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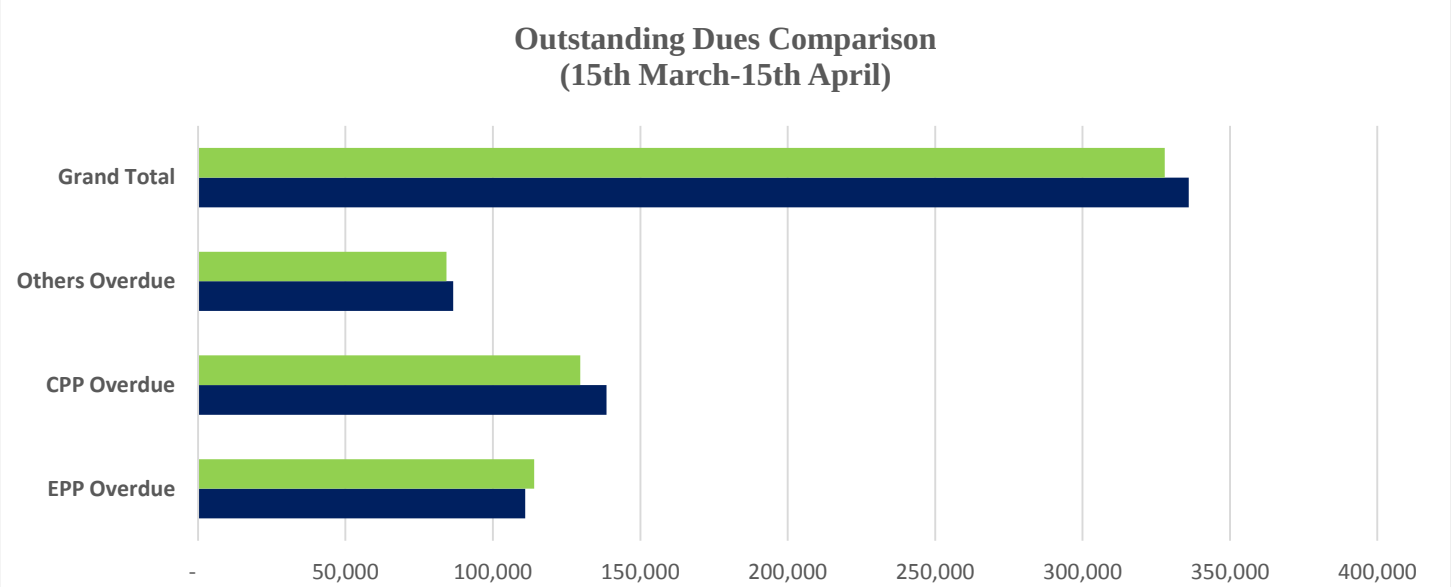
INDEPENDENT POWER PRODUCERS ASSOCIATION

MONTHLY NEWSLETTER

Welcome to the thirty-eighth 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 April, 2020 in PKR Millions

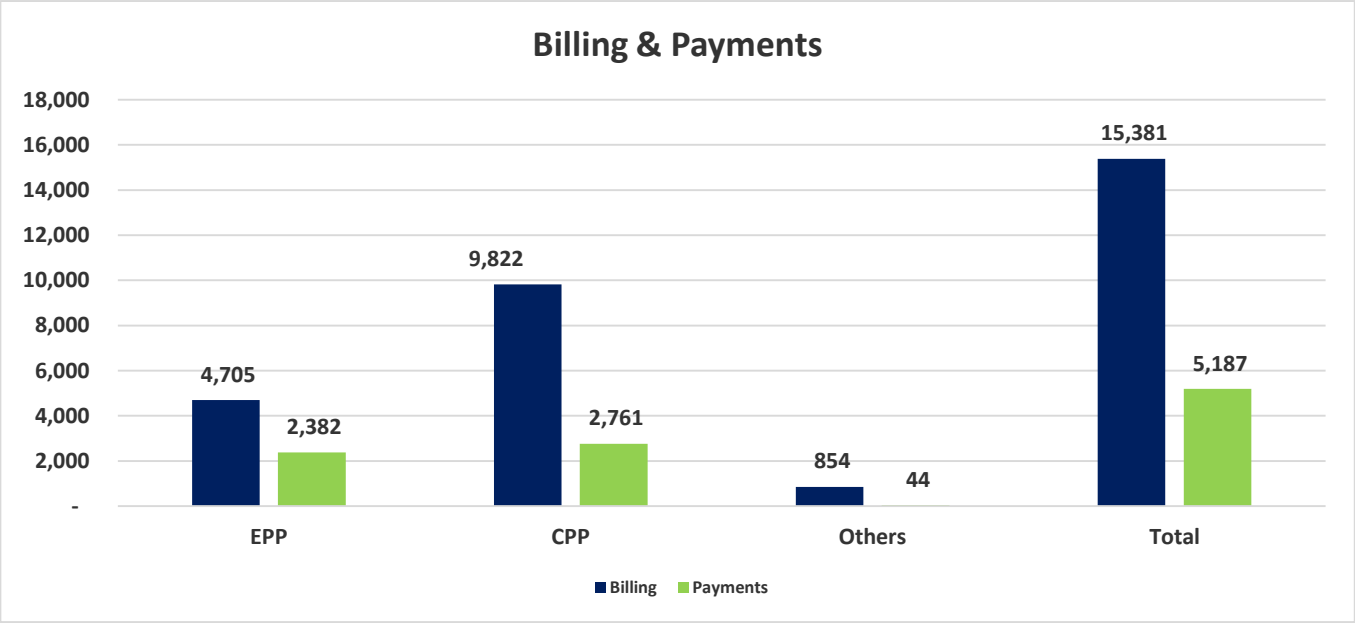


	EPP Overdue	CPP Overdue	Others Overdue	Grand Total
April	113,985	129,638	84,219	327,842
March	110,977	138,485	86,502	335,963

Source: Member and Subsidiary IPPs

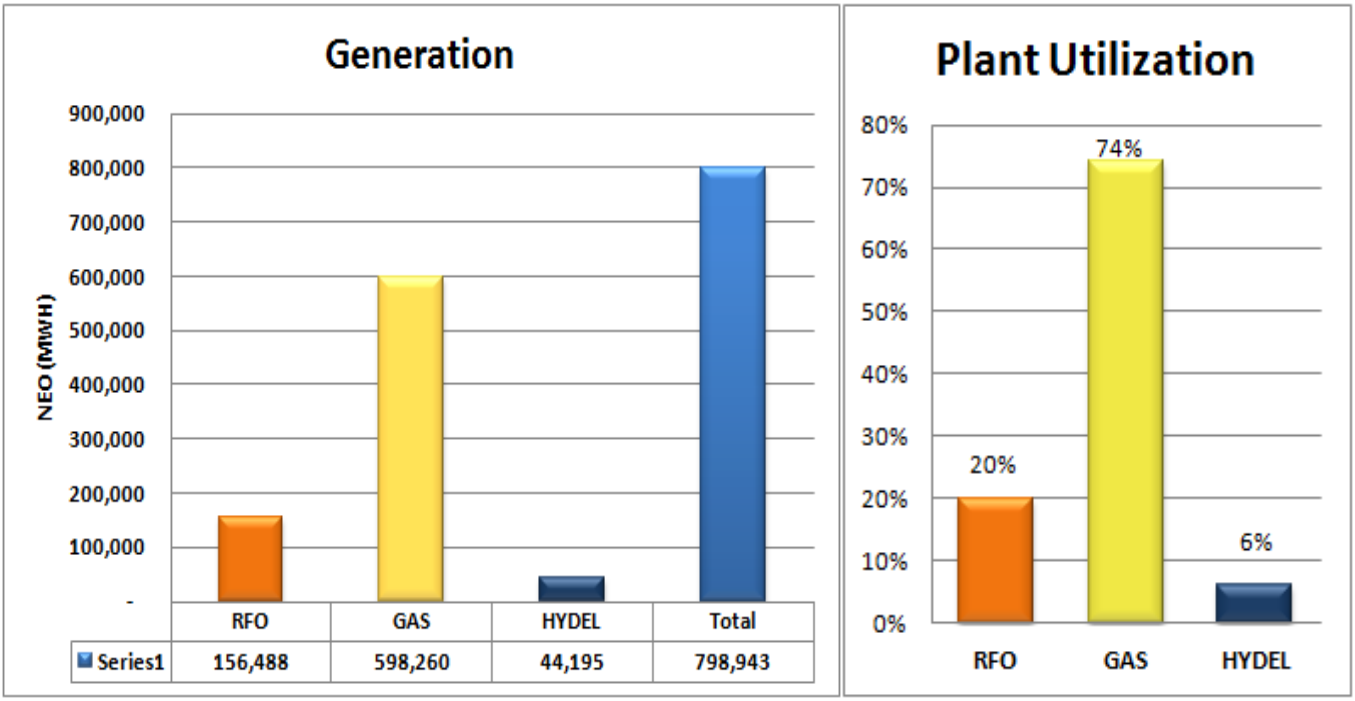
Monthly Infographics

Billing and Payments in April 2020 in PKR Millions



Source: Member and Subsidiary IPPs

Net Generation and Plant Utilization in April 2020



Source: Member and Subsidiary IPPs

State of Industry Report released - Power sector under extreme financial pressure: NEPRA

Business Recorder/16-05-2020

ISLAMABAD: National Electric Power Regulatory Authority (Nepra) has accused the Power Division of controlling Distribution Companies (Discos), which use it as a shield, which leads to competition and opening of the sector. The regulator, in its State of Industry Report 2019, has said that the power sector is under extreme financial pressure due to high cost of electricity supply and poor performance of distribution sector. Coupled to the higher costs are shrinking energy sales, which has resulted in higher cost for the end-consumers; further damping energy usage. "Distribution losses and recovery ratio have stayed where they were about five years back. For any recovery of the sector, Discos have to be made independent, while total or partial privatization of Discos must be undertaken immediately," the report added.

The existing setup, with Pepco assuming central control, is not capable of delivering the necessary improvement in the system and controlling accumulation of circular debt. For arresting circular debt, the accounting measures only would not be enough and structural changes are required to be made. In this respect besides allowing due independence as foreseen under the 1992 power sector reform plan to GENCOs and DISCOs, total privatization or public-private model may be explored by the Federal Government. However, Nepra has backed out from its earlier figures of circular debt of Rs 1.9 trillion, revising it down to Rs 1.6 trillion but adding that its continuing accumulation calls for immediate corrective measures. Nepra, which was hand in glove in destruction of power sector from giving higher tariff to ignoring bad performance of Discos, had in its report maintained that there are many factors, which aggravated over years of bad governance, flawed planning and absence of balanced policies. Therefore, the new government has to face tremendous challenges it inherited from the past.

Although the electricity sector of Pakistan presents complex settings to solve, lessons can be learned from the efforts made earlier. In this respect, measures such as injection of cash in the sector would only provide temporary support as long as the real issues are not addressed. Similarly Discos' practice of conducting load shedding on so called "high loss" distribution circuits may show short term gains, however essentially they will negatively impact overall sales growth. Nepra says that another major contributor to the high cost of electricity generation is the operation of RLNG based power plants having long-term supply contracts. These plants due to nature of their contracts are required to operate in preference over other cheaper power plants. As a result, system operator is required to compromise overall economic merit order operation of power generation plants most of the times. There are demonstrated innovative solutions to overcome intermittency and forecasting issues once considered as major bottlenecks to induction of renewable(s).

Hybridization of renewable energy power plants is providing answers to many of the concerns for new renewable energy projects. For instance wind and solar or combination of hydro and solar have proved to overcome the intermittency issues while improving the overall capacity factors and efficient utilization of transmission capacity. "The real dilemma of the sector is that due to continued centralized control at every level, the Discos tend to seek shields against any measure, which leads to competition and opening of the sector. It is to be understood by the relevant agencies managing and in control of Discos that new concepts of electricity supply and delivery are being introduced at a fast pace," the report maintained. Nepra has recommended that in order to reduce the cost of expensive energy mix, the Federal Government must take an early decision on the fate of inefficient Gencos. The Regulator considers that inefficient power plants are to be retired on top priority. NTDC must continue its work on improving the quality of its network so that constraints are removed expeditiously. Similarly, the overloading of its transformers should be addressed so that no further hotspots are introduced. Its planning and monitoring functions are expected to be swift to timely notify about such conditions.

Power Division fails to retain services of CEO CCPA-G

Business Recorder/18-05-2020

ISLAMABAD: Power Division has reportedly failed to retain the services of incumbent CEO, CCPA-G, Abid Latif Lodhi due to weak political leadership at the Ministr. Lodhi who is fighting Coronavirus and is in quarantine after testing positive, handles payments of billions of rupees to power sector entities but no one has raised a finger on his credibility, integrity, and honesty. The sources said, Power Division resubmitted the

summary of appointment of Abid Latif Lodhi as CEO CPPA-G, as the Cabinet deferred his summary a few weeks back after some cabinet members raised objections to his credentials. According to sources, when the summary was presented for consideration, Minister for Planning, Development, and Special Initiatives, Asad Umar, who is also the Chairman of Cabinet Committee on Energy (CCoE) and aspirant of Energy Ministry, objected saying "his vision is myopic." Secretary to the Prime Minister, Azam Khan concurred after which the summary did not sail through.

PTI government gets Rs300b bids for Sukuk

The Express Tribune/19-05-2020

ISLAMABAD: The federal government has received roughly Rs300 billion worth of bids from investors who have oversubscribed the Sukuk that the authorities have floated to raise funds to settle nearly 20% of circular debt. The Islamic bond was oversubscribed by 50% with bids of more than Rs300 billion on the first day. Although the finance ministry has not yet discovered the price, it expects the price to be Karachi Interbank Offered Rate (Kibor) plus around 0.2% to 0.3%. This price is better than the return of Kibor plus 0.8% that the government is paying on the first Energy Sukuk issued last year to settle Rs200 billion worth of circular debt. A key reason for the oversubscription is better return as compared to the five-year Ijarah Sukuk that investors bought in return for Kibor plus negative 1.25%. The Ijarah Sukuk settlement is directly made by the government, while in the case of Energy Sukuk, Power Holding Limited will make the payments.

The Islamic bond has been floated to raise Rs200 billion to retire some of the circular debt that has recently touched Rs1.2 trillion. There is another Rs804-billion circular debt that has been parked in Power Holding Company after taking commercial loans, taking the total circular debt to Rs2 trillion. It was the third attempt to float the Sukuk, as earlier the government had twice invited bids directly from Islamic banks and Shariah-compliant financial institutions for Rs200 billion worth of bond under the Pakistan Energy Sukuk-II (PES-II) since July 2019, but cancelled both, considering the process was not transparent and more investors should participate.

The PES-II is 100% SLR eligible, meaning banks may use it to meet SLR limits.The amount generated from the PES-II will also be used for the settlement of partial circular debt related to the power sector.For the first time, bonds have been issued through the book-building mechanism. Ordinary investors were allowed to participate and buy government securities. Apart from the banking sector, other eligible investors include mutual funds, voluntary pension schemes and private funds being managed by non-banking finance companies (NBFC), insurance firms, stockbrokers, funds and trusts as defined in the Employees Contributory Funds, and even individual investors having net assets of at least Rs.2 million.

KE announces further relief for small businesses

Business Recorder/19-05-2020

KARACHI: In continuation of earlier relief measures on account of the COVID-19 crisis, K-Electric (KE) is facilitating Small and Medium Enterprises (SMEs) through pre-paid electricity bills under the "Chota Karobar-o-Sannat Imadadi package" announced by the Federal Government. Under the package, eligible commercial customers with sanctioned load up to 5kW and industrial consumers with sanctioned load up to 70kW will receive a maximum subsidy of up to Rs. 100,000 and Rs. 450,000 in their electricity bills, which can be utilized in six month starting from May 2020. The subsidy amount per customer will vary in line with the government directives based on the electricity consumption of the consumers in base period (i.e. May to July 2020). For customers whose electricity consumption data may not be available for the base period, the appropriate average will be used.

New tribunal being set up: NEPRA to be stripped of appellate powers

Business Recorder/05-05-2020

ISLAMABAD: The federal government has reportedly decided to withdraw appellate powers from the National Electric Power Regulatory Authority (Nepra) by establishing a full-fledged independent appellate tribunal for the power sector. The Power Division and other power sector entities were making a hue and cry for long time on this issue, saying that Nepra should not be the appellate authority of its own decisions. Section 12 A of the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2108 states that the Federal Government shall by notification in the official gazette, establish an appellate tribunal for the purpose of exercising jurisdiction under Nepra Act. Power Division and other power sector entities were making hue and cry since long on this issue, saying that Nepra should not be appellate authority of its own

decisions. Section 12 A of the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2108 lays down that the Federal Government shall by notification in the official gazette, establish and appellate tribunal for the purpose of exercising jurisdiction under Nepra Act. The tribunal will have 24 posts, approved by Finance and Establishment Divisions. The Prime Minister has accorded approval for creation of the posts of Chairman and two members in MP-1 and MP-II scales, respectively for the tribunal.

CCOE reviews cut in profit of power projects

The Express Tribune/05-05-2020

ISLAMABAD: Pakistan Atomic Energy Commission (PAEC) has not yet given its consent to reduce profitability on investment in power projects, which the government wants to slash significantly on all power projects to lessen the burden on consumers on account of idle capacity charges. Nonetheless, the Water and Power Development Authority (Wapda) and government-owned generation companies (Gencos) have shown their willingness to reduce the return on equity to 10%. Headed by the planning and development minister, the Cabinet Committee on Energy (CCOE) on Monday reviewed the implementation of its decisions, including the reduction in profit ratios. In April, the CCOE had directed the Power Division to consider a reduction in the return on equity for the government power producers up to 10% and fix the same in rupee terms rather than in dollar. The rate of return for government-owned power plants ranges from 13.75-17%. The CCOE has given the go-ahead for reducing the rate of return to 10%. Government-owned power plants receiving capacity charges include Gencos based on furnace oil or natural gas, hydroelectric power plants owned by Wapda, liquefied natural gas (LNG)-based power plants and nuclear power plants. The total capacity of these plants is 22,972MW.

Power Division asked to resolve RE policy issues

Business Recorder/08-05-2020

ISLAMABAD: The Cabinet Committee on Energy (CCoE) has directed Power Division to resolve outstanding issues of Renewable Energy (RE) policy with Government of Sindh for its early notification by the Ministry of Inter-Provincial Coordination (IPC). This issue came under discussion at a recent meeting of the CCoE presided over by the Minister for Planning, Development and Special Initiatives, Asad Umar. The sources said, CCOE was also of the view that in the event of a failure to resolve the outstanding matters, the Power Division shall move a summary to the Council of Common Interests (CCI) by June 15, 2020. However, Power Division will submit its proposals for an interim arrangement to the CCoE, in the event that none of the foregoing actions can be accomplished by June 15, 2020, the sources added. On December 23, 2019, Council of Common Interests (CCI) had directed the Power Division to incorporate observations of Sindh and KP governments in the renewable energy policy as both provinces opposed approval of policy in the current shape. Power Division at a meeting of the CCI argued that the policy draft has been finalized in consultation with all the stakeholders including the Sindh government. Power Division also claimed that the representatives of Sindh government attended all the relevant meetings indicated from their signatures on the attendance sheets.

Prices of RLNG slashed for May

Business Recorder/08-05-2020

ISLAMABAD: The Oil and Gas Regulatory Authority (Ogra) on Thursday cut the prices of re-gasified liquefied natural gas (RLNG) to $1.84 per mmbut for SNGPl May and $1.806 per mmbtu for end consumers of the Sui Southern Gas Company (SSGC) over previous month. Due to lockdown in the country and significant reduction in the international prices of Brent Oil, the prices of RLNG also witnessed a sharp decline. Per litre price of CNG will also be reduced in the Punjab with same proportion where RLNG is used in CNG stations. The Oil and Gas Regulatory Authority (OGRA) notified the new RLNG monthly prices, which are based on 8 RLNG cargos import by the Pakistan State Oil (PSO) and the Pakistan LNG Limited (PLL). The calculation of April month was based on seven cargoes of RLNG. The Oil and Gas Regulatory Authority (Ogra) has set new prices at $7.7105 per mmbtu for the consumers of the SNGPL and $7.7521 per mmbtu for the SSGC consumers. In the previous month of April, $9.5834 per mmbtu was fixed for the consumers of SNGPL, and $9.5582 per mmbtu, for SSGC consumers.

Ministry of Finance agrees to convert over Rs800bn PHPL debt into public debt

Business Recorder/14-05-2020

ISLAMABAD: Ministry of Finance has reportedly agreed to convert PHPL debt of over Rs 800 billion into public debt with bi-annual review of power sector

performance as per an agreement with the World Bank, well-informed sources in Finance Division told Business Recorder. The ECC recently approved a proposal of Power Division for conversion of Rs 136.5 billion PHPL loan into public debt. The plan envisages Finance Division converting PHPL's existing GoP guaranteed borrowings as public debt over the period from FY 2019 to FY 2023 or over the extended period. In this connection, maximum amount of PHPL's debts to be converted into public debt shall be fixed at Rs800 billion and Finance Division will make payments to lenders to the extent of principal amount as and when due through cash or instruments and PHPL shall continue to pay the interest recovered through tariff and any shortfall will be met through further debt surcharge by way of amendment in the Nepra Act or efficiency gains. As per the plan, the circular debt flow will remain around Rs 75 billion per annum over the plan's period. However, the plan does not address the currently payable amount of circular debt of over Rs 1.1 trillion.

Rs442bn accord for construction of Diamer-Bhasha dam signed

Dawn News/14-05-2020

ISLAMABAD: The government on Wednesday signed a Rs442 billion contract with a joint venture of China Power and Frontier Works Organisation (FWO) for the construction of the Diamer-Bhasha dam. The Chinese state-run firm holds 70 per cent and the FWO, a commercial arm of the Armed Forces of Pakistan, 30pc share in the consortium. The contract covers construction of a diversion system, main dam, an access bridge, and the 21MW Tangir hydropower project. The eight million acre feet (MAF) reservoir with 272-metre height will be the tallest roller compact concrete (RCC) dam in the world. It will have a spillway, 14 gates, and five outlets for flushing out silt. The diversion system involves two tunnels and a diversion canal — all three having one kilometer length each. The bridge — a box girder structure — under the contract will be constructed downstream of the dam structure while the 21MW power plant will be built to meet energy requirements of the project during construction. Prime Minister Imran Khan was briefed on the progress of the project a couple of days ago. The construction work on dam will begin in a couple of weeks. The core project development (dam structure) alone is estimated to cost almost Rs270bn. The project offers a very attractive internal economic return of 15.7pc even at a 12pc discount rate, according to project documents. The project is designed to serve as the main storage dam of the country, besides Mangla and Tarbela dams, and its storage would be helpful for alleviating flood losses. The dam will have a 6.4 MAF usable water storage capacity.

NTDC energizes first 500kV HVAC transmission line

Business Recorder/15-05-2020

LAHORE: The National Transmission and Despatch Company (NTDC) have connected high voltage direct current (HVDC) system with high voltage alternating current (HVAC) system first time in Pakistan. About three kilometers long 500kV AC transmission line i.e. 500kV double circuit transmission line on quad-bundled drake conductor, for looping in/out of the second circuit of 500kV Lahore New (South) grid station to Sheikhupura transmission line at Balloki Lahore HVDC Converter Station has been completed and energized. The purpose of HVAC transmission lines is for reliable dispersal of power coming from South to mid-country (load centres) via HVDC bipoles. Managing Director NTDC Engr Dr Khawaja Riffat Hassan appreciated the efforts of NTDC team for timely completion of the project despite prevailing Pandemic Covid-19 and lockdown situation in the country.

International News

Oil and gas companies set to lose $1 trillion in revenues this year Biggest UK solar plant approved

BBC News/28-05-2020

LONDON: The go-ahead has been given to the UK's biggest solar farm, stretching 900 acres on the north Kent coast. The government has approved the controversial scheme, which will supply power to 91,000 homes. The project could include one of the world's largest energy storage systems. However, many local people, and its divided green groups have fiercely opposed it. Greenpeace, the RSPB, and the countryside charity CPRE are against the plan. They say it's industrializing the countryside - and may harm an adjacent wildlife site. But Friends of the Earth offered qualified support, on the grounds that the current intensively farmed land was bad for wildlife anyway. Their spokesperson Mike Childs said: "No-one wants to see damage to local habitats, but this is not some lovely, untouched meadow.

Record drop in energy investment, warns International Energy Agency

BBC News/27-05-2020

LONDON: The coronavirus crisis is causing the biggest fall in global energy investment in history. Before the pandemic, funding was set to rise 2%, but now it's predicted to plunge 20%, says the International Energy Agency (IEA). Fossil fuels are hit hardest, with a 30% funding drop expected for oil and a 15% fall for coal. Renewables investment is down 10% - and it's only about half what's needed to combat climate change. Due to coronavirus lockdown measures imposed by many countries, for the time being, the fall in investment is leading to a drop in planet-heating carbon emissions. But the IEA warns that that use of fossil fuels is likely to rebound when the crisis is over, leading to a spike in CO2. One reason is because China and other Asian nations are putting in orders now for a new generation of coal-fired power plants to supply energy in the future. "We see a historical decline in emissions, but unless we have the right economic recovery packages, we might see emissions again skyrocket and the decline of this year would be completely wasted," the IEA's executive director Fatih Birol told the BBC. "Remember the 2008-2009 crashes. We immediately saw a decline in emissions, but afterwards it rebounded. We must learn from history."

Renewable energy: Why lockdown means we're using more of it

BBC News/21-05-2020

LONDON: A positive trend of escalated renewable energy usage emerges across the world amid major virus outbreak. There are two types of energy: non-renewable and renewable, and the second is much more friendly to earth. They've got a really important part to play in the government's aim to cut carbon emissions to almost zero by 2050. New reports show that renewable energy usage is rising, and that's down to a few things. Renewable energy made more than 40% of Britain's power in the first three months of the year - overtaking fossil fuels for the very first time. Wind farms were the biggest source of energy, and experts think winter storms in February helped make it the first month on record when wind farms produced more electricity than gas-fired power stations. There are only three coal plants left in Britain, and the country is currently in a record coal-free run of more than 40 days. Moreover, similar trend is observed throughout the country.

Oil jumps more than 3% as faith in supply cuts grows

CNBC/26-05-2020

NEW YORK: Oil prices rose in a recent upturn, supported by growing confidence that producers are following through on commitments to cut supplies and as fuel demand picks up with coronavirus restrictions easing. The Organization of the Petroleum Exporting Countries and other leading oil producers including Russia, a group known as OPEC+, agreed last month to cut their combined output by almost 10 million barrels per day in May-June to shore up prices and demand, which has been hit by the coronavirus pandemic. Russian Energy Minister Alexander Novak is due to meet oil major producers on Tuesday to discuss the possible extension of the current level of cuts beyond June, sources familiar with the plans told Reuters. The RIA news agency said Russian oil production volumes were near the country's target of 8.5 million bpd for May and June. OPEC+ countries are due to meet again in

early June to discuss maintaining their supply cuts to shore up prices, which are still down about 45% since the start of the year.

China excludes clean coal projects from list eligible for green bonds

Reuters/29-05-2020

SHANGHAI: China has excluded "clean coal" from a list of projects eligible for green bonds, according to long-awaited new draft guidelines published by the central bank on Friday. The new catalogue of eligible projects replaces the previous one published in 2015, and will be open to public consultation until June 12, the People's Bank of China said in a notice. China has sought to use green financing to pay for its transition to cleaner modes of growth, but the previous catalogue allowed it to be raised for the "clean use of coal", including coal washing plants that remove impurities, and technologies that cut pollution during combustion. The inclusion of "clean coal" in the 2015 list had put China at odds with global standards, a point of contention for some international investors and many environmental groups. Chinese financial institutions provided billions of yuan in green financing to coal related projects last year, and have also supported other fossil fuel projects, including the expansion of an oil refiner.

$285 million project to secure Sydney's electricity supply

Energy Magazine/19-05-2020

SYDNEY: The NSW Government has given the green light for construction of a new project set to provide more secure electricity to more than half a million people in Sydney's inner suburbs. TransGrid's Powering Sydney's Future project aims to ensure safe, reliable and affordable electricity supply for more than 800,000 people living and working in Sydney's CBD and surrounding areas – and generate 140 jobs in the process. NSW Energy Minister, Matt Kean, said the upgraded infrastructure will provide additional security of supply during peak demand periods for more than half a million homes and businesses. "Parts of Sydney's transmission and distribution networks are reaching their end of life, so this project will play a crucial role in ensuring a continuous and reliable energy supply for our communities," Mr Kean said. Sydney's CBD and surrounding areas are currently supplied by electricity cables installed more than 50 years ago, which are now reaching the end of their serviceable life.

Details released of a huge offshore wind turbine that can power 18,000 homes per year

CNBC/19-05-2020

NEW YORK: Siemens Gamesa Renewable Energy (SGRE) has released details of a 14-megawatt (MW) offshore wind turbine, in the latest example of how technology in the sector is increasing in scale. With 108-meter-long blades and a rotor diameter of 222 meters, the dimensions of the SG 14-222 DD turbine are significant. In a statement, SGRE said that one turbine would be able to power roughly 18,000 average European households annually, while its capacity can also be boosted to 15 MW if needed. A prototype of the turbine is set to be ready by 2021, and it's expected to be commercially available in 2024. As technology has developed over the last few years, the size of wind turbines has increased. Last December, for example, Dutch utility Eneco started to purchase power produced by the prototype of GE Renewable Energy's Haliade-X 12 MW wind turbine. That turbine has a capacity of 12 MW, a height of 260 meters and a blade length of 107 meters. The announcement of Siemens Gamesa's new turbine plans comes against the backdrop of the coronavirus pandemic, which is impacting renewable energy companies around the world.

COMING OUT STRONGER AT THE OTHER END: RESCUING THE POWER SECTOR

The first part of series on "COVID 19 and Power Sector" discussed the potential effects of COVID 19 on the power sector. The second part will discuss possible mitigation strategies. Luckily the silver lining in this global pandemic has been its timing for Pakistan. The list tools at the disposal of the government include: Monetary Policy, Upcoming Fiscal Budget, 10th NFC Award and collaboration with IPP Plants. These tools can be used to promote demand creation, alleviate cash flow constraints in the sector and ensure the resilience of the power sector.

Promoting Demand Creation

The lockdown has led to a slump in electricity demand from the industrial and commercial sector. Under normal conditions, the government would not have been able to introduce measures for demand creation due to the conditions, contained in Structural Benchmarks, imposed by IMF. However, due to the extreme nature of the current situation, the government can negotiate with IMF for provisions of reduction in the need for revenue generation.

This, in-turn, would create opportunities for increasing electricity demand. Currently the average price of electricity stands at Rs 18.65 per unit with an average rate of Rs 4 under the heads of taxes, duties and surcharges (The Express Tribune, 2020). This implies a 20% drop in price for electricity prices in case taxes, duties and surcharges are dropped temporarily. With a short-term price elasticity of -0.46[1] (2018), this would induce a 9.2 per cent increase in electricity demand which would be a welcome change to the short-term sector outlook.

Indirect measures such as decreasing the interest rate also need to be considered. State Bank's decision to review the policy rate every 15 days is a welcome change in that regard as it would help check the inflationary reaction of the monetary policy. Reducing the policy rate would help protect jobs[2] and would help provide the required liquidity needed for maintaining industrial operations.

Complementary measures such as support for SMEs also need to be delved upon. According to the SMEDA[3] SME[4] Liquidity Support Program, 89% of the respondents reported financial constraints as the biggest hurdle that they face due to the current COVID 19 crisis. A more targeted approach towards SMEs would be a sign of relief due to the typical small size of these industries which reduces their chances of relying on captive power.

Such a reduction in price and liquidity support would also help counteract the reduction in demand. The sector cannot be expected to be operating at pre-pandemic levels due to reduction in export orders and generally cautious consumer behavior. Apart from reviving electricity-demand, improving the cash flow in the sector should also remain a serious priority.

Finally, there is a short-term opportunity to pass on fuel cost component onto the final consumer. This decrease in fuel cost component would come due to the fact the electricity consumption during the Pandemic seems to level out both within a day and across longer time frames. This inevitably would lead to lower fuel cost component as only the cheap, base-load generation units would be engaged in power generation. The resultant reduction in per-unit procurement cost can be passed onto the industrial consumers to further promote electricity demand as well as secondary employment.

Improving Cash Flow

The industry has already suffered more than Rs 300 billion in terms of revenue loss due to deferring bill payments and tariff increases. Such damage needs to be mitigated by a host of measures that would help inject fresh cash flow into the economy and sector. The success of these measures would decide whether Circular Debt balloons during the COVID 19 crises or remains stagnant.

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[1] Ishaque, H. (2018). Revisiting income and price elasticities of electricity demand in Pakistan. *Economic Research-Ekonomska Istraživanja* , 1137-1151.

[2] Which would support commercial and household demand.

[3] Small and Medium Enterprises Development Authority

[4] Small Medium Enterprise

In the immediate term, the government needs to expedite another tranche of Rs 200 Billion Sukuk Bond. Such a measure would help avoid short term cash flow constraints. The execution of an additional Syndicated Term Finance Facility (STFF) would also help with bridge cash flow constraints. Bill payments from a supported commercial and industrial sector would further aid this cash flow as recovery rates return to their normal average of 85-90% as compared to the current crisis-ratio of 53%.

In the medium term the growth of circular debt can be constrained somewhat by ensuring conversion of PHPL[5] onto Ministry of Finance books. Ideally, in the next budget, this facility needs to cover all of the PHPL debt of more than Rs 2 trillion rather the mere Rs 800 billion currently being considered by Ministry of Finance. Such a comprehensive financing facility would help curb the growth of circular debt by reducing the cost of financing for the already accumulated financial commitments.

Long term measures[6] to curb the growth of Circular Debt include mandating long-term tenors for projects, as compared to past tenor periods. Such measures reduce the cost of generation by reducing the financing related components in power tariffs. In addition, the previous NFC[7] award expired on April 23rd. This provides a chance for the government to promote provincialization of the electricity as per the ambit of 18th Amendment to the constitution. The provinces can potentially be provided a chance to gain financial responsibility of DISCOS. These DISCOS can then become a future source of income for these provincial governments. This would incentivize the provincial governments to curtail T&D losses of the DISCOS in a financially sustainable manner.

Ensuring resiliency of Power Sector

The government has chance of ensuring that the power sector remains resilient in terms of continuing investments and protecting itself against COVID 19. Continuing investments helps avoid supply constraints in the medium and long term.

Maintaining Investment Momentum

Currently, Pakistan might see an increase in its risk premium because of rising public-debt-to-GDP-ratio, negative GDP growth and falling market sentiment. However, at the same time the world is heavily relying on quantitative easing to support its recovery. Like any good manager, the government, must look at the opportunity amidst the crises.

Given our low domestic saving rates and a tendency to rely on foreign exchange reserves, the Pakistani power sector[8] has a window of opportunity to lock on to cheap financing for investing in Coal and Hydropower projects. If used properly, such a change in the financing conditions might become a blessing in disguise. This especially goes hand in hand with the current government priority of developing Hydel power plants in public[9] and private[10] sector. The sector would reap good returns if the government can achieve the financial close on a number of Hydel projects under the leadership of PPIB.

While private sector might not be enthusiastic about investing in peak load plants, they must not miss the boat when it comes to private funded hydropower (baseload) projects being advertised by PPIB. The private sector would do well to remember its competitive advantage in Lower Net Hydel Profit rate[11] as compared to Apart from helping the country maintain its investment-to-GDP ratio, the investment will also help the country create jobs with an average of 6 FTE[12] jobs per MW of investment.

Protecting the Power Sector

Electricity acts as a shield against COVID 19 due to its ability to power the industries making Personal Protective Equipment (PPE) and powering ventilators used by recovering patients. Therefore, it has become necessary to ensure the Power Sector Employees themselves do not become victims of this virus. The fact that NEPRA and ENGRO have already

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[5] Power Holding Private Limited
[6] Measures that can be launched immediately but have their payoff in the long run.
[7] National Finance Commission
[8] Both Public and Private.
[9] Under WAPDA
[10] Under PPIB
[11] Rs 0.425/ KWh as compared Rs 1.1 for WAPDA for Council of Common Interests (CCI) in its decision on December 16, 2015
[12] Full Time Equivalent

become suffered disruptions in operations due to this virus highlights the exigency of protecting the power sector workforce. Such protection can be ensured through initiating a number of protective measures such as:

1. Priority tracking and monitoring of IPP employees by National Command and Operation Centre (NCOC).
2. Mandating PPE equipment for all employees.
3. Implementing staggered start times for different employees.
4. Mandating
    a. Complete wipes[13] after shifts.
    b. Individual transport arrangement for each of the non-site employees.
    c. Multiple teams for operating power plant facilities and keeping the two teams separate form one another.
    d. Regular testing of essential employees.
    e. IR thermometer scans.
    f. Financial enumeration for non-on-site employees using personal transport.

Conclusion

The power sector has felt the negative effects of COVID 19. The government can mitigate some of these negative effects using fiscal and monetary policy tools as well through promoting provincialization of DISCOS. These tools would focus on increasing electricity demand, improving the cash flow situation in the sector in the short, medium and long term and on making the sector more resilient. Making the sector more resilient would entail capitalizing on any latent investment opportunities and ensuring protection for the power sector firms. Through these measures, the government can ensure that the power sector can come out of the other end of this crises becoming stronger and more resilient.

Disclaimer: The contents of the above newsletter research are those of the author and do not , in any way, represent the views of IPPA or that of its members.

References

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[13] Alcohol soluble wipes

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	Uch Power (Private) Limited	GAS	-	586	551
6	Rousch (Pakistan) Power Limited	GAS	HSD	412	395
7	Habibullah Coastal Power (Pvt.) Co.	GAS	HSD	140	126
8	Attock Gen Limited	RFO	HSD	165	156
9	Atlas Power Limited	RFO	HSD	225	214
10	Nishat Power Limited	RFO	HSD	200	195
11	Nishat Chunian Power Limited	RFO	HSD	200	195.6
12	Liberty Power Tech. Limited	RFO	HSD	200	195
13	Orient Power Company Limited	GAS	HSD	229	213
14	Sapphire Electric Company Limited	GAS	HSD	225	209
15	Halmore Power Generation Co. Ltd.	GAS	HSD	225	209
Subsidiary IPPs					
16	Hub Power Company Ltd (Narowal)	RFO	-	220	214
17	Uch-II Power (Pvt) Ltd	GAS	-	404	375.2
18	Saba Power Company (Private) Limited	RFO	-	134	125.5
19	Laraib Energy Limited	HYDEL		84	84

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