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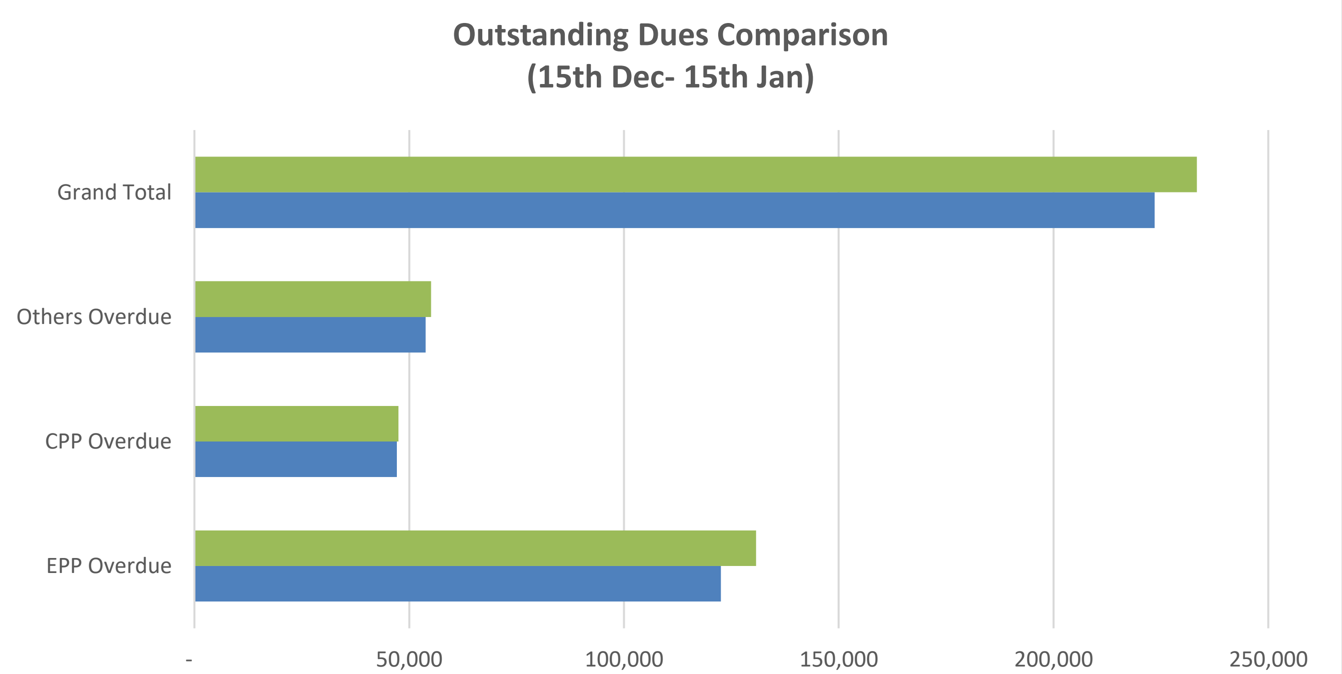
INDEPENDENT POWER PRODUCERS ASSOCIATION

MONTHLY NEWSLETTER

Welcome to the eleventh 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 January, 2018 in PKR Millions

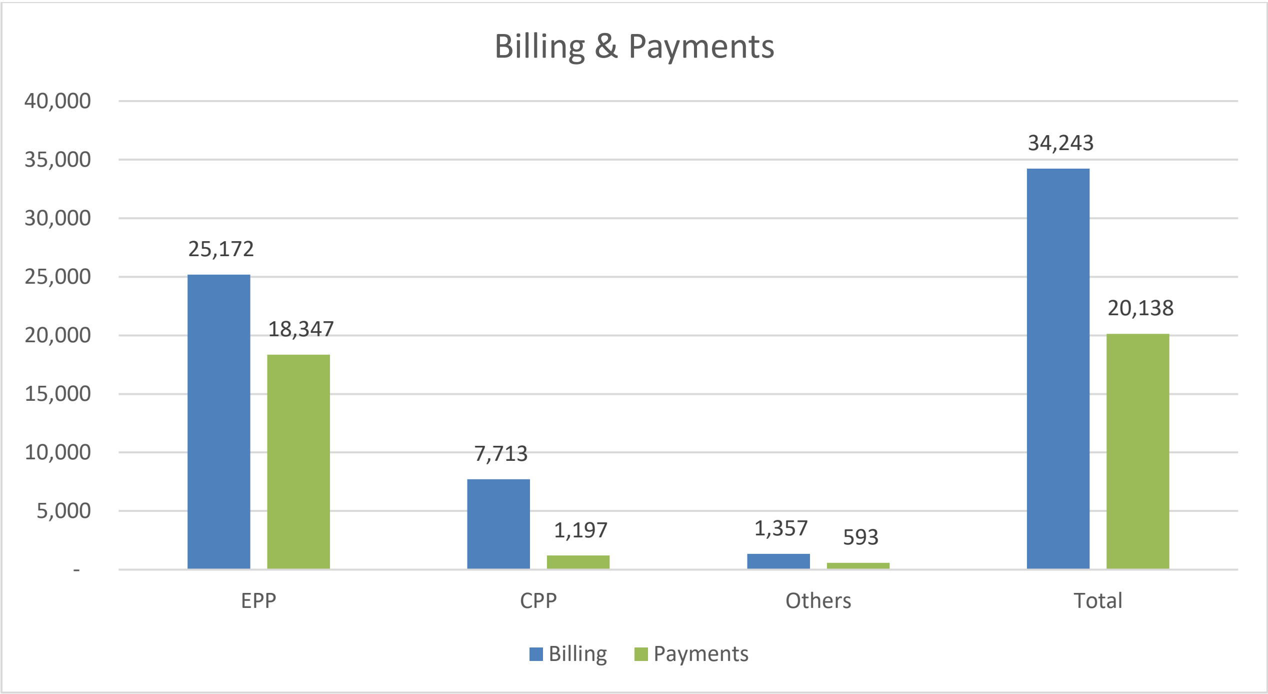


	EPP Overdue	CPP Overdue	Others Overdue	Grand Total
Jan	130,767	47,509	55,129	233,405
Dec	122,567	47,148	53,832	223,546

Source: Member and Subsidiary IPPs

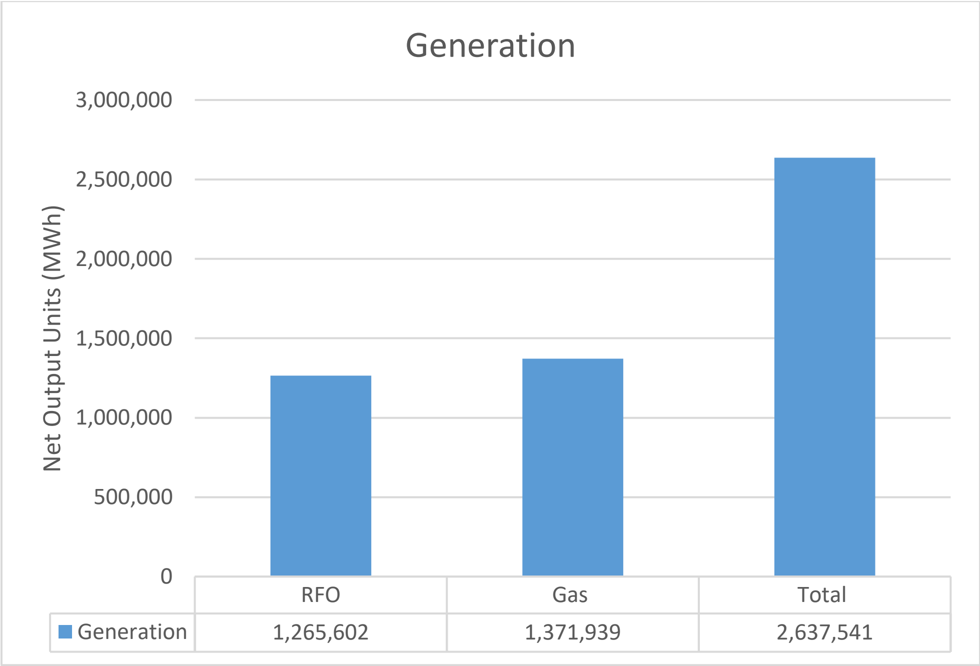
Monthly Infographics

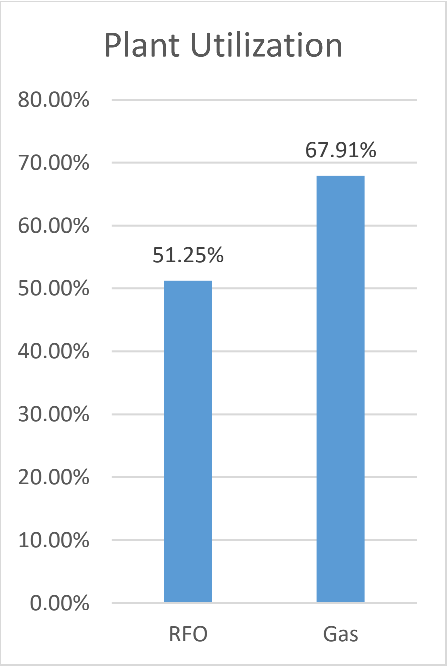
Billing and Payments in January 2018 in PKR Millions



Source: Member and Subsidiary IPPs

Net Generation and Plant Utilization in January 2018



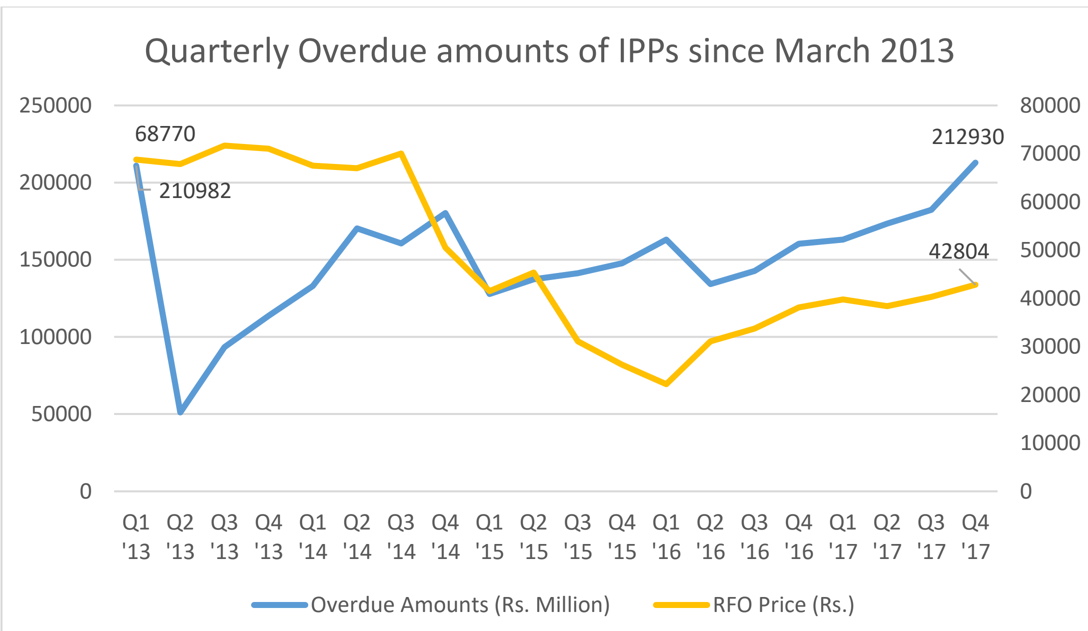


Source: Member and Subsidiary IPPs

Discussion: Circular Debt

The issue of circular debt has been haunting Pakistan's power sector for more than a decade. Over the years the government has been adopting short-term bailout solutions rather than addressing the systematic underlying causes. Each time government injects money into the system, on a superficial level, it seems that the problem has been resolved but sooner than later the issue of circular debt resurfaces with increased severity.

In 2013, when the current government assumed power, Rs. 480 billion out of a total Rs. 503 billion circular debt was paid off[1]. However, since then there has been an increase in overdue amounts. The graph below shows the trajectory of overdue amounts of IPPA members and RFO prices for the time period 2013-2017. It can be seen that the overdues follow an increasing trend despite lower oil prices. Had the oil prices remained the same or increased, the current situation could have been much worse. This shows that contrary to government claims, the financial management has not improved but may have become worse. In fact, in January 2018, the circular debt of energy sector as a whole reached Rs. 525 billion[2]. If we were to include overdue amount parked in Power Holding Private Limited's (PHPL) books then the overdue amount totals to Rs. 955 billion[3]!



Furthermore, the circular debt situation is expected to exacerbate as the financial obligations of CPPA-G will increase due to additional 10,400 MW of electricity being added to the grid by June 2018[4]. Moreover, if the oil prices follow an increasing trend, the circular debt situation will spiral out of control. This is extremely problematic because the issue of circular debt has already choked the entire power sector. When the power producers are unable to get their dues in time, it disrupts their cash flow which

[1] 'Details of Rs. 480 billion circular debt pay-off released' by Express Tribune
[2] 'Plan afoot to clear circular debt' by Mustaq Ghumman
[3] 'Plan afoot to clear circular debt' by Mustaq Ghumman
[4] 'Power generation: ban imposed on new projects' by Mushtaq Ghumman

inhibits their ability to purchase fuel and meet other financial obligations, consequently, they are unable to produce electricity despite having the capacity to do so. Resultantly, the circular debt issue begets more inefficiencies in the power sector. Its impact is then transferred to other sectors which are unable to work at their full potential. Hence, it can be said that circular debt is impeding the growth of Gross Domestic Product (GDP) of Pakistan[5].

Given the severity of the issue, it is important to understand why the issue of circular debt exists. The crux of the matter is that there is a gap between payments and collection in the power sector i.e. there is a cash flow gap. Therefore, one-time overdue payments will not resolve this issue because the gap in the cash flows will build up yet again. Hence, there is a need to adopt a two-pronged approach. First, the government needs to make an immediate payment to ensure that the stock of debt is at a manageable level. Second, a comprehensive plan should be delineated to ensure that the circular debt does not return to catastrophic levels.

In order to that, on one hand, there is a need to reduce the cost of providing electricity and on the other hand, there is a need to improve the recovery. Therefore, it is important to undertake immediate policy change and action in a few key areas. First, it is absolutely necessary to rethink the current energy mix by relying on cheaper indigenous sources of fuels. Second, the government-owned generation companies (GENCOs) should be privatized as they are highly inefficient resulting in expensive electricity and high losses. According to "Performance evaluation report of public sector GENCOs FY14-16", GENCOs lost Rs.150 billion of revenues due to loss of more than 15 billion units of electricity[6]. Third, there is a need to urgently revamp the transmission and distribution (T&D) network to curtail the high losses. In 2017 alone the power sector of Pakistan suffered Rs. 213 billion due to line losses[7]. The current percentage of T&D losses is said to be at 17.8%[8]. Fourth, the recovery of costs should be improved by revamping the tariff and setting it at cost recovery level. In the financial year 2016-17 alone, Rs. 118 billion were spent on electricity subsidy[9]. Such a large sum of money amplifies the cash flow constraint. Moreover, there is enough evidence to substantiate the claim that electricity subsidy is poorly targeted hence it does not fulfill its welfare objectives[10]. Therefore, the subsidy given to consumers should be eliminated. Alternate mechanisms should be adopted to help the economically disadvantaged group to afford electricity as not only does subsidy fail to achieve its objective but it also intensifies the liquidity crunch.

The power sector can only perform efficiently and effectively if the issue of circular debt is resolved. While the issue of circular debt can only be solved if leakages such as those mentioned earlier are eliminated. Hence, there is a need to form and implement a thorough and comprehensive policy to deal with this issue.

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[5] 'Dynamics of Cicular Debt in Pakistan and Its Resolution' by Syed Sajid Ali and Sadia Badar
[6] 'Power Losses' by Farhat Ali
[7] 'Technical issues behind line losses' by DAWN
[8] 'Loadshedding may return as losses have tripled, warns minister' by Khaleeq Kiani
[9] 'Budget in brief 2017-18' by Government of Pakistan, Finance Division, Islamabad
[10] 'Residential Electricity Subsidies in Pakistan- Targeting, Welfare Impacts, and Options for Reform' by Walker et al.

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

March

Electricity Act

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