Press Release

MAS Roundtable Meeting

The Dimensions of the Electricity Sector Dilemma between the Public and Private Sectors: The Case of the Jerusalem District Electricity Company (JDECO)

Ramallah, Wednesday, November 21, 2019: The Palestine Economic Policy Research Institute (MAS) hosted a Roundtable meeting titled “The Dimensions of the Electricity Sector Dilemma between the Public and Private Sectors: The Case of the Jerusalem District Electricity Company (JDECO)”. The session discussed the financial problems of private sector companies operating in the electricity sector, their relation to the public treasury, the legal and regulatory problems, the resulting challenges from the complexity of classifying Palestinian areas, and the lack of compliance of some consumers with laws and regulations. The session focused on the crisis of JDECO, the institution that provides electricity to nearly a million Palestinians, including in the capital, Jerusalem. Participants of the session were invited from the public and private sector, experts and specialists, political leaders, and a number of members from the Board of Directors of JDECO and other electricity distribution companies.

Mr. Raja Khalidi, Director General of the Institute, opened the session, addressing the background of the roundtable series, and its importance in discussing important economic and social issues of priority to Palestinian decision-makers. While welcoming the distinguished audience, Khalidi pointed out that all attendees are partners in addressing the sensitive issue of the Palestinian electricity sector, and that intensive participation indicates the importance of the topic as well as MAS being a platform for economic dialogue based on accurate information and balanced scientific analysis. He also added that this is the seventh session held in 2019, most of which were held with the support of the Palestine Investment Fund.

Khalidi also emphasized that all agreed that the electricity sector is a cornerstone of the national economy, and a provider of what is perhaps the most important commodity for the general public, making electricity effectively a “public good”. In the Palestinian case, which lacks sovereignty over its entire land and borders, and is still subject to a colonial occupation that threatens the entire Palestinian entity, electricity becomes a strategic weapon for the occupier, in so far as it can control its supply, and for the national economy, to the extent that it can self-generate electricity. The electricity dilemma is exploited by the occupation, as it represents Palestine’s technical and financial ability for independent management of public goods, as
symbolized by JDECO’s performance. The crisis also shows the complexities and clashes of the relation between Palestine and Israel, as well as an important issue in the field of public-private partnership in the management of a vital national resource.

The Institute had prepared a background paper on the subject, presented by MAS researcher Mr. Misyef Jamil. The main comments were given by Eng. Zafer Milhem, President of the Energy and National Resources Authority, Eng. Hisham al-Omari, President and General Manager of JDECO, and Eng. Hamdi Tahboub, Executive Director of the Palestinian Electricity Regulatory Council.

The paper discussed the nature of the challenges faced by the Palestinian electricity sector, such as the failure of local authorities to fulfill their payments, which has exacerbated the issue of net lending. This includes losses up to 22%, 10% in technical losses, and 12% in theft or “black losses”. Other issues include local authorities not joining distribution companies and maintaining direct relations with the Israeli Electricity Company (IEC), in addition to lack of enforcement of laws, especially sanctions. Moreover, there is an issue with the public treasury taking responsibility for paying the electricity bills of camps, and issues in network maintenance and high additional costs. The paper also discussed the JDECO crisis and the accumulated debts of the Palestinian National Authority to the IEC, and the deduction of clearance revenue to cover these debts.

In terms of the JDECO crisis, the paper viewed the crisis as public rather than private, for two reasons. The first is that this crisis has affected the Ministry of Finance and its Treasury, regardless of the cause, in turn affecting the Palestinian public budget which influences every Palestinian citizen, so any pressure on the PA’s treasury will affect citizens and public institutions, making the crisis public rather than private. Secondly, JDECO is a Palestinian Jerusalem corporation providing a public good, covering an important section of the West Bank. Additionally, there is a political factor, as the corporation affirms the Palestinian right to exist, work, and provide services to Palestinian residents within occupied Jerusalem, at the hands of technical Palestinian expertise, a privilege unafforded to Palestinian corporations in the West Bank. Therefore, the corporation is a strategic tool for the national economy.

The researcher stated that the crisis was to be expected considering the extortionate behavior of the occupying state, its renunciation of agreements, violation of Palestinian rights, and its consistent resort to financial blackmail. The crisis began by exploiting the accumulated debts of the entire Palestinian electricity sector (including JEDCO), whereby Israel has already partially cut off electricity supplied to the company’s concession areas, and threatened expanding the scope of cut-off areas if the debts are not repaid. A debt crisis erupted in 2018 between JDECO and the Palestinian Government, with conflicting accounts by each side of its financial responsibilities to the other. Ultimately, an agreement was reached for JDECO to pay its outstanding fees in 48 installments, and in return the PNA would cover the costs of consumption in the refugee camps and of subsidizing electricity prices. However, in July 2019,
the occupation escalated its extortion through its announced intention to cut off the electricity in the West Bank, including areas provided for by JDECO. Thus, a new crisis erupted on the accumulated debts, where the general electricity sector debts reached over 1.7b NIS according to the Israeli Electricity Company (IEC). As of October, 23 lines belonging to JDECO were cut off for 2 hours for each area, and the company was distributing the loads between lines to rectify technical issues and to ensure that the power supply to East Jerusalem is not cut off, in order to avoid providing any pretexts to the Israeli authorities. However, the IEC has since threatened simultaneous cutting off of all power lines, whereby JDECO would not be able to transfer its loads from one line for another, in what amounts to a collective punishment, which brings JDECO back into the overall crisis of the energy sector.

The researcher also pointed out that all bodies and organizations in this sector face the issue of “black losses”, which are losses incurred from theft, non-payment of bills, and some factories exploiting camps’ exemption from payment. This is due to the lack of loyalty to public interest, as well as a lack of enforcement of laws and application of non-deterrent penalties. Resolving these issues could lead to improved collection and decreased losses of revenue that could be used to pay off accumulated debts, especially since such losses are a main reason for the debt accumulation.

Eng. Zafer Milhem mentioned in his speech some amendments to the numbers presented in the background paper. One of these was on the percentage distribution of electricity consumption by consuming category, where he clarified that 5% is industrial consumption, 60% is residential, and 16% is commercial. With regards to the issue of net lending, according to Milhem, it is calculated without an agreed scientific basis, but is dictated by the Israeli company and its estimations. He stated that the monthly bill for Gaza alone is 40m NIS, and 35m NIS are paid monthly on behalf of the other electricity companies operating in the West Bank (excluding JDECO). Milhem also clarified that the according to the PNA, JDECO’s accumulated debts are estimated at 1,300m NIS. It has been agreed to freeze 636m NIS, making the remaining debt 700m, which differs from JDECO’s claims. The sources of this debt vary between non-payment, theft, and losses.

Eng. Hisham al-Omari affirmed that there is a fundamental problem of electricity theft that has placed the company in a crisis that is difficult to solve. He stressed that the government must start forcing industrial and commercial establishments that are based in camps to pay bills. He also stressed that the Ministry of Finance should solve the issue of power cuts by paying the amounts owed to the IEC, after which JDECO will resolve remaining issues with the government, as power cuts are a collective political punishment. Al-Omari also noted the importance of continuing supporting domestic consumption of camps and not prejudicing their rights. He also noted the need to agree on a solution for debt accumulation by addressing other outstanding issues, the most significant being the need for deterrent laws and an active judiciary to sanction those who exploit the company’s services illegally. JDECO is a national Jerusalemite
establishment with many accomplishments, and the decline of its finances will affect its investments and performance.

Eng. Hamdi Tahboub added that the role of the Palestinian Electricity Regulatory Council is to encourage investment in the electric energy sector by guaranteeing competition and preventing monopoly. The council carries out various activities, such as checking companies’ dues to the government and paying attention to increasing local electricity production, whether from renewable or traditional resources. Tahboub also spoke about the types of government subsidies to the electricity sector, such as tariff subsidies, Jordan line subsidies, material subsidies, debt discounting, and others. Regarding penalties on those defaulting on payments, Tahboub pointed out that JDECO’s collection rate is 95% of sales, and that the Council will not impose additional sanctions in light of this ratio.

A number of participants made interventions to clarify the complex figures and information on this sector, including Mr. Azzam al-Ahmad, member of the Executive Committee of the PLO. Al-Ahmad pointed to the formation of a follow-up committee made up of members of the Executive Committee, which presented recommendations, that included not presenting the issue of the exemption of camps as a reason for debt accumulation. He also recommended that the government cover the debts of camp domestic consumption, while also calling for owners of commercial establishments and factories not to exploit the preferential treatment of refugee camp residents. Moreover, he called for forming a committee made up of Department of Refugee Affairs and the popular committees in camps, to study the reality of the situation and present recommendations on how the government can continue bearing this responsibility.

Mr. Bassem Nazal, of the Ministry of Finance, that there should be another discussion on the nature of these debts and their causes, and an agreement on the disputed amounts with JDECO. He also noted that the camps are part of the problem, but not the main one, especially because the Ministry of Finance pays for them. Dr. Shaker Khalil, economic advisor to the Prime Minister, suggested that JDECO needs to improve its corporate governance, stressing that there is a significant issue with the electricity sector and the need for a solution. Mr. Adnan Husseini, member of the Executive Committee and former Minister of Jerusalem Affairs, affirmed the need for solidarity with JDECO, and noted some of its important accomplishments. He focused on the importance of its existence and work in Jerusalem, and what it provides in political and residential goods for Palestinians. Dr. Atef Alawnah stressed the necessity of not questioning numbers, especially in the presence of audited budgets, and boards of directors closely following the work of companies. He stressed that the issue of numbers and agreement on them can be easily solved, and demanded the need for stress regulations, laws, and commitments of local authorities in paying electricity bills.

Dr. Hussein al-Araj, former Minister of Local Government, said that the issue of electricity is a sector-wide issue, and that solving it involves solving other issues in both the public and private sector. He also stated that the problem should not be tolerated so as to avoid other economic and
social repercussions. Dr. Abdelfattah Abu al-Shakr stated that the decision to exempt camps was made in order to alleviate poverty, but today, those that benefit from the decision are individuals in camps who are not poor, while there is poverty in other communities. He noted that re-assessing this decision requires consideration of social justice. Mr. Bassam al-Salhi, Secretary General of the Palestinian People’s Party, pointed to the fact that solving the issue of accumulated debts of camps should start with clarifying the amounts due between JDECO and the Ministry of Finance. He also said that the issue of power cuts in the West Bank and Jerusalem must be prevented, and this is an urgent role for the Government, as the social and political consequences are large. He also stated that the use of incorrect information harms JDECO’s reputation, and this should be reversed as an approach to the electricity crisis.

A number of attendees also agreed that financial experts should be assigned to review the company’s financial crisis under the current circumstances in Palestine, especially the company’s financial performance, the consequences of non-payment, and issues of losses, thefts, and weakness of the judiciary. Others argued that the issue is not with JDECO, but is primarily a legal, legislative, administrative, and financial dilemma.