the preliminary works like roads, residential colonies, office buildings were also ready.
- c) Why in 1985, it was decided to induct thermal based IPP's? perhaps to avert disaster due to imminent power shortage.

- d) Why was the engineering of another multipurpose project named Bhasha not allowed to proceed in mid 1980's? Had this task been completed, this project could have been started while impasse on Kalabagh was continuing.
- e) Why have the successive governments shown lack of political WILL to work towards developing national consensus on Kalabagh dam?
- f) Why has the completion of low gestation projects like Chashma (now operational) and Ghazi Brotha conceived to fill hydel power gap before Kalabagh been delayed so much.
- g) Why even the last military government, which has taken many revolutionary decisions for the political and economic uplift, some controversial also, not, taken very vital economic decision to build Kalabagh?
- h) Why some smaller water projects are being projected as substitute for Kalabagh and/or for Bhasha? Why the concept of least cost sequence of candidate projects is being ignored?
- i) Is thirty years period in keeping Kalabagh in suspended animation not long enough for an unfortunate nation with a total life of 55 years?

It is not intended to raise or generate any controversy over the question; nor it is proposed to seek replies. This nation has already wasted too much time and energy on blames and counter blames. The above questions are merely Points to Ponder for the present decision-makers, who may be keen to save the consumers from reaching the breaking point. The point intended to be hammered in is, that the nation is paying a high penalty for not building large multipurpose water and power projects in terms of high power tariff and water shortage, leading the economy into a vicious economic spiral.

Shortage of water during the last couple of Rabi crops must have shaken the conscience of many of those who may not have favored Kalabagh in the past. They might have realized that large reservoirs are essential to ensure water supplies particularly during drought years. Now, they must also appreciate that spiraling power tariff is also because of insufficiency of reservoir-based dams.

Sometimes past, perhaps in 1998, the then Chairman Wapda through his untiring consensus building efforts had brought at least NWFP to the brink of a breakthrough. However, the province of Sindh continued to perceive that an additional reservoir at Kalabagh would create lot of environmental problems for them. Hence national consensus remained defied.

Before concluding, may I suggest a couple of interesting points in connection with Kalabagh.

- Let it be unequivocally known to the lower riparian that Kalabagh if built now will not be an Additional Storage but only a Substitutive one, for the storage lost due to sedimentation at Chahshma, Mangia and Terbela. Kalabagh will only restore the position as existing post Terbela.
- It may be noted that Consensus is required where a change in status quo is contemplated. In this case no change is involved. What is required is strenuous effort to improve the perception of the nation, particularly those who have apprehensions about the project.
- Let it be conceded that Kalabagh will be a real national project and not only a Wapda project. Its power benefits should be proportionately shared by KESC area of franchise with an estimated population of 15 million.

Let the decision-makers who have been able to take the country out of debt trap, ponder over the above statements and questions. If they find the statements as true and correct, let them pick up courage to take the country out of economic trap and immediately start the construction of Kalabagh. Let the derailed power sector (and along with the water sector) be put on rails in the hope of seeing light at the end of a 10 years long tunnel. Waiting time is too long. Some breathers shall have to be provided enroute. It is for the current professionals to work out such arrangements. For a keen observer, it is sufficient to make the following suggestions.

- a. Let Ghazi Brotha be completed at the earliest to contribute its share of cheap hydle energy to the power system. One, however, wonders if it would still be cheap after such long delays and cost over-runs.
- b. Let all thermal stations whether Wapda or IPPs, be converted to gas, supply of which be ensured on emergent basis. Government, however, will still be in dilemma whither to keep CBR afloat by the continued use of oil or help Wapda to keep tariff low by converting to gas.
- c. Let the Engineering studies of Bhasha be started at the earliest.
- d. Let some better hydroelectric projects in the vision 2025 be taken to completion expeditiously.