



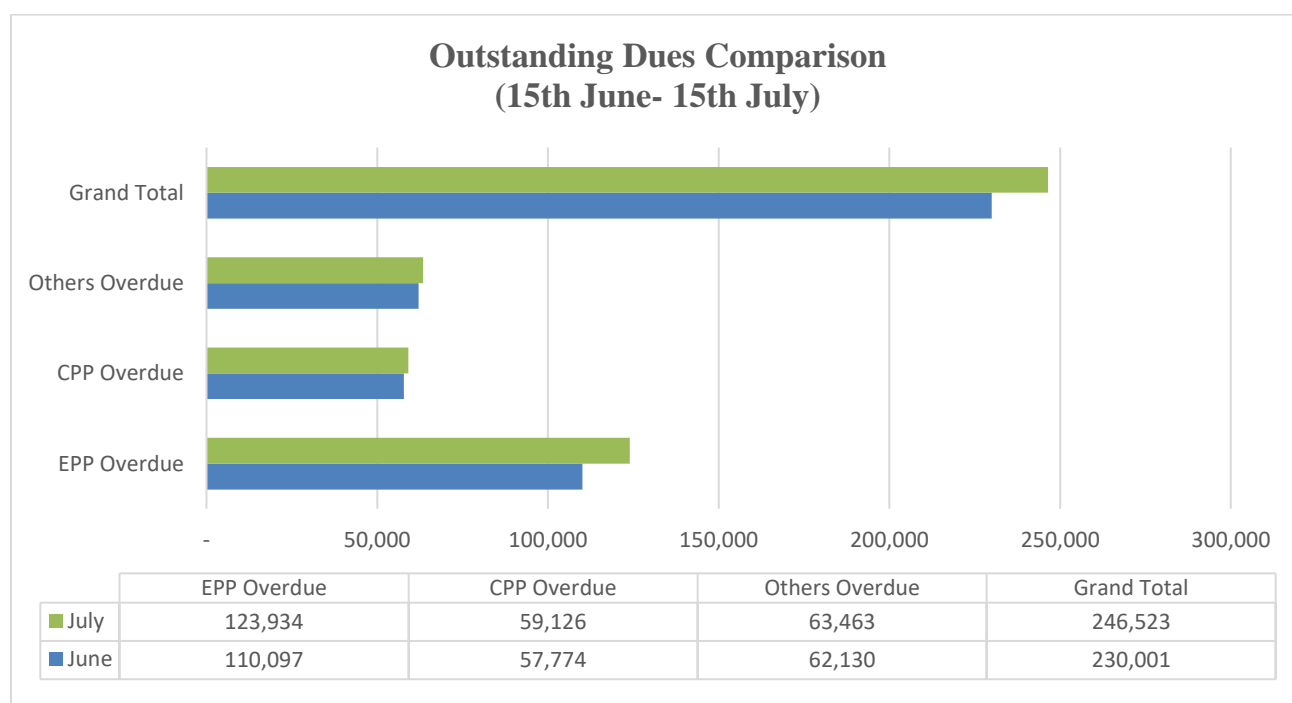
INDEPENDENT POWER PRODUCERS ASSOCIATION

MONTHLY NEWSLETTER

Welcome to the seventeenth edition of Independent Power Producers Association (IPPA) 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

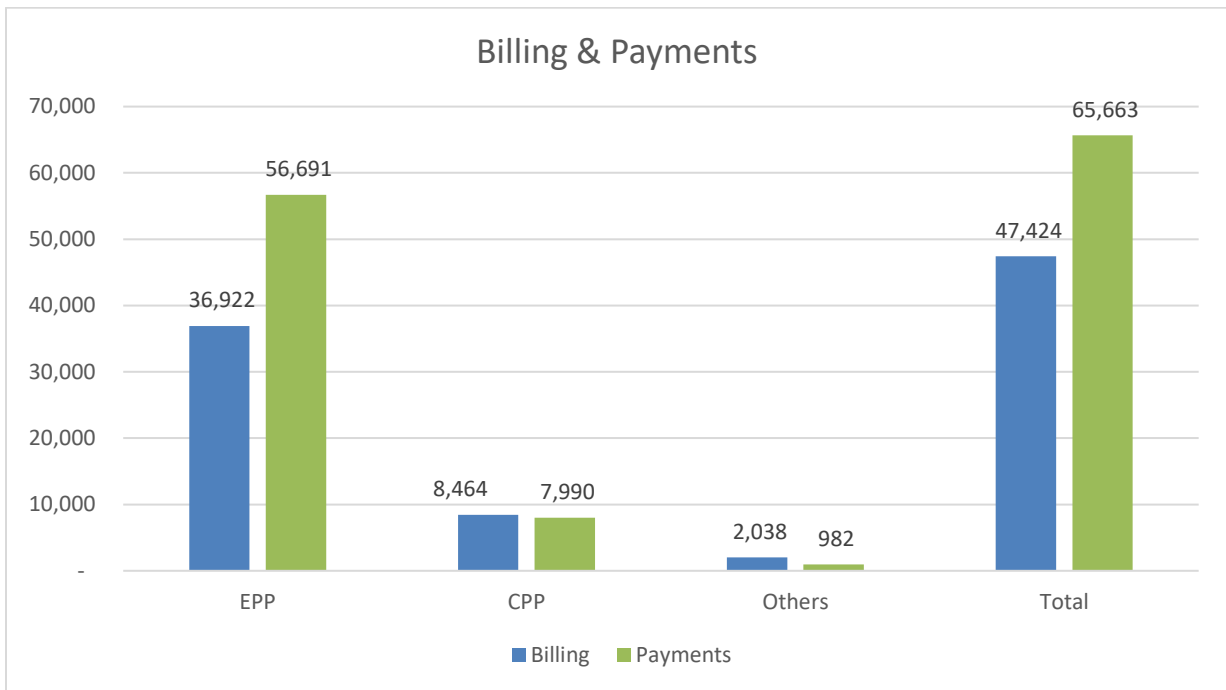
Outstanding Dues as of 15th July, 2018 in PKR Millions



Source: Member and Subsidiary IPPs

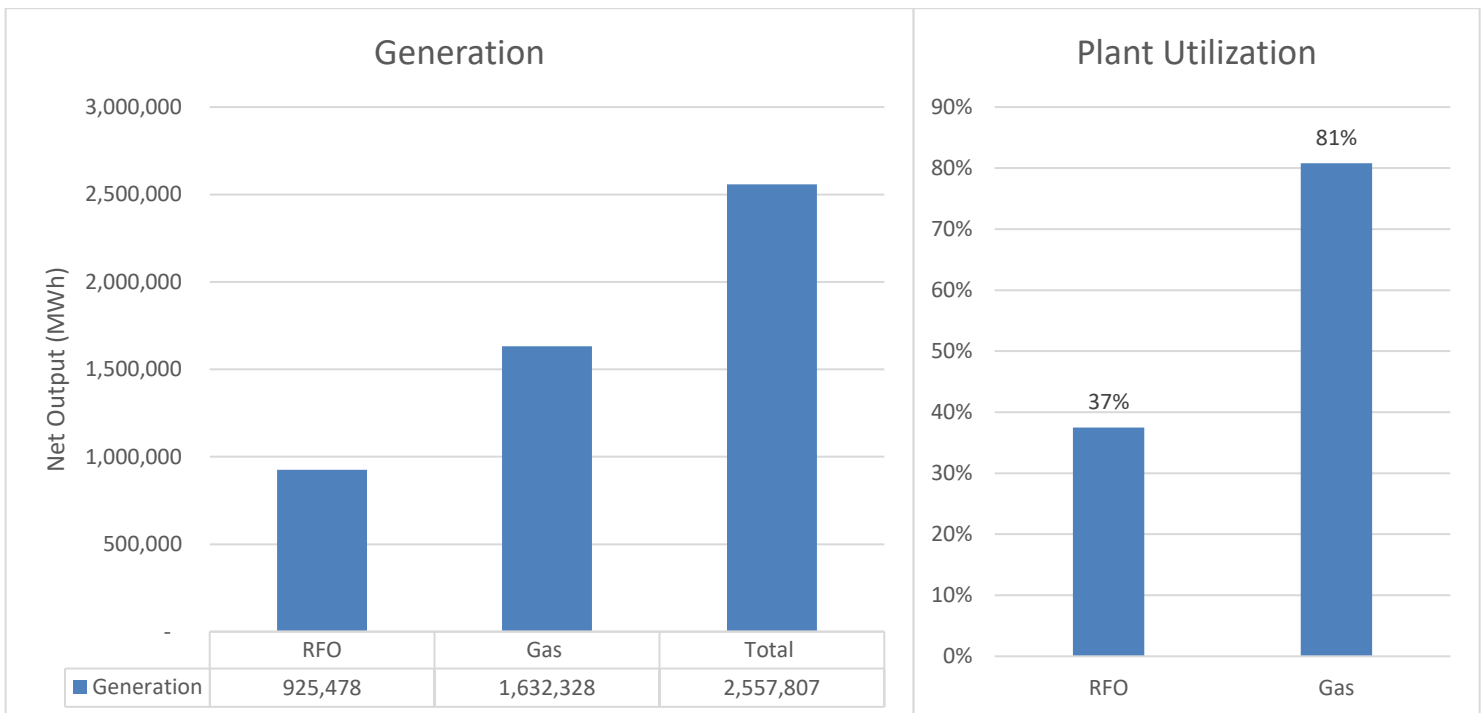
Monthly Infographics

Billing and Payments in July 2018 in PKR Millions



Source: Member and Subsidiary IPPs

Net Generation and Plant Utilization in July 2018



Source: Member and Subsidiary IPPs

Circular debt hits Rs1.14 trillion, being serviced through tariff

ISLAMABAD: The power division reported that the circular debt at the end of June 2018 stood at Rs1.148 trillion, including Rs583 billion parked in a holding company and that all of it is being serviced through consumer tariffs.

Testifying before a special Senate committee presided over by PTI Senator Shibli Faraz, joint secretary (power) Zargham Ishaq Khan said loans of the power sector worth a total of Rs618bn had been transferred to the Power Holding Company Limited (PHCL).

However, since some loans had already been paid for or rolled over, the outstanding debt in the PHCL books now stood at Rs582.86bn. This also includes a mark-up of Rs153bn. On top of this, the debt outstanding against distribution companies (Discos) amounts to Rs566bn.

Source: Dawn

K-Electric-SSGC dispute remains unresolved

ISLAMABAD: The two Karachi-based power and gas utilities – K-Electric and Sui Southern Gas Company Ltd – have been unable to settle their differences over gas supply for power generation despite the federal government's facilitating intervention about five months ago.

The utilities blamed each other for the failure on Thursday at a public hearing presided over by the National Electric Power Regulatory Authority (Nepra) Chairman Tariq Saddozai, who noted that the consumers in Karachi would be the ultimate sufferers of higher rates and power cuts.

The KE authorities said that the SSGCL was reluctant to commit any quantity for supply of local gas for cheaper power generation at its power plants under the gas sales purchase agreement (GSPA).

Conversely, the SSGCL authorities alleged that KE had become habitual of trying to settle issues through courts instead of sitting on the table to find amicable solutions.

Source: Dawn

JS Group buys 48% stake in coastal power company

ISLAMABAD: The JS Group has acquired 48% shares in Habibullah Coastal Power Company (HCPC), an independent power producer which has recently won a case in international court against Sui Southern Gas Company (SSGC) for the latter's failure to ensure gas supply.

A senior government official told The Express Tribune that the JS Group would also be a beneficiary of the Rs6 billion in damages won by HCPC in the international court of arbitration.

According to officials, negotiations for the stake acquisition continued for three years and a deal was finalised before the end of Pakistan Muslim League-Nawaz (PML-N) government's tenure on May 31, 2018.

Source: The Express Tribune

Sahiwal coal-fired power plant creates 8,500 jobs

KARACHI: Sahiwal Coal-Fired Power Plant has created 8,500 direct jobs in construction and operational phases and poised to generate more jobs, a case study of the project revealed.

The Planning Commission of Pakistan's case study on the completion of the project noted that total direct jobs created under the 'constructional phase' of this project were almost 6,500, employing 2730 (42 percent) domestic workers and 3770 (58 percent) from abroad.

The total workers hired from Pakistan on professional and managerial posts were 45 (or 31 percent) while 100 (or 69 percent) workers were hired from China. 30 percent (350), of total

technical/skilled labours were hired from Pakistan while 70 percent (800) from abroad.

Source: Business Recorder

Nandipur power project: Non-issuance of legal opinion caused Rs27.3bn loss: NAB

ISLAMABAD: National Accountability Bureau (NAB) has found that non-issuance of legal opinion by Ministry of Law and Justice in Nandipur power project caused a loss of Rs 27.3 billion to national exchequer.

The NAB on Saturday filed a report in 525 megawatts Nandipur power project in the Supreme Court.

The NAB report said that during the course of investigation it has been established that officers and officials of Ministry of Law and Justice failed to exercise their lawful authorities causing loss of Rs 27.3 billion to the national exchequer, hence they committed the offence of corruption and the corrupt practices as defined under Section 9(a)(vi) and (xii) of National Accountability Ordinance (NAO) 1999.

Source: Business Recorder

Only two-hour power supply to areas with over 80pc losses proposed

ISLAMABAD: A parliamentary panel headed by a senator from the Pakistan Tehreek-i-Insaf (PTI) has proposed only two-hour a day electricity supply to areas with more than 80 per cent losses and its payment out of Zakat Fund or Benazir Income Support Programme (BISP).

This is part of a series of recommendations to minimise the menace of circular debt put forward by a sub- committee of the Senate Standing Committee on Power headed by Nauman Wazir.

The panel has also suggested a bargain to religious scholars and prayer leaders to condemn electricity theft in Friday sermons as 'Haram' and get 400 units of electricity (worth about Rs6,000) free.

Source: Dawn

With curbs on outages, PESCO suffers Rs40b loss

ISLAMABAD: The previous government of Pakistan Muslim League-Nawaz (PML-N) caused a loss of Rs40 billion in six months to Peshawar Electric Supply Company (Pesco) by stopping the utility from carrying out load-shedding in high-loss areas.

The disclosure was made in a meeting of sub-committee of the Senate Standing Committee on Power, chaired by Senator Nauman Wazir, on Friday.

Along with the Power Division, the sub-committee prepared a set of proposals for the next government in a bid to tackle electricity theft, which included outsourcing the feeders in high-loss areas.

Source: The Express Tribune

Power company fined Rs5m

ISLAMABAD: The National Electric Power Regulatory Authority (Nepra) imposed Rs5 million fine on the Central Power Generation Company Ltd (Genco-II) for a major power breakdown in January 2016 that severely impacted Punjab and Khyber Pakhtunkhwa.

The fine was imposed on completion of enquiry proceedings lasting over more than 30 months. The company was found negligent on maintenance of 220 kV switchyard of Thermal Power Station (TPS) Guddu old and non-operation of 220 kV circuit breaker which resulted in power breakdown on January 21, 2016 in the northern network of country – darkening Punjab and Khyber Pukhtunkhwa.

Source: Dawn

Dubai Seeks To Develop Electricity And Water Sector Standard

The Dubai Electricity and Water Authority (DEWA) has announced a collaboration with the British Standards Institute (BSI) to set up the world's first Publicly Available Standard (PAS) standard to support best utility risk management practices for the electricity and water sector.

DEWA said the new standard is a “key pillar in advancing risk management standards and addressing any problems, constraints or gaps in existing global standards and practices”.

The move, part of DEWA's efforts to consolidate its global positioning and achieve its vision to become a sustainable innovative world-class utility, comes just over a year after the Authority participated in an international workshop in London aimed at harmonising the new standard by bringing together major utilities in America and Europe to gain consensus on the effectiveness of the specified standards.

Source: Middle East Utilities

Iran resumes talks with Russia to build new nuclear power plant

Iran has resumed talks with Russia to build a new nuclear power plant capable of generating up to 3,000 megawatts of electricity, energy minister Reza Ardakanian said Saturday, according to the Tasnim news agency.

Iran already runs one Russian-built nuclear reactor at Bushehr, its first. Russia signed a deal with Iran in 2014 to build up to eight more reactors in the country.

The United States in May pulled out of a deal between Tehran and major powers to limit Iran's nuclear ambitions, and Washington imposed new sanctions on Tehran in August.

Source: Reuters

Turkish authorities aim to boost renewable power generation to 50 percent by 2023

Turkey revised its renewable energy target for 2023, with additional steps to increase the share of clean electricity production from 31 percent to more than 50 percent by 2023.

In May 2018, Turkey's energy watchdog the Energy Market Regulatory Authority (EMRA) said that the installed electricity capacity increased by 181 percent from 32,000 megawatts (MW) over the last 15 years up to 90,000 MW. The share of renewable electricity capacity out of total installed capacity reached 46 percent in May while renewable power generation was around 30 percent.

In 2013, in accordance with Turkey's National Renewable Energy Action Plan, Turkey's renewable electricity share was 29 percent and the share of installed clean energy capacity was around 40 percent.

After hitting 31 percent of renewable electricity production in August 2018, Turkey's authorities took concrete investment steps to revise its renewable target for 2023.

Source: Daily Sabah

Albania seeks to diversify electricity generation with first major solar power plant

The Albanian government is offering incentives to private investors as it plans to set up the country's first major solar power plant in a bid to diversify the country's current wholly hydro-dependent domestic electricity generation system that often puts the country's public finances in troubles in cases of prolonged droughts.

The energy ministry says it is inviting bids for 50 MW solar power plant expected to be built in Vlora, southern Albania, under private investment in return

for support to buying electricity for 15 years at competitive prices.

In its Sept. 17 tender announcement, the government says it is also seeking bids for additional solar energy capacity of 20 MW to 50 MW that will not receive support, allowing investors to freely trade electricity, and apparently pave the way for the Albanian energy market and the establishment of the long-awaited power exchange.

Source: Tirana Times

Iran resumes electricity supplies to Iraq

Iran said it had resumed supplies of electricity to Iraq and other neighbouring states 10 days earlier, after shortages in Iraqi cities sparked unrest in July.

Tehran stopped supplying electricity to Iraq in July due to unpaid bills and because of a rise in Iranian consumption during the summer.

The power shortage in Iraq sparked protests in Basra and other cities, as people blamed what they called an inept and corrupt Iraqi government.

Source: Middle East Eye

New strategy aims to diversify electricity generation in Thailand

Thailand's Ministry of Energy has announced plans to expand the role of renewables and coal in the domestic power mix, in addition to increasing opportunities for small-scale electricity producers.

In early July Siri Jirapongphan, minister of energy, said the revised Power Development Plan (PDP), due to be released in September, would place greater emphasis on renewable energy, targeting an increase in the share of clean energy from 10 per cent to 30 per cent within the next 15 years.

Targets under the current PDP, which came into force in 2014, looked to increase renewables' share to 20 per cent by 2035, with 35 per cent of energy to be sourced from gas-fired power plants, 30 per cent from coal, 20 per cent from neighbours and 5 per cent from nuclear.

To help reach this goal, the new PDP aims to encourage the development of very small power producers (VSPPs) – which have a generation capacity of less than 1MW – via a range of initiatives.

Source: The Borneo Post

Electricity: Nigeria loses 4,379MW to distribution, gas constraints

Nigeria lost 4,379 megawatts (MW) capacity of electricity. This was partly due to distribution constraints and inadequate gas supply.

Data obtained from the Independent System Operator (ISO), a business unit of the Transmission Company of Nigeria (TCN) shows 16 of the Generation Companies (GenCos) had more than one of their turbines turned down as the Distribution Companies (DisCos) could not pick 2,551MW of electricity, causing frequency variation on the grid.

Source: Daily Trust

UK electricity imbalance reforms 'send sharper signal for flexibility': regulator Ofgem

London — Average imbalance electricity prices have fallen in the UK since reforms were introduced in November 2015, but when the system is short the incentive for participants to balance their positions is stronger, energy regulator Ofgem has said in a working paper.

A greater incentive to balance when the system is tight represents a significant contribution to the UK's security of supply and shows the reforms are working, the regulator said in its Analysis of the first phase of the Electricity Balancing Significant Code Review.

The UK's balancing market is to be tightened again from November 1, increasing the pressure on market participants to exhaust "all efficient opportunities" to balance their positions in advance of "gate closure", the regulator said. Gate closure occurs one hour before the start of the relevant settlement period.

Source: S&P Global

Electricity Laws and Regulations

The management and efficiency of the electricity sector suffers from a lack of transparency and availability of clearly defined laws and rules. For any sector to function efficiently and effectively it is important to have clear and comprehensive regulatory framework in place, which evolves with time to cater to the ever-changing market conditions and advancements in technology.

As the electricity sector of Pakistan is in dire need of effective regulatory and legal reforms, it is imperative to identify and analyze the loopholes, ambiguities and irregularities in the regulatory and legal framework.

Constitution

Electricity is placed in Part II of the Federal Legislative List. The formulation of any policy and regulatory oversight over this sector vests with the Council of Common Interests (CCI) under Article 154 of the Constitution wherein all provinces and the federal government are represented in equal numbers.

The federal government cannot formulate or regulate any policy or supervise or control the utilities. It has to be the CCI. Currently the federal government continues to make major policy decisions with respect to the power sector which is violation of the Constitution.

Recently, the federal government tried to transfer regulatory authorities under the purview of the federal ministries which has been challenged in the courts of law as it was in breach of the express terms of the Constitution.

As per Article 157 (1) of the Constitution, the federal government has the executive authority to construct power generation plants and lay interprovincial transmission lines, whereas, as per Article 157 (2), the government of a province may construct power houses and lay transmission lines for use within the province and determine tariff for distribution of electricity within the province.

Thus, the government of a province is vested with an executive authority to undertake generation, transmission, distribution and regulation functions within its domain.

As a general principle however, the provinces lost the executive authority in relation to matters of electricity after the 18th Amendment except under Article 157 (2) of the Constitution, that too without the power to legislate to put into effect their executive authority.

Provinces can set up their electricity institutions within their territorial jurisdiction for generation, transmission, distribution and regulation, either through the existing legislation or through creation of legal entities under the Companies Ordinance 1984.

Provinces for now are content with setting up provincial departments of energy and companies under their executive powers but lack the power to bring into effect substantive laws which has gone largely unnoticed.

Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997

Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 became effective on 13th December 1997. It served as a basis for setting up the National Electric Power Regulatory Authority (NEPRA). It covers rules and regulations regarding several key areas including powers of the regulatory body, national grid company, sale of electricity, determination of tariffs, administration etc.

Since its enactment, several amendments have been made to the Electricity Act 1997 in response to the changing challenges faced by the electricity sector. For example, the issue of theft of electricity has been unresolved for many years because the penalty was not significant enough to deter consumers from committing theft of electricity. Therefore, in 2016 an amendment was passed which declared the theft of electricity a serious crime. The punishment of which will now involve non-bailable arrest, rigorous imprisonment of up to seven years and fine up to 10 million rupees¹. Similarly, the issue of excessive/over-billing has been plaguing the electricity sector for the past couple of years. The senate passed The Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Bill, 2018, through which NEPRA has been empowered to solve the issue of over-billing. It will now have the authority to enforce three years of imprisonment on distribution companies' officials who are caught involved in over-billing². Another major issue hijacking the progress of electricity sector is circular debt. Therefore, in order to ease the problem of circular debt, the 2018 amendment allows determination of uniform tariff across distribution companies on the basis of their consolidated accounts³⁴.

Although over the years several amendments have been made to the Electricity Act 1997, it has still not comprehensively evolved to provide clear guidance during these changing times. For example, the Electricity Act fails to provide clear guidance with reference to import of electricity from other countries⁵. Over the past several years, Pakistan has been importing electricity from Iran; however there is little clarity whether this trade will fall under the jurisdiction of NEPRA. It raises the questions whether regulations such as those on electricity generation, procurement, distribution and tariff also apply to imports⁶. The 2018 amendment only mentions that system operator will coordinate the electricity but fails to provide more details on regulations regarding it⁷. Therefore, in order for the electricity sector to run smoothly, it is essential to remove the ambiguity and loopholes in the regulations. This will also help to provide a more conducive environment for further electricity trade.

Furthermore, there are some issues which have been haunting the power sector for decades however; the regulatory framework does not provide sufficient support to solve these problems. For example, the ailing transmission and distribution network of Pakistan is one of the roadblocks to smooth and cost effective provision of electricity to the consumers. This poor condition of the T&D network continues to worsen the circular debt situation resulting in liquidity crunch in the electricity sector. Therefore, it is essential to privatize the distribution network to incentivize efficiency. The Power Policy of 2002 was intended to encourage and facilitate the privatization of the electricity sector however; it was

¹ 'Electricity Act amended: power theft declared serious crime'- Business Recorder (18th February, 2016)

² 'Against excessive billing: NA passes bill for 'empowering' NEPRA'- The Express Tribune (16th March, 2018)

³ The Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Bill, 2018

⁴ 'Short-, medium-term economic challenges – II'- Business Recorder (15th August 2018)

⁵ Review of Electricity Laws and Regulations of SAARC Member States- 2013

⁶ Review of Electricity Laws and Regulations of SAARC Member States- 2013

⁷ The Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Bill, 2018

unable to properly achieve its objective⁸. It is argued that one of the reasons was that the regulatory framework did not sufficiently allow for competition⁹. The 2018 amendment has noted this consideration and states that 'the Authority shall have a preference for competition rather than regulation and shall adopt policies and establish tariffs towards that end'. However, it is important to have more precise and clear regulations to encourage privatization of the power sector. A clear regulatory framework will lead to improvement in the transmission and distribution network hence aid in reforming the electricity sector of Pakistan.

In a nutshell, there is an urgent need to comprehensively update the Generation, Transmission and Distribution of Electric Power Act, 1997 to provide a solid regulatory base for the electricity sector to flourish.

Independent Power Producers

Private generation companies have been introduced under different power policies of the federal government starting from 1994, 1995, 1997, 2002, 2006, 2013 and 2015. Similarly, the provinces have formulated their own policies.

Both the federal government and provincial power policies ought to have been approved by the CCI which is often not the case. Resultantly, the policies are ambiguous, discriminatory and sometime at cross-purposes with each other.

There is no law that enables providing concessions, incentives and benefits to the private sector as a result of which most of these concessions are based on executive decisions implemented through contractual arrangements. This creates a risk of procedural impropriety, unfairness and irrationality.

The federal government has formulated laws for creation of entities like Wapda under the Wapda Act 1958, the Private Power and Infrastructure Board under PPIB Act 2012 and Alternative Energy Development Board under AEDB Act 2010.

The PPIB and AEDB are performing their functions under various policies of the federal government which are constitutionally the prerogative of the CCI.

There is a school of thought that the procurement of power from the private sector does not fall within the definition of the public procurement as the equity and debt is financed by the private sector.

This view is patently wrong as the sale and purchase of power from the private companies is for and on behalf of public sector distribution companies and the federal government fully secures obligations through concession agreements and guarantees. The equity and debt incurred by the private sponsors is repaid from the public accounts. Hence, these are public procurements without any exception.

The Supreme Court of Pakistan in various judgments has clearly laid down that the procurement in the utility and infrastructure projects has to be through competitive bidding for giving best value of money for the consumers. However, this is followed more in breach than observance.

⁸ The Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Bill, 2018

⁹ The Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Bill, 2018

The one window created by the federal and provincial governments lacks the authority to procure power for and on behalf of other entities from private power companies under their statutory enactments and as per the principle of privity of contract under the Contract Act 1872.

Yet they are in business of purchasing power from the private power companies. Furthermore, they being not the licensees of the regulator, prudence of such purchases cannot be tested.

Conclusion

To eliminate the existing legal conundrum in the power sector, there is a need for enacting a 'New Electricity Act' that shall consolidate, formulate and enable all the laws at the federal and provincial levels in the generation, transmission, distribution and regulation segments of the power sector with particular focus on the transparency in the award of the power projects.

Unless there is an appreciation and realization of the legal vacuum and a need for ensuring transparency, legal issues will continue to interrupt and hinder the cost effective and economic growth of the power 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

8th NFC award: Change in Environment for IPPs

Established in 2010, IPPA serves as an advisory body for Independent Power Producers (IPPs) in Pakistan. IPPA 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.

If you have any suggestions or feedback, kindly write to us at feedback@ippa.com.pk