

Pakistan's electricity crisis

1. Background Details:

Up until 2004, firm supply of electricity stood at 15,056 MW while the demand was under 14,000 MW (we had a surplus). Over the past three years, our economy has gone through a period of robust growth, and the demand for electricity now stands at around 18,000 MW. The Private Power and Infrastructure Board (PPIB) is not expecting any significant addition to our generation capacity till 2010. By 2010, the demand would have gone up to 20,000 MW and the demand-supply gap would hit a scary 5,000 MW.

2. Situational Analysis:

Crisis of electricity is a symptom not a disease. The disease is the crisis of government policy. Over the past 13 years, there have been three power policies by three different governments. The 1994 Power Policy by the Benazir Government, the 1998 Power Policy by the Nawaz Government and the 2002 Power Policy by the current regime. The only Power Policy that actually brought electricity generators to Pakistan was the 1994 Power Policy. A total of 14 Independent Power Producers (IPPs) had set up offices in Pakistan, investing some \$3 billion and generating around 3,000 MW of electricity. If investors were willing to invest under the 1994 Power Policy what on earth was the need to bring in a new policy?

Up until February 2007, the crisis of electricity was purely a consequence of the crisis of government policy. Then came March 9. Imagine, how swift was the response of international investors to the arbitrary suspension of Chief Justice Iftikhar Muhammad Chaudhry. Credit default swap, indicative of investors' risk appetite for Pakistan, shot up almost immediately after March 9 (credit default swap is the most widely traded over-the-counter credit derivative). Then came November 3. Within three weeks of November 3, credit default swap for Pakistan had hit a historical high. Translation: Post-March 9 and post-November 3, international investors now demand an awfully high risk premium (for them to invest in Pakistan).

In essence, the crisis of electricity started out as the crisis of government policy and has now also become a crisis of investment. Initially, it was the failure of the 1998 and the 2002 Power Policies but now no one wants to invest into Pakistan.

Yes, the government claims that it has plans of setting up 8,000 MW of additional capacity between now and 2010. Of the 8,000 MW, around 5,000 MW is gas-based—but we don't have gas. And, if we begin right away the Iran-Pakistan-India (IPI) gas pipeline would take \$7 billion plus eight years to complete.

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3. Recommendations of CRSS:

CRSS strongly recommends the following:

1. Encourage existing IPPs to expand their generation capacity.
2. Press the provincial governments to devise viable policies for the installation of small hydel.
3. Bring back the 1994 Power Policy.
4. In the intermediate term, wind power has a potential of some 2,000 to 4,000 MW.
5. Long term solution lies in hydropower.