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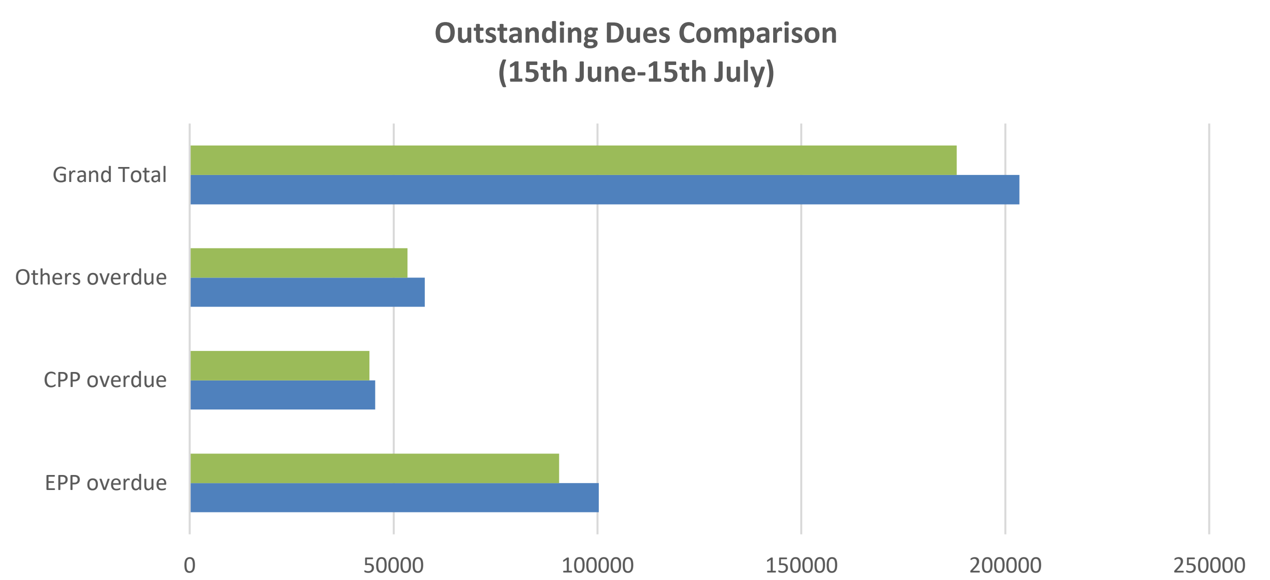
INDEPENDENT POWER PRODUCERS ADVISORY COUNCIL

MONTHLY NEWSLETTER

Welcome to the fifth edition of Independent Power Producers Advisory Council (IPPAC) Newsletter. The newsletter is published on a monthly basis to ensure regular dissemination of information to Member IPPs and other stakeholders, and also to provide a platform to discuss issues pertinent to the energy sector of Pakistan. We would like you to send us your feedback and comments on how to improve the monthly newsletter.

Monthly Infographics

Outstanding Dues as of 15th July, 2017 in PKR Millions

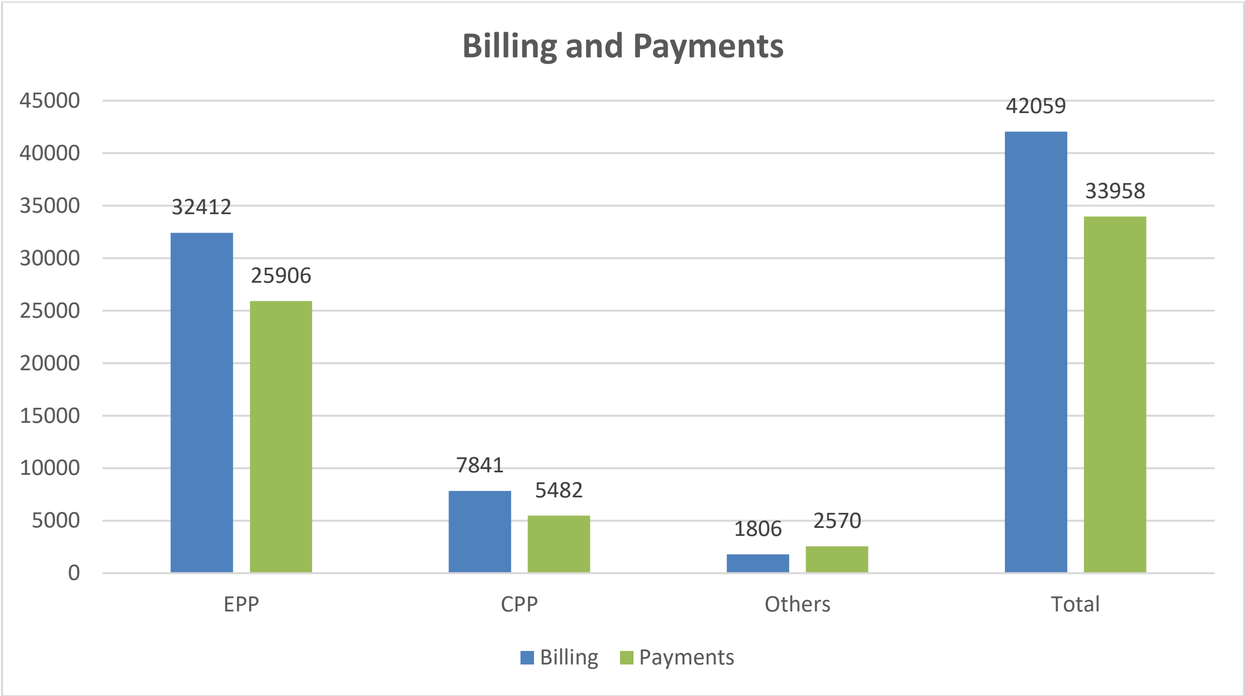


	EPP overdue	CPP overdue	Others overdue	Grand Total
July	90567	44062	53434	188064
June	100331	45483	57676	203490

Source: Member and Subsidiary IPPs

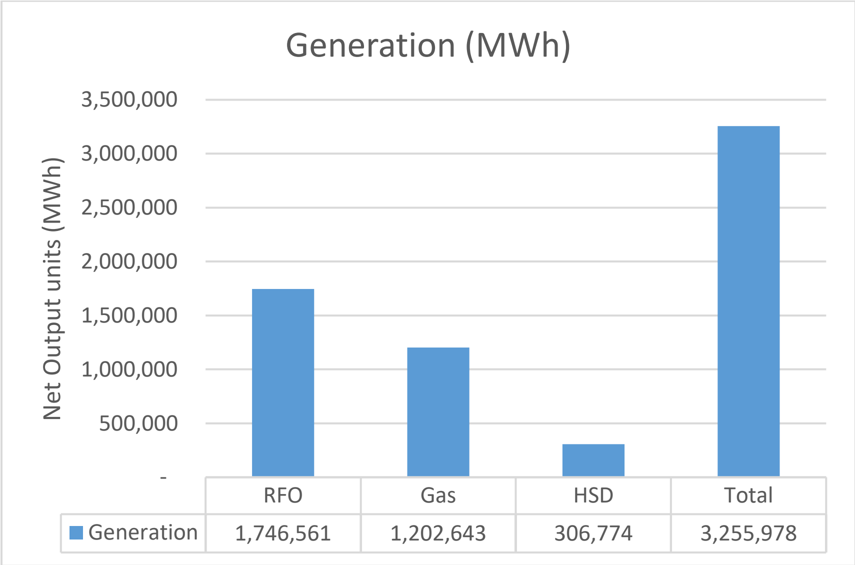
Monthly Infographics

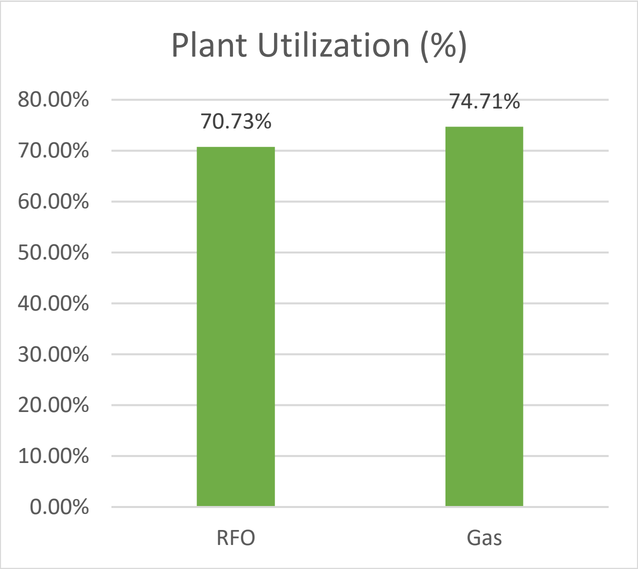
Billing and Payments in July 2017 in PKR Millions



Source: Member and Subsidiary IPPs

Net Generation and Plant Utilization in July 2017





Source: Member and Subsidiary IPPs

Discussion: Taxation Issues in Pakistan's Energy Sector

Private energy sector is a major contributor towards total energy generation in Pakistan. Although energy policies of Pakistan offer several benefits to Independent Power Producers (IPPs), such as exemption from Corporate Income Tax, low Tax on Dividend to shareholders and low Customs duties however, there are still some key unresolved taxation issues in the energy sector of Pakistan

Sales Tax Apportionment Issue:

The efficient and reasonable approach would be to levy Sales Tax on the EPP component only, which constitutes of Fuel Cost as well as the Variable Costs i.e. it accounts for the actual sale of electricity to the power purchaser, while CPP is a measure of capacity, cost of maintenance and availability of the power plant. But because of the Apportionment Issue, it is being levied on both components. Thus if this issue remains then it will continue to increase tariff to end-consumer, resulting in inefficiency and low consumer benefit.

IPPs have recorded serious concerns on this issue and made several requests to Federal Board of Revenue (FBR) for withdrawal of this apportionment. FBR on the basis that since the capacity payments does not attract GST, apportions the input tax paid on fuel by the IPPs to the capacity payments, on percentage basis of capacity and energy payments thereby disallowing adjustment of full input tax. This effectively means that portion of the GST already paid by the IPPs (mainly on fuel which is oil or gas) cannot be adjusted against the output GST on electricity supplied to power purchaser. In simpler terms, FBR is disallowing sales tax paid on fuel by IPPs by apportioning the same to the capacity payments.

With this interpretation, FBR raised tax demands for the same disallowed amounts which are in several billions of Rupees. In some instances, Lahore High Court has decided the matter in favor of the IPPs thereby rejecting the FBR contention. In other instances, the same matter is pending at different appellate forums including Islamabad High Court. FBR, instead of leaving this matter here has gone for appeal before Supreme Court of Pakistan.

Moreover, the Power Purchase Agreement (PPA) and Implementation Agreement (IA) clearly state that if any additional tax, including interpretation or re-interpretation, is imposed by any governmental entity on the IPPS , such tax is a passed through to power purchaser. Thus this is an issue which resides within two government departments. Therefore, even if the position of FBR prevails, this will simply be passed on to power purchaser and consumers

Wide Array of Taxes on Consumers and Investors:

Bureau of Economic and Business Affairs of the US Department of States in July 2016 report notes that foreign investors in Pakistan face a "wide array of federal and provincial taxes and tax regulations (that) are difficult to navigate". A large number of indirect taxes are levied at the federal, provincial, and local levels. Similarly, almost three to four different taxes such as Further Tax, Extra Tax and Increase in Sales Tax , in addition to the already applicable General Sales Tax and different Surcharges are levied on our domestic consumers of electricity (The News International, June 2016). Moreover, due to the practice of issuing Special Regulatory Orders (SROs) that can change or alter existing laws and applicable tax regimes, a great deal of uncertainty hovers private power companies and investors.

In nutshell, a comprehensive and detailed review of tax regime on electricity sector is need of the hour. It is pertinent to note that in addition to tax being levied on tariff, power sector is also given subsidies. Thus, a considerable reduction in subsidies and increase in tax base in Pakistan will play a key role in mobilizing financing resources and improving the performance as well as the efficiency of the energy sector.

Sales Tax Adjustment on Generation with High-Speed Diesel:

Most of the IPPs in Pakistan either use Residual Fuel Oil (RFO) or Gas as their primary fuel, with High-Speed Diesel as the alternate fuel during unavailability or shortage of main fuel. In the case of High-Speed Diesel, the authorities keep changing the applicable sales tax rate from the usual 16% General Sales Tax. As per Ministry of Finance Sales Tax rules, sales tax on the supply of electricity generated through HSD Fuel are charged the same rate of sales tax as charged on HSD Fuel.

Past trends of last five years show that when fuel price falls, the government increases the sales tax on HSD fuel. For example, when the diesel price fell to around Rs 41 per litre, the sales increased to 55%, an overwhelming figure that affected the prevailing circular debt crisis in Pakistan. This could have been avoided if the government had chosen to pass on the benefit of low fuel prices of HSD to the end consumer,

Difference in rate of GST on purchase of refined furnace oil (RFO) and sale of Electricity

20% GST is imposed on oil procurement, while 17% GST is applicable on electricity delivered to National Transmission and Dispatch Company (NTDC). Consequently, excess input tax is accumulating and has touched billions of Rupees causing huge problem for IPPs who are already stretched in liquidity because of consistent delayed payments. The input/output GST rate on purchase of fuel and sale of electricity should be equalized to either 20% or 17%. In real terms FBR will have no loss of revenue if the sales tax on purchase of RFO is reduced to 17%, as this would not result in creation of refunds due from FBR as currently is the situation.

Conclusion:

In conclusion, comprehensive reforms are needed in the taxation laws and policies, which must include broadening the tax base of the country, simplifying the applicable taxes on key areas of development such as energy sector and reforming tax laws in order to boost investment and provide public benefit. Concrete steps in this regard will not just improve the performance and efficiency of the sector, but will also bring about the much needed stability and increased investment in the energy sector.

Our Members

	Member IPPs	Primary Fuel	Alternate Fuel	Gross Capacity (MW)	Net Capacity (MW)
1	The Hub Power Company (Tehsil Hub)	RFO	HSD	1292	1200
2	Pakgen Private Limited	RFO	-	365	350
3	Lalpir Private Limited	RFO	-	362	350
4	Kohinoor Energy Limited	RFO	-	131	126
5	TNB Liberty Power Limited	GAS	HSD	235	211
6	Uch Power (Private) Limited	GAS	-	586	551
7	Rousch (Pakistan) Power Limited	GAS	HSD	412	395
8	Habibullah Coastal Power (Pvt.) Co.	GAS	HSD	140	126
9	Attock Gen Limited	RFO	HSD	165	156
10	Atlas Power Limited	RFO	HSD	225	214
11	Nishat Power Limited	RFO	HSD	200	195
12	Nishat Chunain Limited	RFO	HSD	200	195.6
13	Liberty Power Tech. Limited	RFO	HSD	200	195
14	Orient Power Company Limited	GAS	HSD	229	213
15	Saif Power Limited	GAS	HSD	229	209
16	Sapphire Electric Company Limited	GAS	HSD	225	209
17	Halmore Power Generation Co. Ltd.	GAS	HSD	225	209
18	Engro Powergen Qadirpur Limited	GAS	HSD	227	217
Subsidiary IPPs					
19	Hub Power Company Ltd (Narowal)	RFO	-	220	214
20	Uch-II Power (Pvt) Ltd	GAS	-	404	375.2
21	Saba Power Company (Private) Limited	RFO	-	134	125.5

Upcoming Topics

September

What is the Real Position of the Power Sector?

October

Is Electricity Trading a viable option for Pakistan's Power Sector?

November

De-Risking the Power Sector for Lower Pricing

Established in 2010, IPPAC serves as an advisory body for Independent Power Producers (IPPs) in Pakistan. IPPAC liaises with the government and related departments such as NEPRA, SECP, WAPDA, CPPA-G, NTDC and PPIB and also serves as a facilitator between various IPPs and stakeholders within the power sector.