

Iraq's Long-Lasting Electricity Problem: A Report on a webinar organised by IEN on 23 August, 2020.

Speakers:

- Dr Barik Schuber: IEN Coordinator and Senior International Economic Advisor.
- Mr. Ali Alsafar: IEA MENA Program manager.

Guest speaker: Mr. Ali Shamara: Private Investor and independent power producer.

Introduction:

The Iraqi Economists Network recognizes the repercussion of the failure of all the plans, the allocation resources, and the implemented project to place the power sector in order. The repercussions are manifested by the negative impact on the economic development and the basic welfare of the individual citizen. The opportunity cost of the allocated resources to solve the electricity issue has been enormous.

Power issues and proposed solution have always been and remain as of today a puzzle. The Iraqi Economists Network has started a series of webinars on Iraqi economy issues and economic development with a clear objective to propose solutions based on world class expertise and scientific grounds.

The following are summaries and highlights of the webinar presentations.

Highlights of Mr. Ali Al-Saffar's Presentation

"A lot of what I will speak about today will be based on our work of the IEA in Iraq dating back to 2012. Despite significant increases in the power generation fleet, the gap between the power supplied, and peak demand, is larger than it has ever been."

"The grid provided the majority of electricity to households in Iraq, but more than 90% of consumer electricity bills go to expensive neighbourhood generation."

"Low revenues for grid supply means the Electricity Ministry has to rely heavily on the federal budget. We need to think of how to reinvest in Iraq, because the issues

have been cyclical & this has been shown more with years like now when we have no federal budget."

"Improving the network and maximizing electricity production from the current fleet can help narrow the gap between supply and peak demand in the summer."

"I want to make sure people know the role neighbourhood generators play. All options are less costly than the current reliance on neighbourhood generators."

"Looking at different options for electricity generation: "The absolute worst solar sites in Iraq is still 30% better than the best solar sites in Germany."

"Targeted reforms to tariffs and regulating neighbourhood generation could propel an electricity system where consumer bills are significantly lower than they are today."

Highlights of Dr. Barik Schuber's Presentation

"Why is it not possible to resolve the long-lasting electricity problem since 2003?

The common reason given is corruption; however, this is not a satisfactory answer. Corruption plays a great role, but this is not the only factor."

"The core problem is the gap between supply and demand. The demand has increased dramatically and while supply has also increased, it is not at the same level of demand without an effective tariff system."

"The absence of demand side management has hindered Iraq's ability to provide electricity. Iraq cannot finance an unlimited expansion from the supply side."

"Ignored utilization of alternative energy sources has also hindered Iraq's ability to provide better electricity services for citizens. There are some limited initiatives from private sector companies, which need to be more promoted from the policy side."

"In 2018, a new law was enacted by the parliament which meant to introduce a reform package of the power sector. However, the existing organizational system has not been changed substantially."

"Technical losses have increased from 40% in 2014 to 58% in 2018, with an overall efficiency of generation is still below 30%."

"The real and sustainable solution for the long-lasting electricity can only be the gradual privatization of generation and distribution. Transmission can be kept at the preserve of a non-commercial state-owned body."

"The four existing regional generation state owned companies are suggested to be transformed into shareholding companies. At the beginning, the state represented by the Ministry of Finance should retain 51% of the shares."

"The existing state-owned distribution companies should be transformed in shareholding companies in each governorate of Iraq. Shareholder should be the governorate with a share of 51 %, the neighbourhood generators with a share equal to the value of their assets and the rest for the public in the respective governorate exclusively. The new companies will buy the electricity from the generating companies as well as from the independent power producers at competitive price and sell to the consumers at progressive tariffs set by the regulatory body."

The Ministry of Electricity should be transferred into an independent regulatory body

Remark by Mr. Ali Shamara

Mr. Ali Shamar commented on the following points:

"There three main issues, first the demand is too far from the production level today, the second is that most of the power plants that under operation are inefficient and even they are not run by professional personnel. For example, you have some power plants where their installed capacity of 30mgw they only products 12mgw which makes only 40% of the installed capacity. It is important to transfer the power generation to the private sector to operate the power plants to achieve higher efficiency. Currently we achieve in our private operated power plant between 80% 90% efficiency. "

"government is using about 10 times more staff than the private sector. The government is employing between 180,000-200,000 to generate 12,000mgw only which may require only 10,000. The type of fuel used like heavy fuel oil which reduces the production efficiency to 60%. The other issue is the collection which is only 10% of the actual cost. The cost of 12,000mgw is 10 billion USD and they are collecting one billion USD or even less. We have to use smart grid to collect the normal tariff similar to the neighboring countries."

“Solar technology a solution that can contribute to the production of electricity.”

Mr. Shamara recommended the outsourcing of the operation of state-owned power plants to private sector companies to increase the generation efficiency

IEN Perspective and Recommended Solution for Policy Makers’ Consideration

1. The reform process should begin with reforming the distribution sector by transforming the existing state owned four distribution companies into shareholding companies in each governorate in Iraq. The majority of shares should be held by the council of the respective governorate as the infrastructure is owned by the government. Proper share equal to the value of their assets should go to the neighborhood producers. The rest should be issued to the public in the respective governorate exclusively.
2. The next step would be transferring the four state owned generation companies into shareholding companies. During the first phase of ownership transfer, the majority of the shares will be held by the state. The rest can be owned by private investors and the public. Foreign investors should be allowed to buy stock in these companies. The management of these companies can be contracted to private sector operators or the by-law of these companies allows for business corporate management of these companies like any international corporate business.
3. Subsidized fuel price is a prerequisite for a period of 10 years but must be restructured to maintain production and consumption efficiency. The subsidy should not be granted at the production side, but may be applied at the consumption level under a certain rule based on calculated requirement in each season be it by household level or per capita consumption. The objective is to reduce inefficiency of the use of resources on both production and consumption level.
4. The National Grid will stay as state owned non-profit company.
5. The Ministry of Electricity should be converted in a regulatory body with reduced staff.
6. A program for reallocation of the excessive member of staff should be designed and implemented over a certain period of time.

Authored and edited by IEN Management Team

To watch the video of the webinar click on the following link:

<https://youtu.be/FqAUQX2fe98>