Volume 6, Issue: 2, June 2018

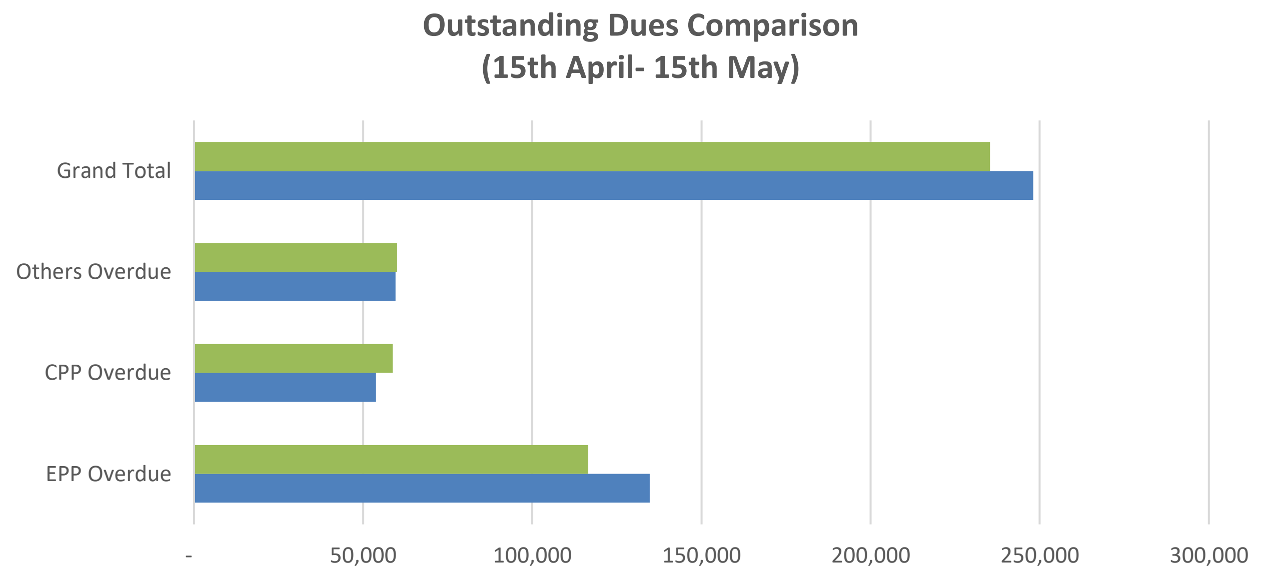
INDEPENDENT POWER PRODUCERS ASSOCIATION

MONTHLY NEWSLETTER

Welcome to the fifteenth 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 May, 2018 in PKR Millions

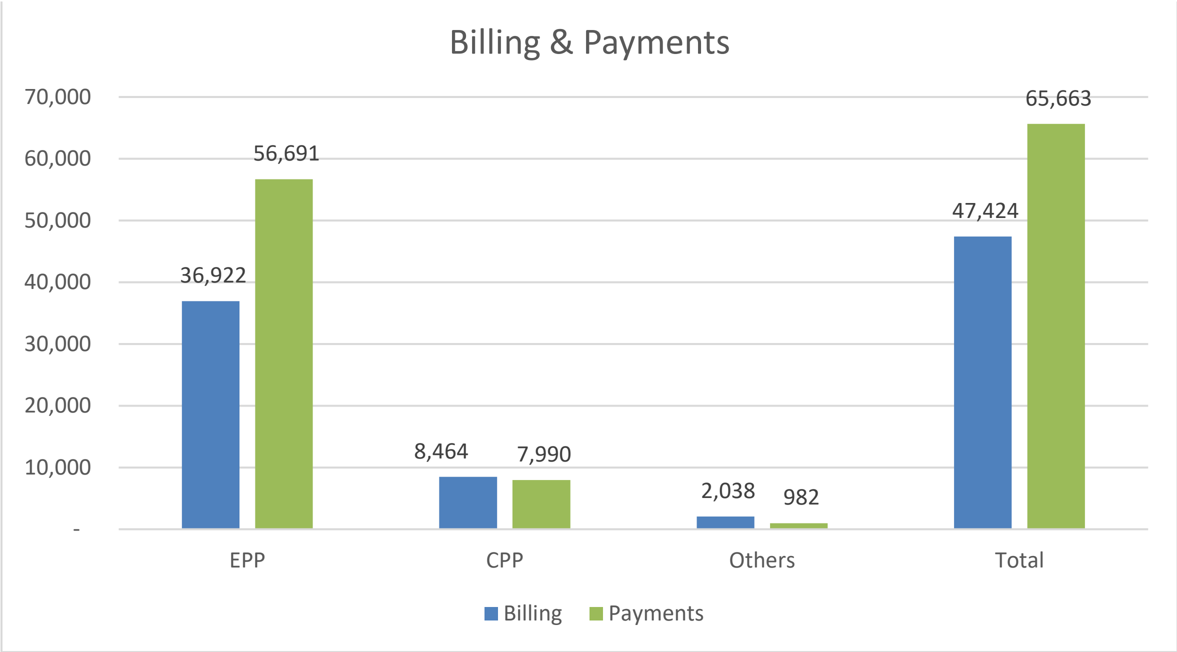


	EPP Overdue	CPP Overdue	Others Overdue	Grand Total
May	116,564	58,661	60,027	235,252
April	134,735	53,801	59,563	248,098

Source: Member and Subsidiary IPPs

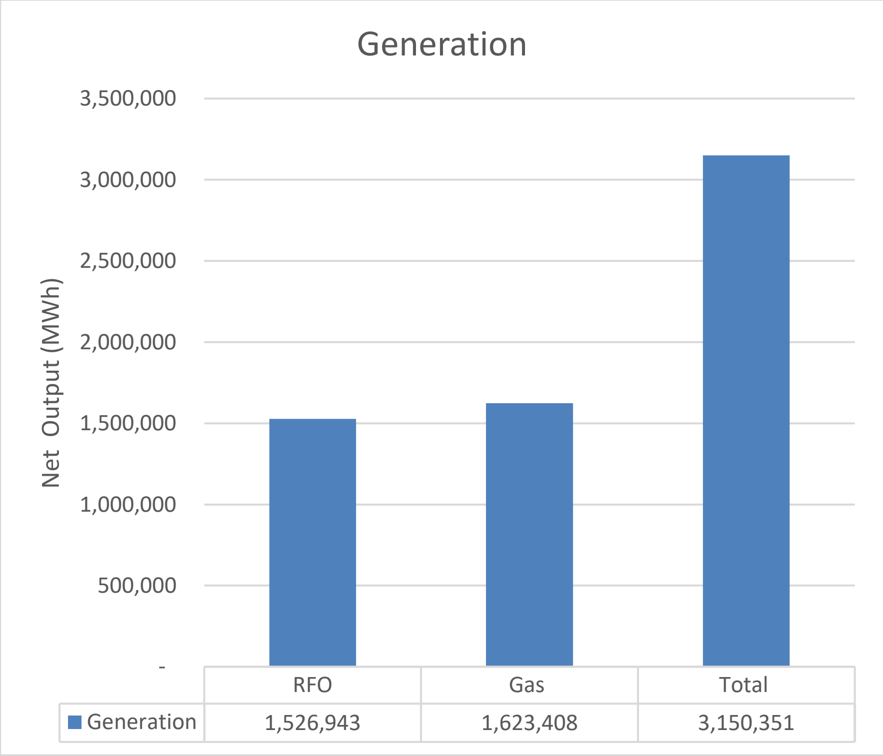
Monthly Infographics

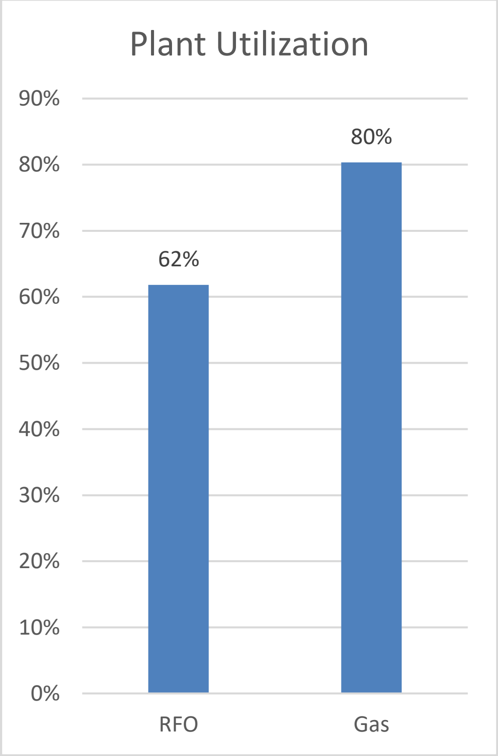
Billing and Payments in May 2018 in PKR Millions



Source: Member and Subsidiary IPPs

Net Generation and Plant Utilization in May 2018





Source: Member and Subsidiary IPPs

Payables to power generators exceed Rs573bn mark

ISLAMABAD: Payables to the power generators have crossed over Rs573 billion with Rs324 billion shortfall between the billed amount and recoveries of distribution companies during July-April 2018 of the current fiscal year.

Sources in the Finance Ministry said that the rise in gap between billed amount and recoveries has been causing serious financial problems for the power sector as payments to power producers are affected. They said that circular debt takes place mainly due to non-availability of required funds to pay the liabilities of power producers.

They further stated that it is important for all the stakeholders in power sector to fulfill obligations falling in their ambit for smooth functioning of the sector and to avoid resurgence of circular debt.

Source: Business Recorder

Discos tariff increased by Rs1.25

ISLAMABAD: After almost five years, the fuel cost of electricity has started increasing the monthly bills owing to higher international oil prices and changes in benchmarks to consumers' disadvantage.

On 27th June, the National Electric Power Regulatory Authority (Nepra) allowed an increase of Rs1.25 per unit in consumer tariff for ex-Wapda distribution companies (Discos) on account of fuel cost adjustment for electricity consumed in May. The higher electricity rates would be recovered from consumers in the upcoming billing month i.e., July.

Source: Dawn

In absence of LNG, plants may produce expensive electricity

ISLAMABAD: A delay on part of the Power Division to reveal actual demand for liquefied natural gas (LNG) from power producers may be benefiting oil importers and lead to production of

According to the merit order based on revised petroleum product prices that came into effect on June 12, 2018, major LNG-based power plants are much higher in the priority list as they produce cheap electricity.

Source: The Express Tribune

Karkey dispute: AGP, Power & Finance Division may finalize strategy

ISLAMABAD: The Attorney General of Pakistan and Power & Finance Division are expected to finalize a strategy on the Karkey dispute as experts in international law urge Pakistan to resolve the dispute through negotiations to avoid high costs.

Bilal Ahmer Sufi, an expert in international law while talking to Business Recorder urged Pakistan to settle Karkey case through negotiations in order to avoid a heavy penalty.

The latest development in Karkey case as on June 1, 2018, is the filing of a memorial on annulment by Pakistan as per the International Center for Settlement of Investment Dispute (ICSID) website. The status of the proceedings is pending.

An official of Power Division on condition of anonymity told this correspondent that the Office of the Attorney General and other relevant ministries/departments are likely meet soon to finalize a future strategy.

Source: Business Recorder

Power shortfall hits record peak

ISLAMABAD: The power shortfall on 25th June peaked to a record high of over 9,000 megawatts (MW), leading to prolonged power outages in the country. The situation exposing claims of the Pakistan Muslim League-Nawaz government to bring a massive turnaround in power fortunes.

Former Prime Minister Shahid Khaqan Abbasi had claimed on May 30, one day ahead of his tenure end that the government had added 11,461MW power from new resources to the system. He had also claimed that electricity demand in June would stand at 22,538MW against the total expected generation of 22,178MW, registering a shortfall of 362MW.

Source: The Express Tribune

High-loss feeders to be outsourced for billing, collection

ISLAMABAD: A special panel of the Senate and the Power Division have agreed in principle to outsource all high loss-making feeders for metering, billing and collection of bills on 50:50 sharing on incremental revenue.

The report of the panel also seeks to offer financial incentives to all stakeholders involved in controlling electricity theft and losses and dedicated deputation of at least 200 policemen and two magistrates for each distribution company (Disco) for the purpose. The salaries and other expenses of these deputationists would be paid by the Discos.

Source: Dawn

Receivables from power defaulters amount to massive Rs851b

ISLAMABAD: The Pakistan Muslim League (PML-N) government left office with receivables from power defaulters amounting to a massive Rs851 billion.

According to audited figures compiled a few days ago, receivables from power defaulters stood at Rs729.8 billion in June 2017, which jumped to Rs851 billion by the end of April this year, weighing on the power sector.

The federal government was a defaulter of Rs4.88 billion in June 2017 but receivables reached Rs9.24 billion in April 2018.

Source: The Express Tribune

Discos' technical losses stand at Rs56bn in July-May

ISLAMABAD: The Power Division has stated that technical losses of distribution companies were Rs56 billion during July-May of the current fiscal year and the only solution to losses is to focus on transmission and distribution system.

A subcommittee meeting of the Senate Standing Committee on Power, presided over by Nauman Wazir Khattak, expressed dissatisfaction over the performance of the Power Division to prevent unabated theft and line losses in the sector and stated that huge losses incurred by the sector are being charged from consumers.

Source: Business Recorder

NEPRA slaps Rs5m fine for failing to prevent breakdown

ISLAMABAD: The National Electric Power Regulatory Authority (Nepra) has slapped a fine of Rs5 million on state-run Northern Power Generation Company (Genco-III) for failure to activate the protection system that resulted in power breakdown.

According to a statement issued on Thursday, Nepra imposed the penalty on account of negligence in maintenance of a 220-kilovolt switchyard of Thermal Power Station Muzaffargarh and failure to operate the protection system. That resulted in power breakdown on January 15, 2016 in northern network of the country that covered Punjab and Khyber-Pakhtunkhwa.

Source: The Express Tribune

CPEC consortia run into problems over payment issues

ISLAMABAD: The finalisation of a few major energy sector transactions with Chinese financial institutions and investors appeared in doldrums owing chiefly to prevailing uncertainties and jittery Chinese financial institutions.

Testifying before a parliamentary panel, Chief Executive of Hub Power Company Khalid Mansoor said his company was working on $3.5 billion worth of energy projects under China-Pakistan Economic Corridor (CPEC) but their financial closure had been stopped due to 'bad-mouthing' of some existing investors over non-payments.

Source: Dawn

International News

Coal's Back in the Doldrums in America's Electricity Mix

Coal's contribution to U.S. power generation has slipped to where it was before Donald Trump became president, despite his repeated vow to bring back the industry. The fossil fuel accounted for just 24 percent of America's power mix in April, the lowest level since March 2016 and about half its market share when George W. Bush was in the White House, according to data from the Energy Information Administration. The pressure on coal has ratcheted up amid competition from cheap natural gas — which had about a third of the market in April — and growth in renewables.

Source: Bloomberg

Wind and solar will produce 50% of global energy generation by 2050

Wind and solar have a 50% chance for global energy generation by 2050, this is according to the Bloomberg New Energy Finance (BNEF)'s New Energy Outlook (NEO) 2018.

This year's outlook is the first to highlight the huge impact that falling battery costs will have on the electricity mix over the coming decades.

Seb Henbest, head of Europe, Middle East and Africa for BNEF and lead author of NEO 2018, said: "We see $548 billion being invested in battery capacity by 2050, two thirds of that at the grid level and one third installed behind-the-meter by households and businesses.

"The arrival of cheap battery storage will mean that it becomes increasingly possible to finesse the delivery of electricity from wind and solar, so that these technologies can help meet demand even when the wind isn't blowing and the sun isn't shining. The result will be renewables eating up more and more of the existing market for coal, gas and nuclear."

Source: ESI Africa

World Bank approves $40m for Madagascar's electricity sector

The World Bank has approved an International Development Association (IDA) credit of $40 million to improve Madagascar's electricity sector governance and operations.

The Madagascar Electricity Sector Operations and Governance Improvement Project (EGOSIP) will help ensure full implementation of the Performance Improvement Plan of the national power utility, JIRAMA, that has been prepared in 2016, in particular, the organisational restructuring of the company.

This project will also finance the upgrade of JIRAMA's dispatch centre and network automation systems and rehabilitation and reinforcement of distribution networks, in order to improve quality in electricity supply and allow the integration of variable renewable energy generation.

Source: ESI Africa

Iraqi election winner open to power sector privatization

ERBIL– Iraq's 2018 national election winner and influential Shia cleric, expressed his support for the privatization of the country's power sector to help address its chronic electricity shortages.

Muqtada al-Sadr, leader of the Sairoon Coalition, suggested privatizing Iraq's electricity supply system to ease the burden of production on the government.

"There have been disagreements between the people and the government on the privatization of Iraq's electricity sector," Sadr said. Iraq is known to experience regular power outages and has an inefficient electric power distribution network.

Source: Kurdistan

Egypt raises electricity prices, cuts subsidies

CAIRO: Egypt is further cutting electricity subsidies, raising average prices by around a quarter, Electricity

Minister Mohammed Shaker announced, as it moves forward in a sweeping economic reform programme.

The subsidy cuts are the latest step in an electricity prices restructuring plan launched in 2014, with the new prices taking effect from July 1.

They were decided "taking into serious account the low-income (Egyptians)", Shaker told reporters in Cairo.

The lowest consumers of electricity will have their subsidies cut the least, while the higher the consumption, the larger the cuts, Shaker said.

"Up to 1,000 kilowatt (per month), there is a subsidy," while the subsidy would be abolished for higher usage.

Source: Business Recorder

Trump to Grant Lifeline to Money-Losing Coal Power Plants

UNITED STATES: Trump administration officials are making plans to order grid operators to buy electricity from struggling coal and nuclear plants in an effort to extend their life, a move that would represent an unprecedented intervention into U.S. energy markets.

The Energy Department would exercise emergency authority under a pair of federal laws to direct the operators to purchase electricity or electric generation capacity from at-risk facilities, according to a memo obtained by Bloomberg News. The agency also is making plans to establish a "Strategic Electric Generation Reserve" with the aim of promoting the national defense and maximizing domestic energy supplies.

Source: Bloomberg

Reverse electricity sector privatisation, Labour tells Buhari

NIGERIA: Organized labour restated the call for the reversal of the privatisation of the power sector.

The United Labour Congress (ULC), reacting to President Muhammad Buhari's speech on Democracy Day, said the power sector has failed Nigerians.

President of the ULC, Joe Ajaero, said the congress restates for the umpteen times that the power sector privatisation has failed not just Nigerians but Nigeria as a nation.

"It has been a harvest of woes. The United Kingdom has done the needful with their railways on seeing the woes the sector was bringing to the nation, the government has started reversing the privatisation of that sector. Nigerian government should emulate this and do the most sensible thing at this time by mustering the needed courage to reverse the nation's electricity sector privatisation", he said.

Source: The Sun

Moody's Gives Regulated Utilities a Negative Outlook for the First Time

UNITED STATES: For the first time since it began rating sectors, Moody's Investors Service has downgraded its overall outlook of the U.S. utility sector. The rating agency dropped credit from stable to negative for 24 utilities and from positive to stable for one utility, American Electric Power Company.

Moody's said the change reflects uncertainties from the tax law changes passed in late December.

Jim Hempstead, a managing director at Moody's, said the "action primarily applies to companies that already had limited cushion in their rating for deterioration in financial performance, will be incrementally impacted by changes in the tax law and where we now expect key credit metrics to be lower for longer."

Source: Green Tech Media

Analysis of CPEC Power Projects

China Pakistan Economic Corridor (CPEC) is a mix bag with projects ranging from infrastructure projects to energy projects. By and large CPEC is termed as a framework of regional connectivity benefiting not only Pakistan and China but also Afghanistan, India, Iran, Central Asian Republic and the region. At the government level, CPEC is propagated as a journey towards economic regionalization in the globalized world however, it is pertinent to mention the discourse surrounding CPEC projects is not entirely positive. On one hand, the previous government has been presenting CPEC as the savior of the economy including the power sector. On the other hand, there are several parties which have serious reservations regarding the transparency and contractual terms of the CPEC projects. A common perception is that CPEC is coming at a hefty cost for Pakistan. Therefore, there is a need to comprehensively analyze CPEC power projects and its impact on both the economy and consumers. This analysis will not only help us to gage the benefits of CPEC but also assist us to determine what direction such future collaborations should take.

CPEC Power Projects

Power projects constitute the largest portion of the CPEC portfolio in terms of financial allocation[1]. A financial outlay of $350 billion has been allocated to energy projects[2]. These projects will add 17000 MW generation capacity[3], of which 12000 MW have already been added to the grid[4]. In addition to this, several new projects have achieved financial close and are working towards commercial operation. Over 70% of the electricity generation from CPEC projects is powered by coal[5]. The CPEC energy projects are not limited to generation but also intend on improving the transmission and distribution (T&D) system through Mitiari to Lahore and Mitiari (Port Qasim) to Faisalabad Transmission Line Projects[6].

In terms of bridging the generation capacity gap, CPEC has made a praiseworthy contribution. The load shedding faced by consumers is the result of other issues such as T&D losses and liquidity crunch rather than shortage of generation capacity. However, having sufficient generation capacity does not automatically translate it to better provision of electricity for consumers. Therefore, it is also important to gage the impact of CPEC power projects in terms of cost effectiveness, as one of the key concerns of the power sector is to provide cost efficient electricity to reduce the prevalent cash flow gap in the power supply chain.

Analysis

There are widespread reservations on the contractual terms of CPEC projects. In particular, CPEC coal power projects have been widely criticized due to their high cost. For example, the EPC contract for CPEC coal power plants in Sahiwal and Port Qasim costed $1.21 million per MW. On the other hand,

---

[1] 'The China-Pakistan Economic Corridor: Three Years Later'- Reconnecting Asia (12th February, 2018)

[2] Economic Survey of Pakistan (2018-19)

[3] 'CPEC projects to add 17000MW to grid'- Business Recorder (6th April, 2018)

[4] CPEC Information Portal

[5] 'The China-Pakistan Economic Corridor: Three Years Later'- Reconnecting Asia (12th February, 2018)

[6] CPEC Website

EPC contract for Jamshoro power plant, a non-CPEC project headed by ADB, has been recently settled for $0.578 million per MW[7].The CPEC coal power projects are 40% more expensive with regards to both CAPEX and the tariff[8]. This difference essentially means that on an annual basis the aforementioned coal power plants will receive unjustified $550 million[9]. The CAPEX of these projects is expensive even if compared to power plants in neighboring countries. For example, a new 2400MW state of the art coal power plant in India has a CAPEX of $2.47 billion, while Port Qasim power plant, which has 1300 MW generation capacity and lower efficiency, has a CAPEX of $2.08 billion[10]. Moreover, if the CPEC projects are compared to projects in China, it can been seen that the cost of CPEC projects is 50% more.

Furthermore, the tax benefits and high interest rates offered to CPEC projects are also being termed excessive[11]. It is also feared that the concessional terms offered for financing of CPEC projects will lead to considerable rise in repayment obligations by 2020/2021[12]. This is particularly worrisome because it may worsen the existing financial crunch in the power sector.

Moreover, experts believe that the tariff of 8.26 USc per kWh for aforementioned CPEC projects is high[13]. In comparison to them, the Jomshoro Power Plant is expected to have a tariff of around 6.3 USc per kWh[14]. Moreover, according to an expert, the tariff determined for coal power plants built by Chinese firms in Bangladesh is 6.2USc per kWh, which is again cheaper than the CPEC coal power projects' tariff[15]. This means that the electricity produced by these CPEC coal power plants fails to fulfil the goal of providing 'cost-effective' electricity to consumers.

One possible reason behind high cost of CPEC power projects is lack of competition. It may be argued that competition in government to government contracts may not be possible[16]. However, far from being competitive, in case of CPEC projects NEPRA did not even diligently scrutinize the tariff put forward by the vendors. Moreover, it has also been alleged that NEPRA was maneuvered in to approving high tariff by the vendors[17].

Recommendations

The above analysis is not meant to take away from the opportunities CPEC has presented to Pakistan. However, there is a need to negotiate better contractual terms to ensure both China and Pakistan benefit from collaboration and achieve their respective goals. In order to do so, first, there is a need ensure more transparency and openness. Withholding information about projects only leads to unnecessary speculations and lack of public ownership. Second, there is a need for modification of tariff approval mechanism for CPEC projects. Currently, NEPRA approves the tariffs however, despite being an autonomous body by definition it is often unable to make decisions independently. Additionally, in

---

[7] 'Cost of CPEC coal power projects per MW 40pc higher'- The News (9th May, 2018)
[8] 'Reforming CPEC'- Business Recorder (18th January, 2018)
[9] 'Cost of CPEC coal power projects per MW 40pc higher'- The News (9th May, 2018)
[10] 'Reforming CPEC'- Business Recorder (18th January, 2018)
[11] 'The Cost of CPEC'- Dawn (12th March, 2017)
[12] 'The Cost of CPEC'- Dawn (12th March, 2017)
[13] 'Reforming CPEC'- Business Recorder (18th January, 2018)
[14] 'Cost of CPEC coal power projects per MW 40pc higher'- The News (9th May, 2018)
[15] 'The cost of CPEC'- Dawn (12th March, 2017)
[16] 'Reforming CPEC'- Business Recorder (18th January, 2018)
[17] 'Reforming CPEC'- Business Recorder (18th January, 2018)

case of CPEC projects there have been accusations that NEPRA did not properly verify demands of the vendors. Therefore, it may be a worthwhile to employ procedures which necessitate seeking third party expert opinion to make well informed decisions[18]. Third, in order to improve cost effectiveness of CPEC projects, it is inevitable to negotiate terms which ensure that Chinese government and banks encourage genuine competition among Chinese companies[19].

In nutshell, contracts should be negotiated with end objective in mind, i.e. to provide cheap electricity to consumers. Merely increasing generation capacity without gaging the financial implications will not aid in solving the power crisis.

[18] 'Reforming CPEC'- Business Recorder (18th January, 2018)

[19] 'Reforming CPEC'- Business Recorder (18th January, 2018)

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

July

Transmission and Distribution

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