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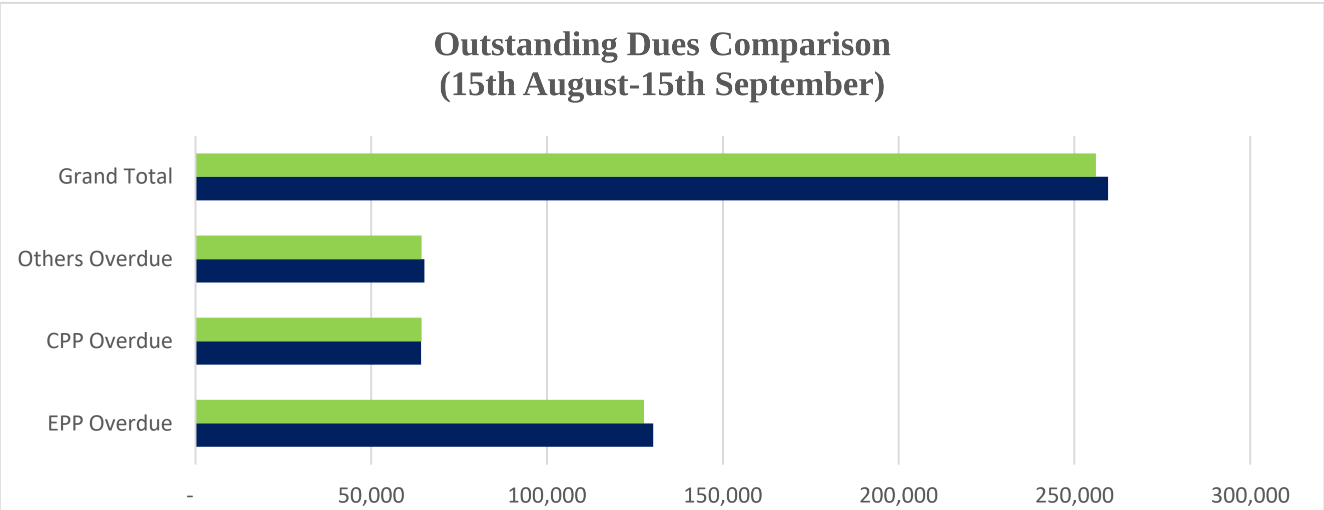
# INDEPENDENT POWER PRODUCERS ASSOCIATION

## MONTHLY NEWSLETTER

Welcome to the nineteenth 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 September, 2018 in PKR Millions

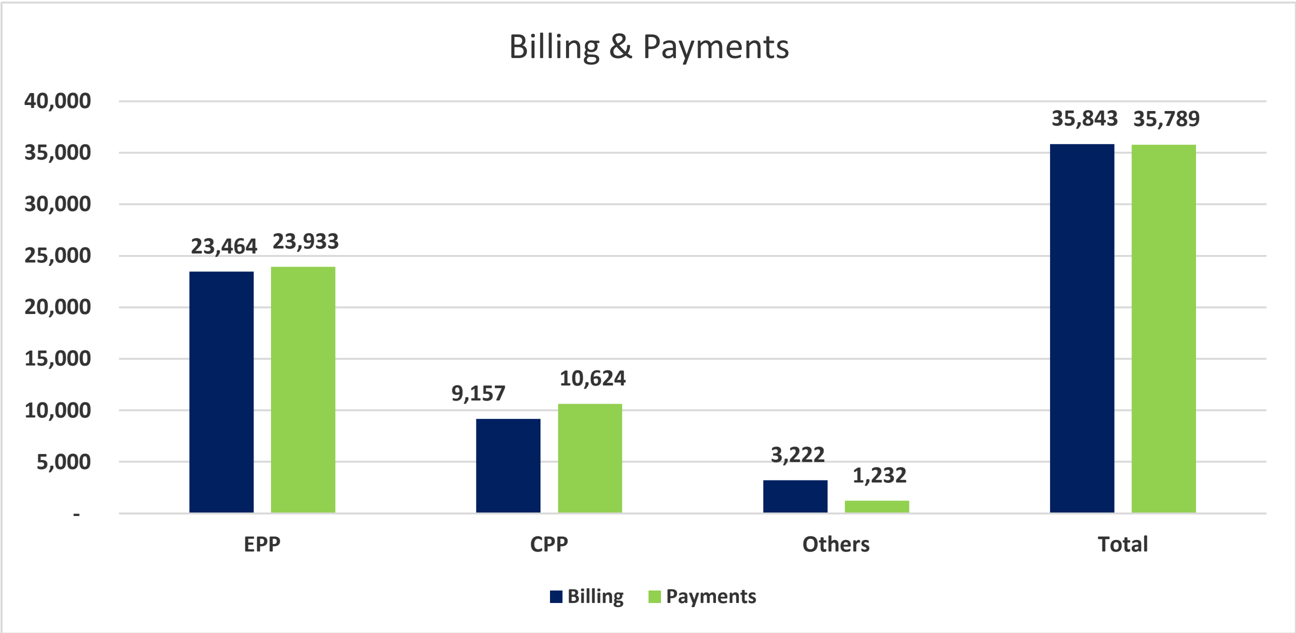



| | EPP Overdue | CPP Overdue | Others Overdue | Grand Total |
|---|---|---|---|---|
| September | 127,511 | 64,274 | 64,314 | 256,099 |
| August | 130,200 | 64,200 | 65,100 | 259,499 |

Source: Member and Subsidiary IPPs

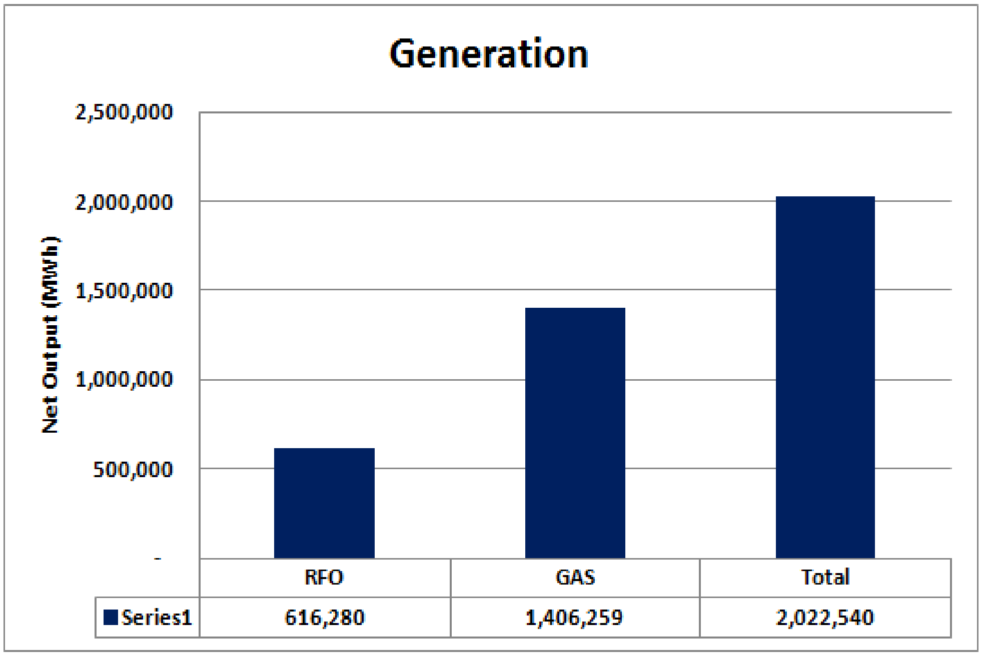
# Monthly Infographics

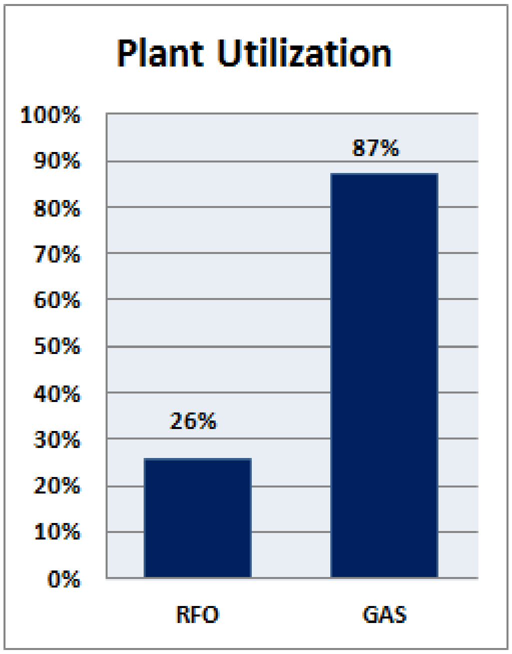
## Billing and Payments in September 2018 in PKR Millions




Source: Member and Subsidiary IPPs

## Net Generation and Plant Utilization in September 2018




Source: Member and Subsidiary IPPs

# Generation

## Mixed Month for Hydro Power in Pakistan

Islamabad: This month saw mixed results for the hydro power production. Arkari Gol project finalized sponsor through competitive bidding. Dasu hydropower project also signed a contract, worth Rs 4.9 billion, for the construction for basic infrastructure. However the land acquisition end of the project was not similarly successful.

The KPK provincial government finally announced the winner for Arkari Gol hydropower project. A joint venture of Master Hydro Power and Chinese Huadong Engineering Corporation (CHEC) has won the bid for the project. The project comes under the Khyber Pakhtunkhwa Hydropower Policy 2016. The 99 MW project was offered to be constructed at a cost $2.26 Million/MW. The final tariff for the project was determined at Rs8.2896 per KWh.

The federal government on the other Dasu hydro power project is moving forward as far as infrastructure development is concerned. WAPDA signed Rs 4.9 billion project with China Gansu International Corporation for Economic and Technical Cooperation (CGICOP). The project covers the construction of Project Colony and Infrastructure which is labeled (PCI-01R). PCI-01R covers the construction of infrastructure such as road network and a distribution network for water supply and water treatment works. The project also includes components to cover the project colony. The project colony working includes sewerage system network, waste-water treatment works, and electrification of a colony, boundary wall and permanent security watch-towers. PCI-01R will be completed in a two year time period.

However the land acquisition phase of the Dasu hydro power project has seen difficulties. It was found that individuals have used the compensation from land acquisition of Basha dam to purchase land that comes under the Dasu project. The land was purchased with the intention of exploiting the government for higher purchase price. Furthermore, it was found that the locals of the Dasu dam project had requested the government to reclassify their land. PM Imran Khan guided WAPDA to solve the issue at the earliest possible.

## LNG power plant set to start operations in December-January

NAGOYA: Three LNG power plants of Haveli, Bhikki and Balloki are set to start their operations in the month of December and January. The power plants have caused controversy with their delays. Pakistan had to face two major costs because of the delay in the commissioning of the power plants. First Pakistan had to rely on expensive fuel for one more summer. The difference between the RFO and RLNG cost leads to billions of dollars in extra cost for electricity consumers. The second cost pertained to the deal of RLNG. Pakistan was contractually bound to purchase the LNG from their suppliers. Without the power plants, the Pakistani government had to bear the cost of the LNG.

*Source: Pakistan Today, Dawn, Reuters*

# Distribution

### IESCO Fined for False Data and Bad Performance

Islamabad: IESCO received a fine of Rs 4 million for failing to meet the performance standards set by NEPRA. NEPRA initiated and investigation after the publishing of IESCO performance review FY 17. NEPRA accused IESCO of failing to supply electricity connections, maintain voltage levels and manufacturing data on the duration and frequency of interruptions. Bottle necks in the transmission systems caused voltage fluctuations. These voltage fluctuations caused 14 hour long power outages in areas that come under the supervision of IESCO.

*Source: Pakistan today*

### ICAP warns against privatizing the DISCOS in their Current State

KARACHI: Economic Advisory Committee of Institute of Chartered Accountants of Pakistan (ICAP) drafted recommendation for the privatization of DISCOS. These recommendations were shared at a round titled “Power Sector – A Way Forward” which was hosted at ICAP headquarters. ICAP’s energy expert, Salman Amin, highlighted the fact that the generation had increased 95 percent in 18 years whereas the distribution only increases by 26% during the same period.

Amin identified the pressure on the government to privatize the DISCOS. The DISCOS have been marked for privatization since 2015. IMF is also expected to force the government to privatize the DISCSO. ICAP recommended that the government should separate the operations of transmission and distribution before initiating privatization.

*Source: Dawn & Pakistan Today*

# Regulation

### Final Increase in Electricity Tariff

Islamabad: ECC approved a much expected tariff increase after deliberating for eight meetings. The power tariff for consumers consuming more than 300 units was raised. The tariff for consumers consuming 300-700 units will be taxed at 10% while those consuming 700-1500 units would be taxed at 15%. The industrial consumers would face a raise of 78 paisa per unit. Moreover, commercial users faced a rise of 20% while bulk power purchasers would see a rise of 25%.

Furthermore a 20 paisa fuel adjustment tariffs has been approved for all DISCOs except K-electric. The fuel adjustment cost was increased in response to a 44 paisa fuel adjustment cost requested by CPPAG.

These tariff raises are consistent with PTI’s promise of relief to the poor. PTI has not raised the tariff for consumers consuming less than 300 units. The agricultural vote banks were also entertained. The tariff for tube wells has been reduced from Rs. 10.35 to 5.35. PTI also made good on their promises to the export oriented sector. The tariff for export oriented sector has remained at 7.5 cents per unit. The government also satisfied the IMF by yielding to their demand of an increase in power tariff.

The final impact of the tariff increase would come to a rise of Rs 3.82/unit. With a total effect of Rs 400 billion. After adjusting tariff to subsidies, the consumers would see a rise of Rs2.18/unit. this adjusted tariff would have a final impact of Rs227b.

*Source: Pakistan Today, Dawn, Business Recorder*

# CURRENCY DEVALUATION - IMPLICATIONS

Devaluation of rupee against all major international currencies is the reflection of weakness of the economy. The rupee depreciation is attributed to the erosion of foreign exchange reserves, drying up of foreign investments, no inflow of loans from international donor agencies and a widening trade deficit.

The market-based adjustment is reflective of the country's external balance of payments position, which is under pressure due to a large trade deficit, the central bank said in its statement. State Bank of Pakistan expects the devaluation, interest rate increase and other measures "to contain the imbalances in the external account." Erosion in exchange rate by about Rs9.50 against dollar in a single day (October 09, 2018) indicated that government is completing prior actions to secure another programme from the International Monetary Fund, which seems inevitable for Pakistan to ensure a full free float exchange rate, increase policy rate and utility tariffs.

Intuitively, any currency devaluation implies that economy could move from low inflation and high growth era to high inflation and low growth period. The high inflation will not only hit the poor hardest but it will also affect all segments of the economy. The poor and the lower middle class find it increasingly difficult to make both ends meet with soaring prices of essential commodities including foodstuff. The poor are highly sensitive to the price changes in food, particularly staple food items.

In essence, there are many reasons why devaluation and raising tariffs have been detrimental to Pakistan's economic development in the past. Some of these are summarized below.

First, the country's imports are inelastic and a weaker rupee will not help. Mostly, they consist of raw materials (petroleum, chemicals and metals), intermediate goods or machinery. Thus, devaluation increase their cost and thus make Pakistani exporters less competitive. For instance, Local textile makers are concerned over the continuous depreciation of the rupee that has increased production cost of export goods, making their products uncompetitive in the world market.

Second, devaluation raises the cost of servicing our external debt. According to government figures, recent devaluation of rupee (Oct, 2018) caused the debt to swell by Rs13.01 trillion[1]. Thus, devaluation instead of easing the balance of payments has exacerbated it further.

Third, devaluation always increases inflation as essential items such as petroleum, food and chemicals constitute almost half of our total imports. The imports of oil and LNG alone are estimated at about \$18bn[2]. The government has already increased cost of essential imports like oil and liquefied natural gas leading to significant price hikes in industrial, commercial and transport costs. The real question arises that can the government afford to make life more difficult for the poor and the middle class?

Fourth, it has taken the country almost 10 years to rebuild investor confidence to an extent. International investors were gradually making a comeback. However, the recent devaluation shattered the investors' confidence i.e. foreign investors pulled out their money from stock market.

Energy sector is also facing worse consequences of devaluation. In the backdrop of PRK 1.3 trillion circular debt, devaluation has led to tariff hikes, increase in cost of new investment, halting privatization of DISCOs, reduced subsidy and delay in debt repayment due to IPPs. These effects are financial, institutional and dynamic in nature. In the short term, devaluation has increased the tariffs and hampered working capital of firms. In the

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[1] https://www.dawn.com/news/1438021

[2] https://timesofislamabad.com/23-Jul-2018/pakistani-rupee-may-touch-a-new-low-of-rs-140-against-us-dollar-report

long run the investment attractiveness for private firms would decrease on account of increased risk and reduced Dollar based rate of return. Institutional integrity of the power sector would be compromised due to halt in the privatization of DISCOS. Moreover, the power sector could become more sensitive to the currency swap agreements between Pakistan and China.

In nutshell, the relative size of these different forces and any countermeasures by the government would determine the final effect of these different forces.

# 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 |

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**