Iraq's Electricity Crisis

In view of the power sector's dire financial condition, and the inability of government to absorb the losses caused in large part by its intervention in the setting of tariffs, it is imperative to rationalize the pricing of electricity. The highest policy priority should be to rebalance the structure of tariffs and realign prices with underlying costs, in part to restore revenue adequacy and generate internal funds for capital investment and in part to eliminate poorly targeted and inequitable subsidies that have created an unsustainable fiscal burden.

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I. Introduction

The electricity sector plays a vital role in the socioeconomic development of post-war countries such as Iraq (Lewis, 2004, 2006), Lebanon, Kosovo (Avdiu and Hamiti, 2011), and Afghanistan (Khan, 2007; Fichtner, 2012). Iraq has gone through three wars, civil unrest, and economic sanctions during the last four decades, which crippled the power system to devastating levels. The root cause of the stagnation is the legacy of bombing the infrastructure during the 1990–1991 Gulf War, when around 75 percent of Iraq's 9,300 MW installed capacity was damaged, leaving only 2,300 MW at the end of the conflict (Globalsecurity.org). The oil-for-food program launched in 1996 by the United Nations, which allowed Iraq to export limited quantities of oil, has left the infrastructure saddled with

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neglect, poor maintenance, and the cancellation of crucial electricity, water, and sanitation projects. Electricity production was marred with exceptional power cuts and the situation was worsened following the invasion by the U.S.-led coalition in March 2003. The quick military success was undermined immediately by a subsequent wave of looting and anarchy, as it appeared later that the United States was unprepared and ill-equipped to deal with a post-conflict reconstruction plan. The country was torn unexpectedly by violence and a nascent insurgency; the governmental system was completely shattered and the electricity sector slipped into an idle gear and was literally switched off on several occasions. As a result, supply to consumers from the public system was severely restricted. In May 2003, electricity production was at less than 10 percent of the already inadequate pre-war level (Bremer et al., 2008). According to a UN study, the aftermath of blackouts has led to the diminished availability of safe water and has doubled the rise in water-borne disease and child malnutrition (Vick, 2004). The limited pre-war planning for reconstruction and frequent shifts in strategies were major factors in hampering the restoration of the electricity sector even to pre-war levels. Lack of security was mainly blamed for destabilizing the electricity supply as the Coalition and Iraqi forces struggled to provide security for the power plants and transmission lines. The electricity output in Baghdad from January to April 2005 remained at two-fifths of its pre-occupation level (Brookings Institution, 2005) and nationwide electricity consumption was at 4,000 MW, while demand for electricity was increasing steadily to 9,000 MW, which left households to enjoy on average just nine hours of electricity a day (Ozlu, 2006). It was not until mid-2008 that daily electricity production edged up above pre-war levels, with outputs averaging 4,400 MW per day. However, demand still far surpassed production, and the main substations responsible for routing power across the grid remained unstable and prone to insurgent attacks. The $5.56 billion allocated by the U.S. Congress as part of the Iraq Relief and Reconstruction Fund for rehabilitation of the electricity sector was later reduced due to the rapid deterioration of security. The damning report, *Hard Lessons: The Iraq Reconstruction Experience*, prepared by the Special Inspector General for Iraq Reconstruction (SIGIR) in 2009 concluded that there were several irregularities and setbacks in the electricity reconstruction efforts and the U.S. administration conceded seven years after the invasion that electricity reconstruction became substantially more costly and complex than anticipated, and it had neither the structure nor resources in place to execute the epic relief and reconstruction plan set up in 2003 (SIGIR, 2009; Myers, 2010). The Iraqi government's spending on improving the faltering power system was close to the US$41.5 billion during the period 2004–2012 (including the US$17 billion spent on upgrading existing power stations and setting up new generators) from the country's oil revenue while Iraqi citizens spent approximately US$80 billion on buying electricity produced from private generators (Hassoun, 2012). The Electricity Master Plan, which was prepared by the engineering firm Parsons Brinckerhoff in 2010, estimates the overall required investment for Iraq's electricity sector—except the semi-autonomous Kurdistan Regional Government (KRG)—to be around US$26 billion until 2016 and an additional US$54 billion until 2030 (Parsons Brinckerhoff, 2010). The continuation of the electricity crisis had one of the most serious adverse effects on the national economy and became a major political issue, undermining the credibility of the government despite the enormous budget allocated to

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