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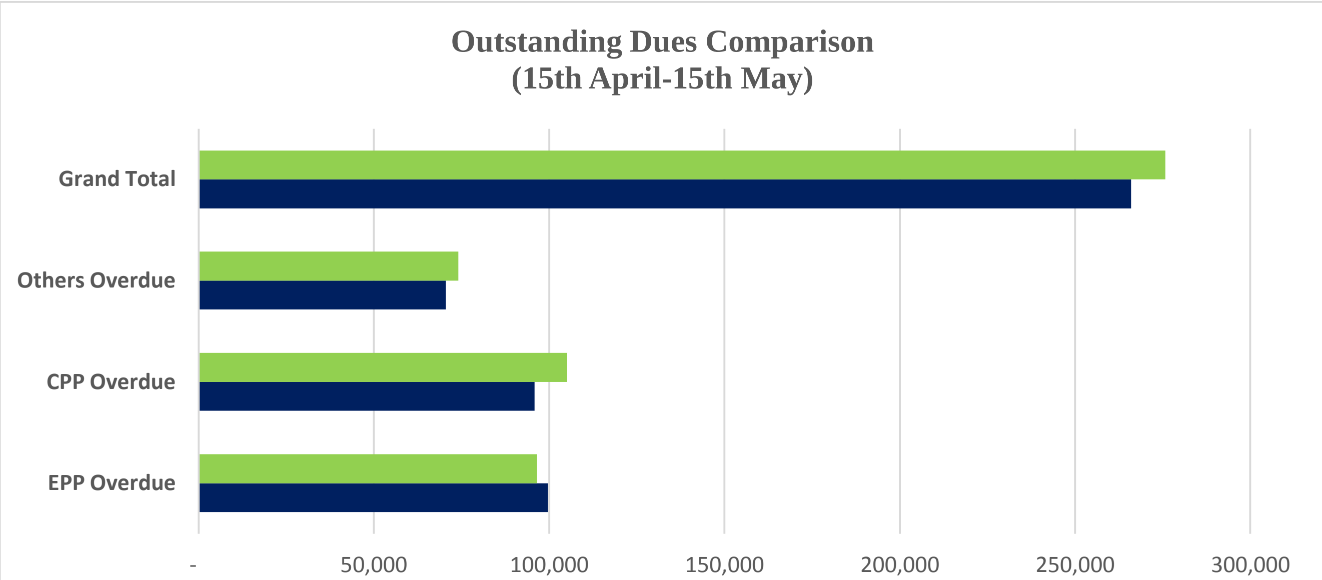
INDEPENDENT POWER PRODUCERS ASSOCIATION

MONTHLY NEWSLETTER

Welcome to the twenty-seventh 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, 2019 in PKR Millions

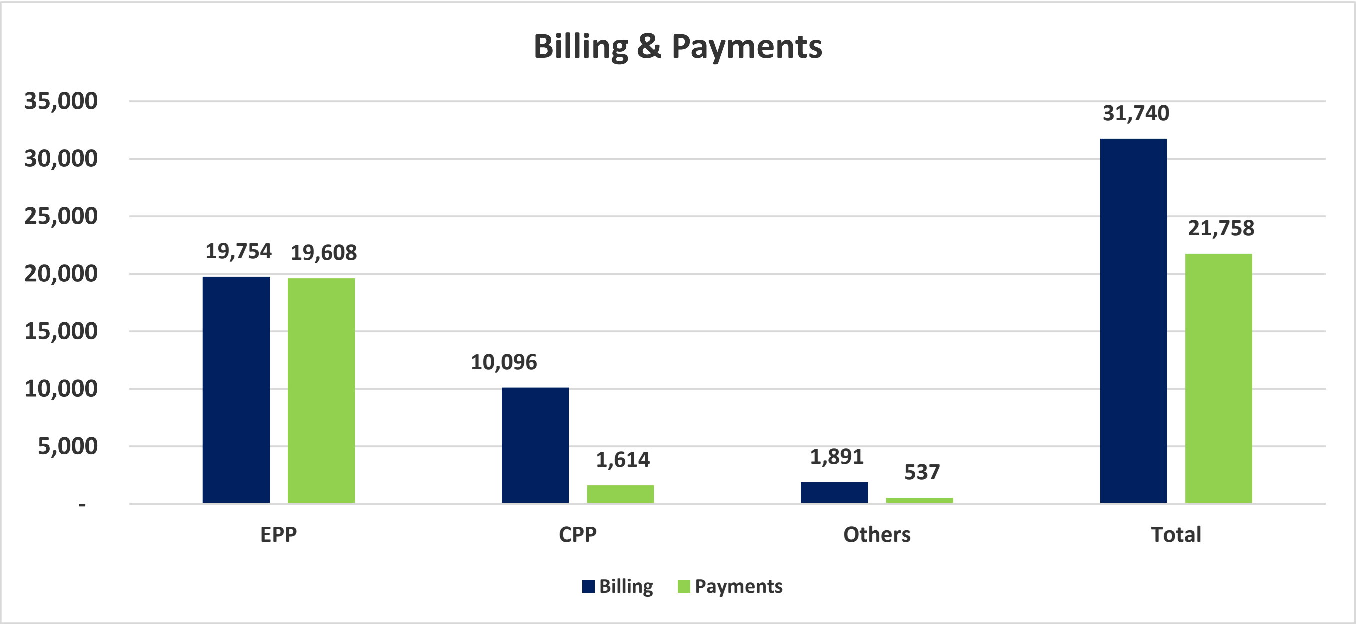


	EPP Overdue	CPP Overdue	Others Overdue	Grand Total
May	96,509	105,101	74,115	275,725
April	99,652	95,808	70,527	265,987

Source: Member and Subsidiary IPPs

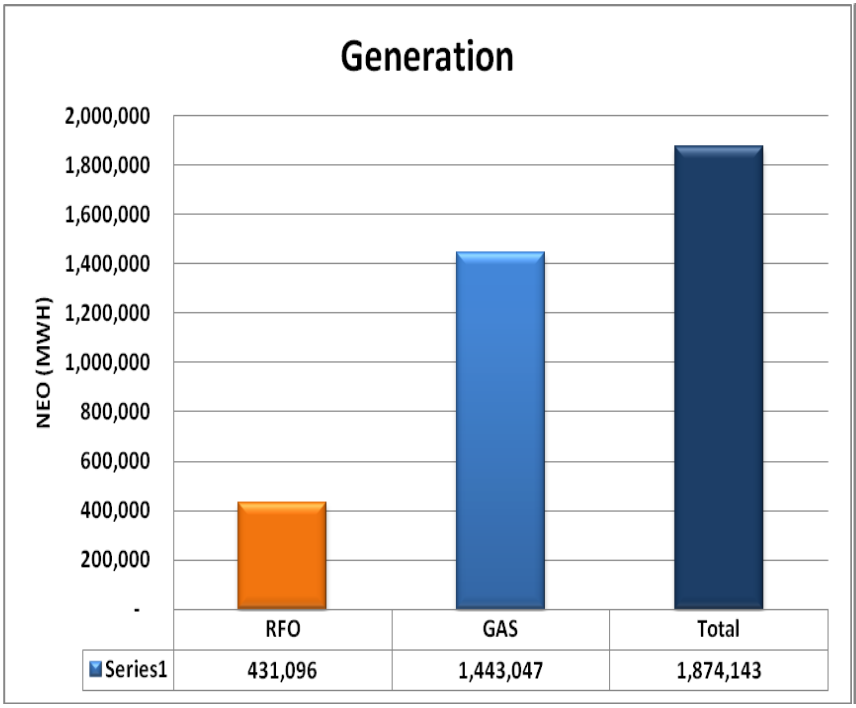
Monthly Infographics

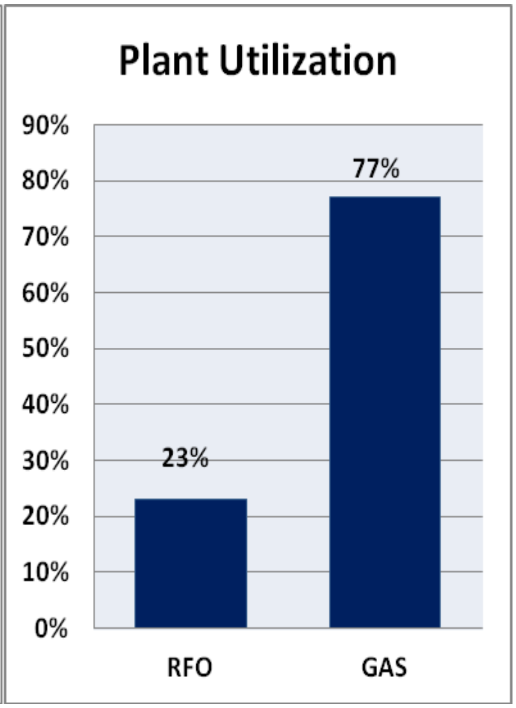
Billing and Payments in May 2019 in PKR Millions



Source: Member and Subsidiary IPPs

Net Generation and Plant Utilization in May, 2019





Source: Member and Subsidiary IPPs

Government to take a U-turn in the Karkey case

The government of Pakistan has decided to stop all effort in reaching an out of court settlement agreement with the Turkish Power Producer. This decision was taken in light of recent discoveries of proof of corruption by the Turkish company Karkey.

Karkey and Government of Pakistan went to the International Centre for Settlement of Investment Disputes (ICSID) after a dispute in a rental power project. Subsequently, Karkery was awarded $900 million against government of Pakistan. This decision was later suspended. Before the halt in reconciliation efforts Attorney General (AG) Anwar Mansoor Khan went abroad to negotiate an out-of-court settlement.

Pakistan can present the new-found evidence in the international court by July 26th. This evidence includes confession statements of Former secretary Ministry of Water and Power. Pakistan has shown its's eagerness to keep $150 million as a security to reverse the $900 million award.

The rental power project was awarded to the Turkish company during Pakistan People's Party government at the height of the power crises.

Source: Express tribune

Pakistan Energy Sukuk bond launched to battle Circular Debt

The Pakistani Tehreek Insaf (PTI) government intends to launch a new Sukuk bond which will aid in payment of the circular debt. The Rs 200 billion bond will help in the payment of the circular debt which has crossed Rs 1.4 trillion. This will be the second such bond issued to battle circular debt. After this bond is issued, a third round of Sukuk Bonds will be likely help pave the way towards achieving the goal of eliminating circular debt by 2020.

In the short-term, the second Sukuk bond will help avoid severe energy shortage by ensuring working capital facilities to Independent Power Producers (IPPs). These payments would help IPPs in meeting their working capital requirements. Paying the IPPs before June 28, will help the IPPs in ensuring the supply of electricity to IPPs.

The customers of these bonds include Islamic Banks, Mutual funds, Takaful companies as well as Islamic windows at conventional banks. Currently Meezan Bank is the leading the effort to leading the "Pakistan Energy Sukuk".

These bonds will mature after a period of 10 years. These bonds have a variable interest rate at KIBOR plus 80 basis points (0.8 per cent). Financially, this move will be beneficial to the government. This is because Islamic banks have a 3.2 percentage lower interest rate as compared to conventional bank. Over the long-run this will lead to more than Rs 6 billion in interest payments.

Source: Dawn, Pakistan Today

NTDC hopes to modernize its transmission network with the use of Indigenous Technologies

NTDC has signed an MOU with Mehran university Mehran University of Engineering and Technology (MUET), Jamshoro to modernize the transmission network. The new technology will help secure and supervise the 500 KV and

220KV transmission line towers in the southern region.

MUET's telecom department has developed a system that consists of a Remote Monitoring and Intrusion Detection System. This system will consist of hardware and software along with a CCTV camera. With this system, NTDC hopes to implement its electricity theft reduction program.

The new technology will alert NTDC regarding any intrusion attempts along the NTDC transmission line premises. The new solar powered technology will be self-sufficient.

Source: Pakistan Today

NEPRA approves power tariff hike by 10 paisa per unit

The National Electric Power Regulatory Authority (NEPRA) has allowed an increase of 10 paisa per unit in power tariff. This increase has occurred in the consumer tariff. This condition was dictated by the fuel adjustment mechanism for the month of May. With this increase the consumers are expected to pay an additions Rs 1.2 Billion.

However, lifeline, agricultural and K-electric's consumers can breathe a sigh of relief as this tariff increase does not apply to them. The relief comes as part of a 216 billion tariff subsidy that was earmarked for the vulnerable classes consuming less than 300 units of electricity.

Source: The Nation

ECC has okayed a 190 per cent increase in the gas price

The Economic Coordination Committee (ECC) of the cabinet has approved a 190 percent increase in the natural gas tariff for domestic consumers. In addition, other categories of consumers were also hit with a thirty-one per cent increase in tariffs. The price hike was one of the conditions for securing funding from the International Monetary Fund (IMF). The consumers should expect another review of gas price around December.

Source: Dawn, Pakistan Today

Polish Veto Sabotages EU Decarbonization Plan For 2050

European Union's Decarbonization plan for 2050 could not move ahead due to Polish veto. The decarbonization plan was supposed to lay the grounds for other concrete efforts by European Union to meet the 2015 Paris Agreement Targets. The 28-member summit of EU was the last chance to agree on a decarbonization plan for Europe before going to the UN Climate Summit of all signatories of the Paris Agreement.

An agreement on the EU Decarbonization plan for 2050 would have placed the EU in a moral position to demand more of the other members of the Paris Climate Accords. According to the Paris Agreement, the world has to reduce the global carbon emissions by such an order as to ensure a no more than 2% increase in the global temperature.

The Decarbonization plan would have set a net zero target for 2050. This plan needed a unanimous vote which it did not get because of the Polish veto. The Polish government did not object to the decarbonization goal. However, Mateusz Morawiecki--Poland's prime minister, did not agree on the time line. The Poles wanted a more flexible deadline. This demand is rational considering that going net-zero requires investing and innovation in uncertain new-technologies.

Source: Forbes Energy Section

Indian re-election virtually underwrites the $1 trillion US-India partnership

The month of May saw Narender Modi's re-election in the world's biggest democracy. This re-election bodes good news for proponents of structural reform in the Indian economy. According to International Energy Agency's report "World Energy Investment 2019" saw $85 billion of foreign energy investments in India for 2018.

There is a further $1 trillion energy investment market in India which includes investments into new facilities as well as infrastructure such as pipelines and transmission lines. The country is one of the largest electricity producers in the world. Yet, the country faces severe power outages and reliability issues.

According to the Indian Ministry of Power, India's energy consumption is expected to see a compound growth of 4.2% per annum for the next 20 years. At this rate, the country will overtake China as the largest energy growth market before 2030.

However, in order for India to meet its true potential, it will have to face a lot of challenges. These include dealing with cross subsidies, improving electricity prices and ensuring distributor solvency. Without dealing with these issues, the potential will remain unmet.

Source: Forbes Energy Section

Los angles sets new low for solar power production

The Los Angeles Power and Water officials have set new levels for solar power production. LA board of Water and Power aim to approve a 25-year contract for solar based power supply. The facility is expected to power around seven percent of Los Angeles's Power Supply. This power will come from solar panels as well as batteries. Solar based power will be supplied at 1.997 cents per kilo watt hour while batteries are expected to supply power at 1.3 cents per Kilo watt hour.

According to James Barner, strategic initiatives manager for Los Angeles Water and Power division, said this this one of the lowest cost projects in the world both for Photo Voltic Solar plants and Non-renewable sources such as LNG.

The four hundred-megawatt projects will not remove the dependency of Los Angeles on non-renewable power production. However, at the same time, these batteries will reduce dependence of

LA’s power on peak load power generation. Los Angeles has another 1,000 MW of Solar Power Production that is not connected to batteries.

Connecting Power to the batteries yields two major advantages. First, it allows power production to temporarily exceed the transmission capacity. Second, batteries allow energy storage during the low demand periods so that it can be transmitted during peak demand at a low tariff of 1.3 cents. Such a mechanism reduces dependence on peak demand electric facilities.

Source: PV Magazine and Forbes Energy

BUDGETING THE POWER SECTOR TILL 2020

The effects of a government's budget on society and the political economy are of considerable concern to economists as well as to consumers and taxpayers. Federal Government offers budget that sets a criterion of the finance of the country for the year for all departments that are working under the government and power sector is no exception. The 2019-20 budget recently announced has direct and indirect effects on the power sector primarily through changes in the fiscal policy. These repercussions can be grouped into three broad categories of Demand side, Supply Side and Reform effects. The following discussion will deliberate on these broad categories.

Demand side effects

Implementing this budget will lead to a decrease in growth in demand for electricity. Generally, this decrease in growth will be the result of stabilization budget that prioritizes mobilization of resources for payment of debt liabilities. The specific sources of this decrease in demand either reduce support to sectors, which consume high electricity, or add additional burdens on them.

Measures that would levy additional burdens on electricity consumers include: withdrawal of zero-rated utilities, higher policy rates and cement duties.

Withdrawal of zero-rating for exporting industries: In a bid to support the industry, the government had introduced zero-rated[1] utility bills for export-oriented manufacturing units. Zero-rating electricity simply translates into a decrease in the price of electricity. When such a facility is withdrawn, it will increase the price of electricity. According to a study by SDPI, 49-percent of manufacturers respond to increased prices with reduced electricity consumption[2].

Cement sector duties: In addition to withdrawal of zero-rate utilities, additional duties on specific sectors such as cement will increase the price of cement. That increase will be passed on to the consumer which in-turn will lead to reduced production of cement. As a result, industrial demand for electricity is further expected to fall for this key sector.

Interest Rate Rise (Policy Rate): Along with increase in cost of inputs, manufacturing will also see a rising cost of financing needs. This is because the government has set a high benchmark for taxation for the fiscal year 2019-20. The government hopes to collect 3.46 trillion Rupees in net revenue receipts[3]. This is 900 billion more than last year's collection. Taxes are expected to form a big part of this revenue increase. Due to the small direct tax net, the federal government focuses towards increasing indirect taxes such as GST. These taxes are inflationary in nature. As a result, State Bank of Pakistan is expected to increase interest rates in the hopes of curtailing tax fueled inflation. Unfortunately, such an increase in interest rates will also increase the cost of working capital financing and investment needs.

Reduction in budgetary support: The effect of these additional burdens will be more pronounced considering that much of the traditional budgetary support has been withdrawn from the industry. In the past, this budgetary support came in the form of PSDP and CPEC provision. **PSDP** for the year 2018-19 was budgeted at 420 billion Rupees. However, for 2019-20 that figure has been reduced by almost a quarter to Rupees 348 billion. Such a fall in gross value of PSDP understates the real descent in government support after one considers rupee devaluation and high expected inflation. Even the flagship **CPEC** project couldn't escape

[1] No sales tax on the good

[2] https://www.sdpi.org/publications/files/Pakistan%20Energy%202035-FINAL%2020th%20October%202014.pdf

[3] Net revenue receipts = gross revenue receipts minus provincial share in taxation.

budget cuts with a negligible amount allocated to CPEC related projects within the current financial year. Such lack of support and additional burdens on the national economy are bound to have a negative effect on an increase in demand for electricity.

Unfortunately, the picture does not get any better when it comes to the supply side.

Supply Side Effects

On the supply side, the cost of electricity is expected to increase due to taxation on inputs and outputs. GST is embedded in both inputs and outputs as a cost component. Due to taxes on inputs, the cost of electricity generation is expected to increase. Then once that electricity is transmitted into the economy, the cost of electricity further increases as GST is further levied on the final electric bill. Both of these factors will contribute towards increased cost of electricity. However, some concession has been given in the form of subsidies on inter-DISCO tariff differential (IDTD) i.e. a total of 226 billion has been allocated towards cushioning IDTD[4].

Long Term Evolution of the Sector

The power sector in Pakistan has major deficiencies in terms of its long-term evolution. These include imminent circular debt, lack of investment in NTDC transmission and privatization of GENCOs and DISCOS. This budget aims to address many of these issues in the long-run.

Circular Debt Reduction: Regarding reduction in circular debt, the government has allocated Rupees 236 billion to electricity supply related adjustments[5]. At present, circular debt has crossed the Rupees 1.4 trillion mark.[6].

PSDP Investment: Similarly, out of the Rupees 348 billion PSDP budget, Rupees 41 billion has been allocated to NTDC. This amount will go a long way towards addressing the transmission constraints that have impeded the efforts to benefit from the increase in power generation capacity. It is very important that these budgeted amounts are actually delivered to NTDC during the financial year.

Hopeful Privatization of GENCOS and DISCOS: In addition, the government hopes to generate Rupees 150 billion in privatization proceeds from sale of Public based commercial entities. One can hope that if the sale of Pakistan Steel Mills bogs down due to the usual reasons, the government can consider privatizing Generation Companies (GENCOS) and Distribution Companies (DISCOS). With the privatization of GENCOS and DISCOS the energy sector will gain from the benefits of private sector efficiency.

Conclusion

The annual budget has always been an important signal to economic agents in the economy including the power sector. The impact of macroeconomic adjustment policies, such as monetary tightening, expenditure control, enhancement of regulatory duties on non-essential imports and exchange rate adjustment started to become visible this year. Although these steps can be perceived to bring some degree of stability and somehow reduce economic uncertainty, however, the sustained effort is the key.

[4] Budget in Brief, Ministry of Finance
[5] https://tribune.com.pk/story/1996252/2-govt-sanctions-rs270b-circular-debt/
[6] https://tribune.com.pk/story/1967091/2-circular-debt-eliminated-end-2020-pm-told/

MONTHLY ACTIVITIES OF IPPA

Sector Skills Council – Energy inches forward with Collaborations and Registration

SSC - Energy is maintaining exceptional pace since its inauguration in May 2019. In June 2019, 6 working groups within the council were formulated; several concomitant activities are underway ranging from website creation, SECP registration, membership drive, Sector mapping and financial plans. Detailed interactions of SSC-Energy with SIEMENS, ABB, GE and World Wind Energy Association also propelled the project and strengthened its contemporary position.

With governmental oversight from NAVTTC, Technical support from GIZ, and international endorsement from Norwegian, EU and German Embassy; SSC- Energy is aiming to represent private sector's interest as per ground realities and dynamic challenges present themselves.

IPPA Participates in training for Integrated Energy Planning

This month IPPA representatives participated in training for Pakistan Integrated Energy Planning GCAM Training Webinar. This month’s training covered introduction to Global Change Assessment Model (GCAM) and Integrated Assessment Modeling (IAM). This webinar was the first in a series of trainings that will prepare the Pakistani power sector for implementing Integrated Energy Planning. This training was brought as a result of efforts of Pakistan Planning Commission which was supported by USAID and US-Department of Energy.

IPPA & ETD Consulting take another step towards supporting Pakistan’s Power Plants

Earlier this month IPPA and ETD consulting deliberated various possibilities of potential partnership with the objective to support Pakistan’s Power plants. The underlying objective is to introduce expertise in Pakistani Power Plants with the aim to make them self-reliant in terms of OEM expertise. In order to achieve this objective, representatives from UET Peshawar showed keen interest. Apart from introducing new expertise, other avenues of mutual interest such as bulk hiring of OEM expertise were also discussed.

IPPA helps government’s Kamyab Jawaan Program

Team lead from the government’s Kamyab Jawaan program visited IPPA office and briefed the CEO (IPPA) of the program’s objectives. The program hopes to formalize the partnership with IPPA via MOU. In this partnership, IPPA will help the program by channeling support form IPPA and providing linkages for academia through IPPA forum. IPP members are expected to identify research areas and build projects around those areas. Kamyab Jawan aims to support the youth of the country by encouraging entrepreneurship among university students by providing financial support for energy startups.

Planning Commission recognizes IPPA as an important partner in its efforts to introduce Integrated Energy Planning in the economy.

Planning Commission recognized IPPA as an important partner in its efforts to introduce Integrated Energy Planning in the economy. In this regard, IPPA will contribute as a member of the Data Management Wing of this endeavor. A team of Representatives of this project visited IPPA office in order to apprise the CEO (IPPA) about the progress of the project and elaborated on the part that IPPs can play in this project. These representatives included Program Management Specialist, USAID Office of Energy, Director Power Sector Regulation (SEP Project), TETRA TECH, Senior Project Advisor (SEP Project), TETRA TECH and Deputy Chief (EF&E), Planning Commission. IPPA hopes to play its part in the implementation of this project.

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