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Fixing Lebanon's electricity problems through PPPs

The perennial problems of electricity in Lebanon, the details of which we are naturally more privy to as a result of our role as one of the Distribution Service Providers in Lebanon, are, by all accounts, as much of a technical nature as they are of a socio-economic and political one. While our production capabilities are far below market needs (2,334 megawatts compared to 3,456 MW in 2018, or nearly by a third), these are only one element in a broader spectrum of challenges that the new electricity plan, unveiled by Energy Minister Nada Boustani and approved by the Cabinet on April 8 this year, is intent on tackling. The much-hyped, and rightly so, technical and nontechnical losses are in fact a major cause of the yearly deficit of Electricite du Liban, and which the state, and consequently citizens, are having to shoulder. As of the beginning of this year, technical and nontechnical losses amounted to 34 percent, with plans to reduce that figure to 12 percent by 2021, noting that every reduction of 1 percent in losses translates into a \$13.3 million surplus of available revenue. Moreover, and while admittedly a fact unknown to many, EDL is owed around \$2 billion in arrears, mostly in relation to Palestinian camps and government entities, with plans to collect these over the next seven years. Yet while means of production and sources of supply are generally of relative interest to citizens, the question of the cost to consumers remains of foremost priority to many, especially at these times of austerity and economic stagnation. Electricity tariffs have remained unchanged in years, resulting in EDL selling electricity at considerably below cost, perpetuating the budgetary deficit and contributing to the \$2 billion yearly figure that we have all come to memorize. Should tariffs be revised? Should the state continue to subsidize electricity as an essential service and a rampart against extreme poverty and substandard living conditions? Or should the market dictate the price, especially in a free market economy such as ours? These are all legitimate questions, which historical precedents have given us answers to, albeit not the most popular ones. Subsidizing electricity is no longer sustainable. It has been going on for many years, and it has only gotten the country into further debt. The question then, is how and when to revise the tariffs? We are, to put it simply, in a “chicken and the egg” scenario, in that some believe that consumption rates should be adjusted in order to provide 24/7 electricity, while others argue that the state should provide 24/7 electricity before it can ask consumers to pay more. The new electricity plan has wisely chosen to proceed on both in parallel, increasing supply hours while increasing tariffs, as

of 2020, to sustainable levels. Besides relying on improving, increasing and diversifying sources of production, the new electricity plan also focuses on leveraging the private sector, through the public-private partnership model, in enhancing the efficiency of the electricity sector while reducing the operational and financial burden on the state. In fact, since the plan was approved in April, considerable strides have been made toward achieving some of the key strategic goals of the plan, namely improving collection, reducing technical and nontechnical losses and installing smart meters. In the last 12 months, the NEUC collaborated with EDL, and at times the security forces, on removing 14,166 violations and on issuing 2,175 violation tickets in the company's jurisdiction of the southern region of Mount Lebanon and Chiyah, proving that the government is serious about addressing some of the roots of the problem. On the other hand, smart meters are progressively being rolled out, with the NEUC, which is the first to have seen its smart meters certified, validated and approved, having already installed them in the last three months for private medium-voltage consumers (factories, malls, hospitals, water pumping stations, etc.). Meanwhile, private citizens (low-voltage consumers) will also benefit from having smart meters, whereby the NEUC is planning on installing around 3,000 meters in July as part of additional on-site testing, raising the total number of smart meters expected to be installed by the company during the summer of 2019 to around 30,000. The full rollout of the project will start in the last quarter of 2019, with the entire project to be completed in 2021. Smart meters have numerous direct benefits to consumers and the country more broadly, namely that they allow customers to better control and to optimize their consumption, as well as to save on cost, in addition to allowing remote and accurate meter reading, the detection of fraud and fault lines, and the installation of new and safe electricity panels. Moreover, the installation of smart meters will automatically lead to an improved electricity network that consumers will benefit from, all while enhancing state revenues by drastically reducing theft of electricity and meter tampering. Most experts, and even the political class, agree that the public-private partnership model has already proved its worth with the establishment of the DSPs, and constitutes an encouraging and viable option for the state in pushing for the much-needed structural reforms, including in its often inflated and sometimes underperforming public sector. Since the DSP project took effect, collection rates across Lebanon have reached 92 percent on average, with the number of subscribers increasing in a notable fashion, resulting in EDL's revenues from DSPs' collection jumping to a record high of \$60 million a month. Vested interests aside, DSPs, can take some of the burden off the state and help enhance the efficiency of the sector, particularly if they are given, as per the new plan, more oversight of the distribution network, be it by completely controlling bill collection, including printing of bills; managing and collecting arrears; reducing network violations (nontechnical losses); and improving processes with EDL. PPPs are often misconstrued as a form of privatization or a capitulation of the state in favor of private interests.

This could not be further from the truth. Yet perceptions are often stronger than reality, requiring both parties to make a concerted effort to counter misperceptions and to ease the genuine concerns of the public, and for the government to enact the needed laws and to establish and empower the regulatory authority whose role will be to safeguard the interest of the state and its constituents. Carla Aoun has been the general manager of the National Electrical Utility Company since 2012. She previously worked in the UAE and Qatar for nearly a decade.