**`Cheap` electricity**

BY L A L A R U K H E J A Z 2021-07-13

THEY say the road to hell is paved with good intentions. The aphorism is particularly relevant to Pakistan where the existing economic mess is largely of our own making. Politicians promise people stuff they can`t afford. This leads to growing subsidies, rising loans and widening budget deficits. Spurts of such debt-fuelled growth gives people a temporary and false sense of prosperity. However, any operation run on unsustainable cash injections in the form of subsidies, tax breaks or outright bailouts blows up sooner or later.

A case in point is the energy sector riddled with the ever ballooning circular debt. The root cause of the circular debt (unpaid bills of over Rs2.5 trillion on the balance sheets of power sector companies) is the (any) government`s inability to make its own departments and divisions pay for the electricity that they have used (government organisations being among the largest defaulters). Furthermore, agreements by previous governments that allowed independent power producers to be paid exorbitant payments even if they didn`t generate any electricity for the national grid have added to the increase of the circular debt.

Of course, the intention of politicians and bureaucrats when they promise cheap electricity to people is good. But these good intentions have been clouded by the mess in the energy sector: liquidity constraints, underutilised power plants, overburdened transmission lines and inefficient distribution companies.

Recently, Prime Minister Imran Khan was quoted as saying that `cheap` electricity was key to national prosperity. And to achieve that it appears the federal budget 2021-22 proposes even more increased subsidies for the power sector than before.

This means that the `cheap electricity` is not the fruit of any meaningful reform of the power sector, specifically it will exacerbate theissue ofcircular debt.

Albert Einstein was spot on when he said the definition of insanity is doing the same thing over and over again with the expectation of dif ferent results. And this applies to the way governments have approached `reform` of the power sector through the provision of `cheap electricity`. The easy approach is to subsidise it, but that`s eventually borne by the taxpayer and given the current size of the circular debt it has now become a drain on the government`s ability to use its limited resources for productive and development purposes.

Perhaps we first need to figure out what exactly is meant by `cheap` electricity. If electrons are moving along the generation, transmission and distribution networks, itmeans someone, somewhere has paid for it.

The person consuming that electricity may be getting it at a subsidised rate, but that doesn`t mean it`s cheap. The taxpayer is paying for it in the form of subsidies, higher taxes, bailouts and even inflation, which is a direct consequence of government borrowing to finance expenditures.

The fact is that in the past five years, the cost of electricity generation has gone up 76percentagainsta39percentincreasein the average tariff. According to Sakib Sherani, head of Macro Economic Insights, the power sector has cost $82 billion in lost GDP between 2007 and 2020 and lowered the rupee per-capita GDP by almost one-quarter.

In a recent post-budget session at the Institute of Business Administration, Karachi, former State Bank of Pakistan governor and current Adviser to the Prime Minister on Institutional Reforms and Austerity Dr Ishrat Husain, said that 24 million out of the total 30m consumer connections were receiving electricity at sub-sidised rates. This means eight of every 10 connections are receiving `cheap` electricity that doesn`t cover the cost of power production.

The prime minister`s intentions are noble but he needs to realise that the only way towards actually fulfilling the promise of cheapelectricity is to bring about meaningful reform in the short term as well as the long term in the power sector, and that can happen by undoing the distortions present in it, by making power companies reduce their transmission and distribution losses, by cutting down on power theft and by ensuring that government organisations pay their own electricity bills as well.

The government has an Integrated Energy Plan to reform the power and energy sector, but that will not bear fruit unless the leviathan of circular debt is tackled head on, and deals with IPPs are renegotiated, along with buyouts of their remaining tenures, and replaced by power plantsusingcheaper alternative sources of energy such as wind and solar power this could actually bring down the cost of electricity. The writer is assistant professor of economics at the Institute of Business Administration, Karachi.