



POWER POLITICS IN IRAQ: ELECTRICITY & INSURGENCY

Institute for Regulatory Policy Studies – Illinois State University

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Terrence L. Barnich & Philip R. O'Connor

INITIAL CONDITIONS IN 2003

- Network worse off than expected.
- Supply & deliverability were far short.
- Management practices 30 years old.
- Security problems took hold before reconstruction could gain traction.

2003 ELECTRICITY INFRASTRUCTURE CONDITIONS

- Power plants bombed in the First Gulf War
- Sanctions inhibited repair and expansion.
- Saddam used network for early warning.
- OIF did not bomb the plants in 2003.
- Post-invasion looting caused damage.
- Fuel system was dramatically degraded.

SUPPLY & DELIVERABILITY SHORTFALL AFTER LIBERATION

- For several months electricity supply was, in practical terms, almost non-existent.
- Consumer boom drove demand to nearly double by 2008 to nearly 200,000 MWh/d.
- Until late 2007 network served half of load.
- New turbines brought in by the Coalition had no gas available so performance has been degraded by use of crude & HFO.

MINISTRY OF ELECTRICITY

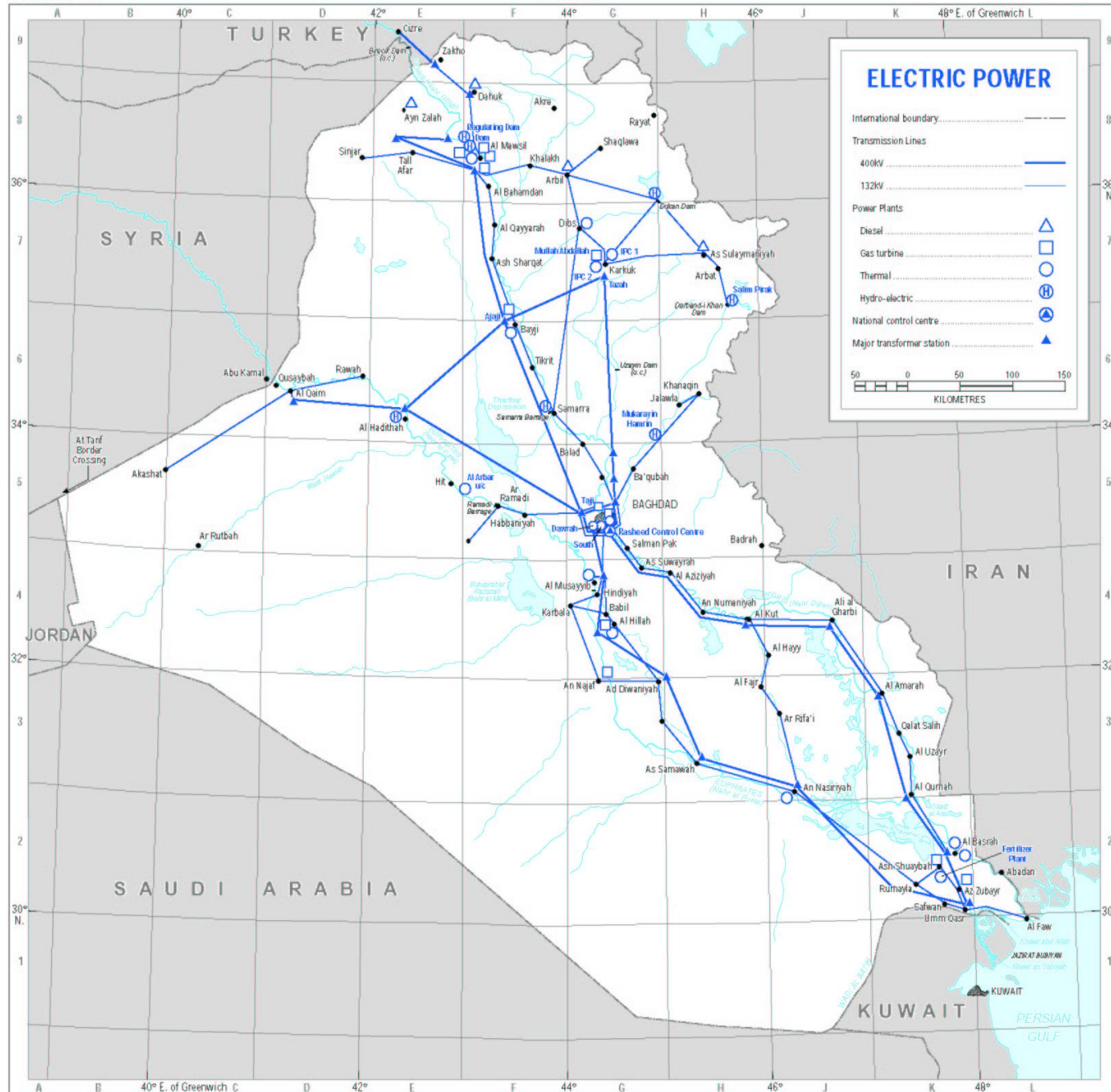
- Saddam stopped the clock in the 1980s.
- MoE a bureaucracy, not a business.
- Electricity treated as a political tool: Saddam served Baghdad 24/7 while other parts of the country received little service.
- Three ministers since mid-2003.
- Brain drain, assassinations, retirements.
- Enormous pressure to serve as a patronage haven – 80,000 payroll.

INSTITUTIONAL & POLITICAL DYSFUNCTION

- Saddam destroyed any semblance of civil society: dissidents killed, jailed or exiled.
- Iraqi politics have always been violent.
- Iraqis compete for slices of a “fixed pie” rather than expecting an expanding pie.
- Conflicting imperatives inhibit cooperation between Oil & Electricity Ministries.
- Politics & traditions slow economic reform.

REGULATION, SUBSIDIES & MONOPOLY DISTORTED PRICES

- Government has largely monopolized energy & has held prices far below cost.
- Fuel transfer pricing between Oil & Electricity Ministries heavily subsidized.
- Capital investment not included in rates.
- “Black market” in fuels inevitably widespread and people pay full price for supplemental private electricity supplies.



UNPRECEDENTED SECURITY CONDITIONS

- Iraq's transmission backbone and Baghdad Ring highly vulnerable to attack.
- Insurgents can help de-legitimize the government by disrupting power supplies.
- Transmission repairs require protection.
- Ex-Pat teams require heavy security.
- Looting & vandalism of copper wire etc.
- Security problems plague fuel delivery.

RECONSTRUCTION EXPENSIVE IN COUNTERINSURGENCY

- Restoring and providing energy essential as part of a counterinsurgency.
- \$4.3 billion Coalition reconstruction funding and projects intended as a kick-start.
- MoE has also invested \$6 billion.
- @\$30 billion investment needed over next decade – about \$1,100 per capita.
- Donor nations & NGOs becoming more important as security improves.

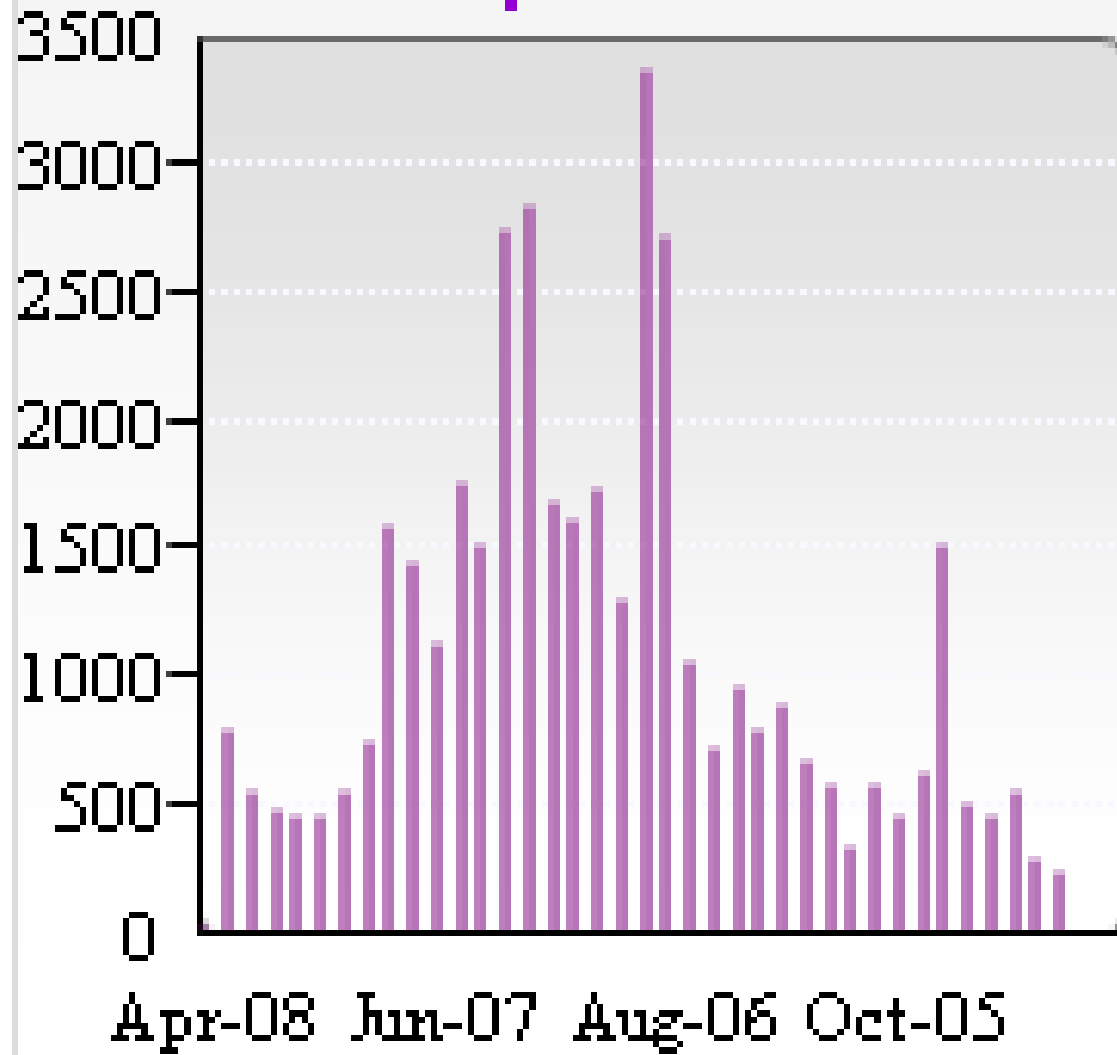
MAJOR ELECTRICITY RECONSTRUCTION PLAYERS

- MoE is the center of gravity.
- Iraq Transition Assistance Office at Embassy oversees funding assistance.
- Army Corps of Engineers carries out and supervises G&T projects, O&M OJT.
- Energy Fusion Cell integrates military assets with projects and policies.
- USAID – projects and training.
- World Bank, Japanese, European Union.

COUNTERINSURGENCY SURGE HAS CHANGED THE SITUATION

- Surge was a major shift in strategy & tactics – not merely more troops.
- Went on offense by coming out of the enclaves to engage the enemy, disrupted their networks and held cleared areas.
- Enemy being denied access to population.
- People more secure and markets open.
- MoE staff more able to focus on business.

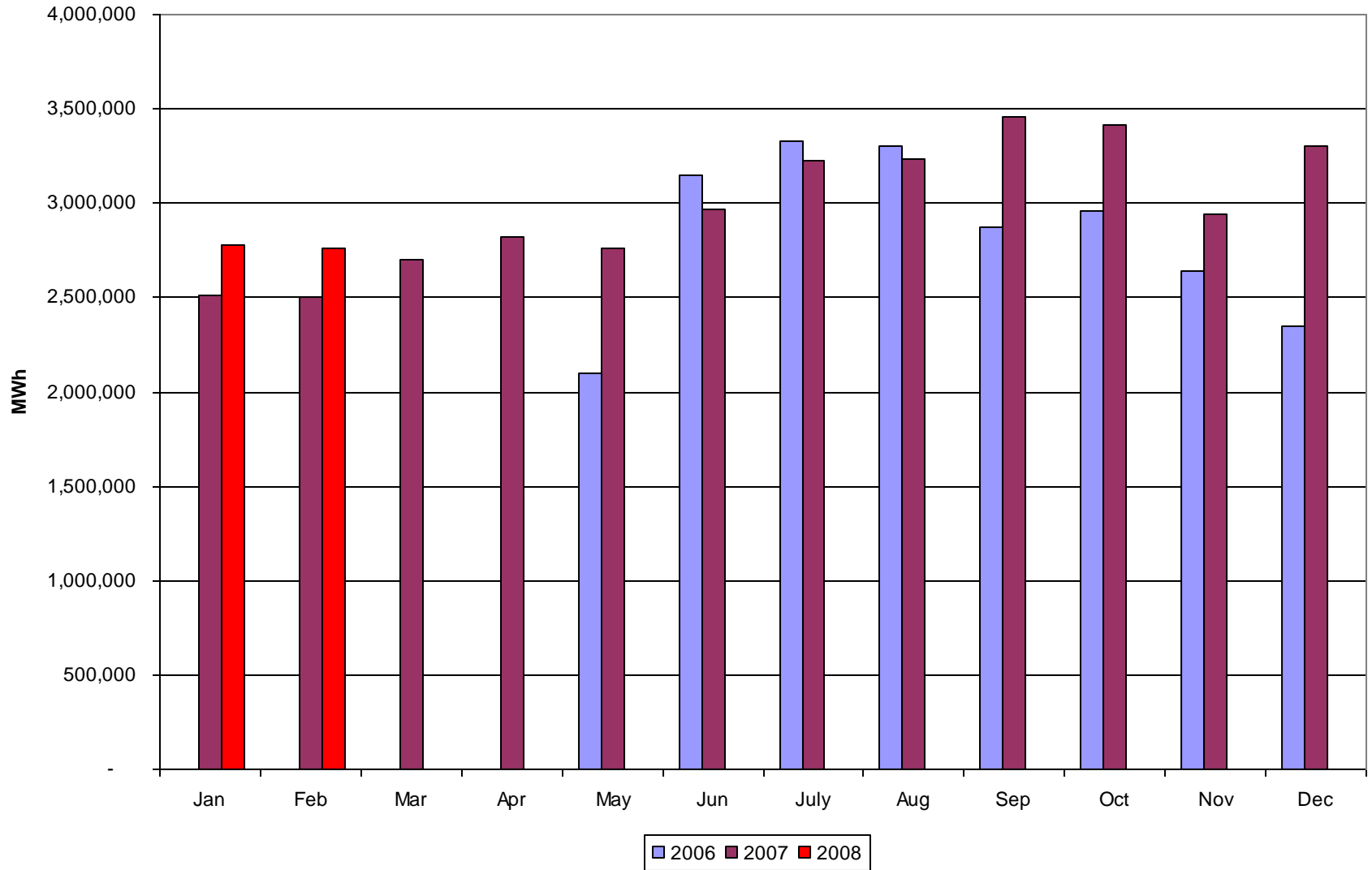
Iraqi Civilians



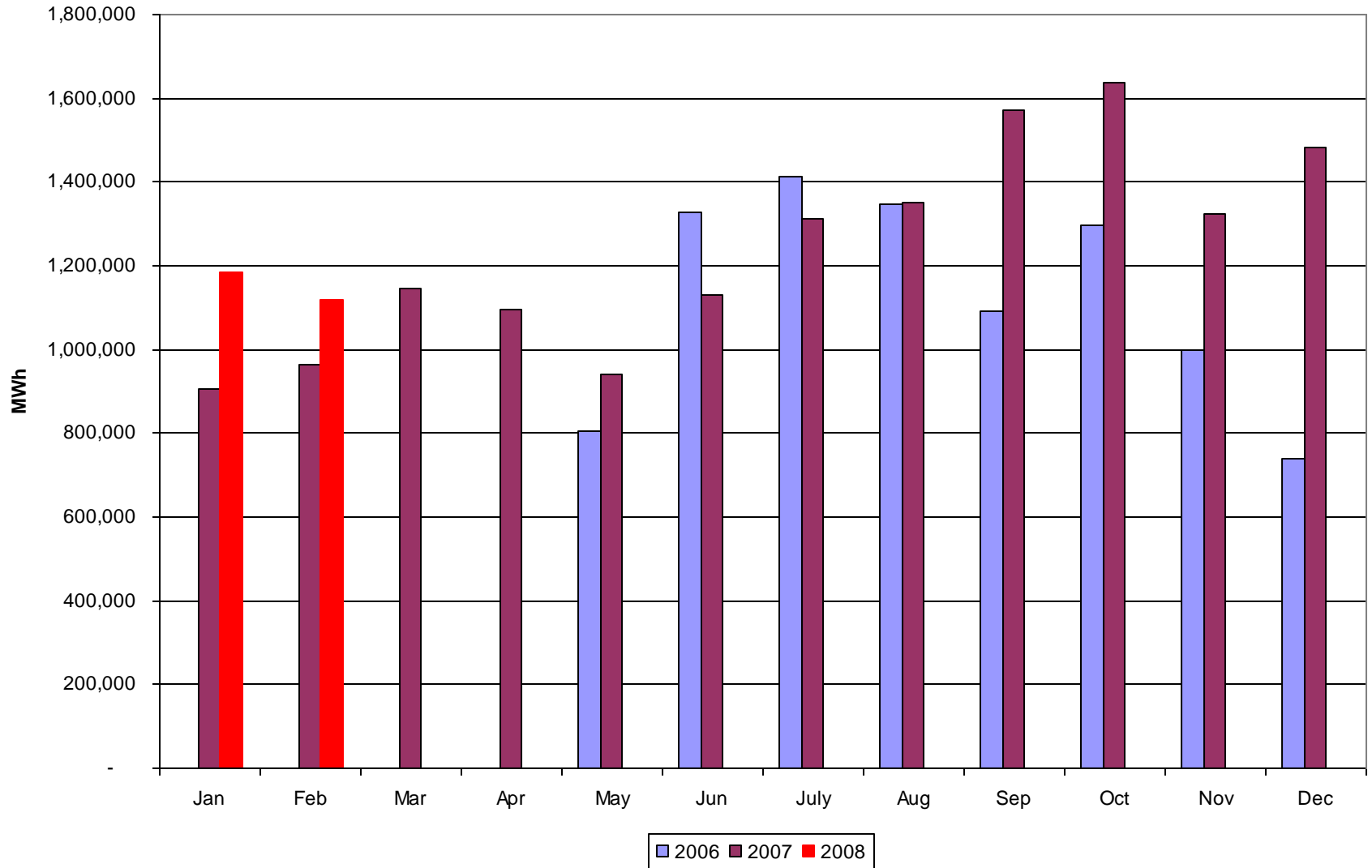
MEASURES OF PROGRESS

- About 65% of demand is being served.
- Sept-March total MWh 18% over prior period.
- Sept-March thermal production up 38%.
- @3000 MW of private generation in place.
- @4000 MW of new generation by end of 2009
- Transmission being repaired & better protected.
- 2008 capital budget of MoE \$1.4 billion.
- Oil Ministry starting to repair gas network & is working on an overall fuel plan with Electricity.

Monthly MWh Production all Sources



Monthly MWh Production Thermal Power Plants



MoE is REFORMING

- Minister has been given new powers:
 - \$50 million revolving fund for parts
 - Can negotiate OEM parts & service deals
 - Re-start work on projects suspended in 2003
- MoE is taking steps to retain international law and consulting firms to work on
 - negotiations to implement new powers
 - development of a full master plan & strategy
 - creating conditions for IPP development

WHERE WE ARE AND WHERE WE ARE GOING

- al Qaeda largely beaten but still dangerous.
- Shia militias strong but losing public support
- Iran increasingly a main source of violence.
- Government is maturing
 - Iraqi Army performing better
 - Key legislation is being enacted
 - Budget execution is improving
- Provincial elections October 1.