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IPPAC

# INDEPENDENT POWER PRODUCERS ADVISORY COUNCIL
# MONTHLY NEWSLETTER

**Welcome to the first edition of Independent Power Producers Advisory Council (IPPAC) Newsletter. Over the years, IPPAC has been collecting basic information from the Independent Power Producers (IPPs) but this was not shared with all members. This newsletter is initiated not only to present the data but also to serve as a platform to discuss issues pertinent to the power sector.**

**The newsletter will be published on a monthly basis to ensure regular dissemination of information to the IPPs and other stake holders. Initially this newsletter will be sent to members only, but the objective is to make it available to all power sector. In each edition, the newsletter will provide a snapshot of the status of the industry by presenting monthly data of IPPAC members and a separate section will be devoted to discuss issues of importance concerning the power sector.**

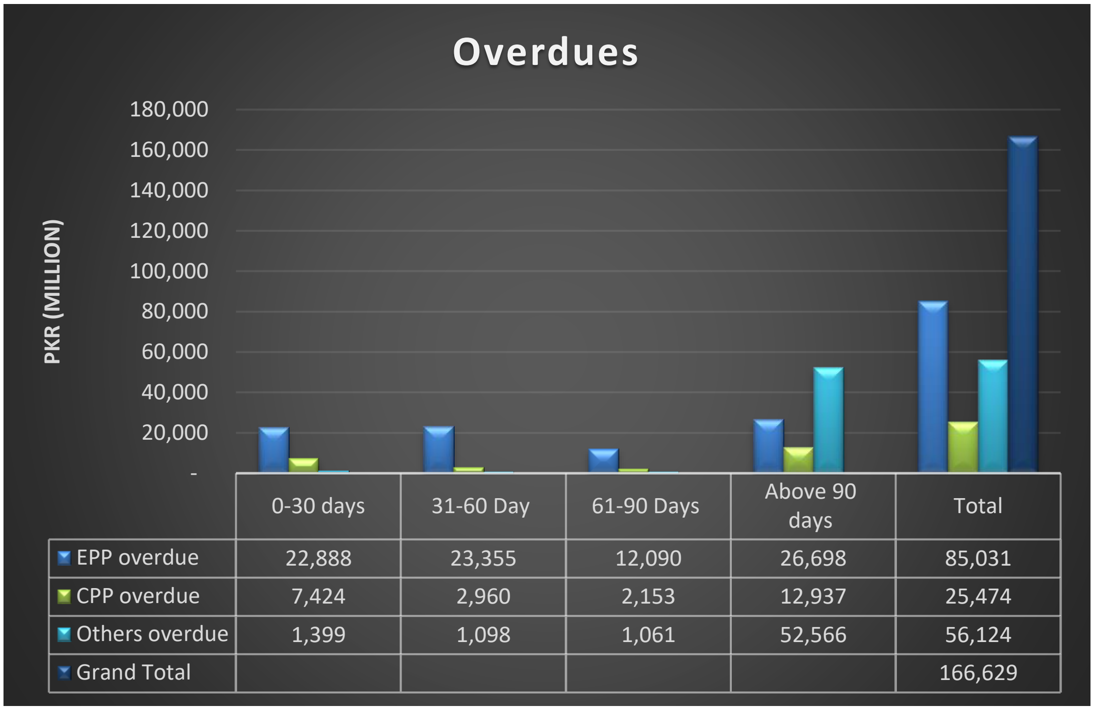
**The newsletter is in its formative stage, we will continue to make additions to make it more comprehensive and useful for our readers. In this regard, we would welcome your feedback. With your support and guidance we hope to make this a premier newsletter of the power sector of Pakistan.**

## Table of Contents

# Our Members

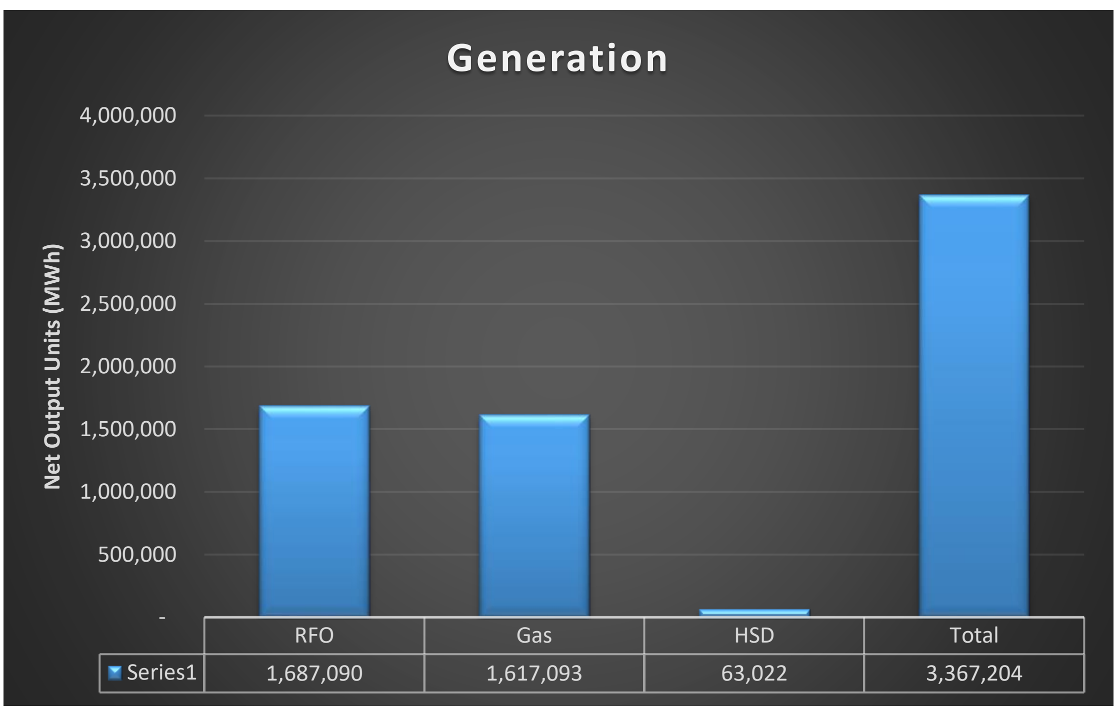
| | Member IPPs | Primary Fuel | Alternate Fuel | Gross Capacity (MW) | Net Capacity (MW) |
|---|---|---|---|---|---|
| 1 | The Hub Power Company (Tehsil Hub) | RFO | HSD | 1292 | 1200 |
| 2 | Pakgen Private Limited | RFO | - | 365 | 350 |
| 3 | Lalpir Private Limited | RFO | - | 362 | 350 |
| 4 | Kohinoor 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 Company Ltd. | GAS | HSD | 225 | 209 |
| 18 | Engro Powergen Qadirpur Limited | GAS | HSD | 227 | 217 |
| | Attached IPPs | | | | |
| 19 | Hub Power Company Limited (Narrowal) | RFO | - | 220 | 214 |
| 20 | Uch-II Power (Pvt) Ltd | GAS | - | 404 | 375.2 |

## Outstanding Dues of member IPPs as on 15st March, 2017



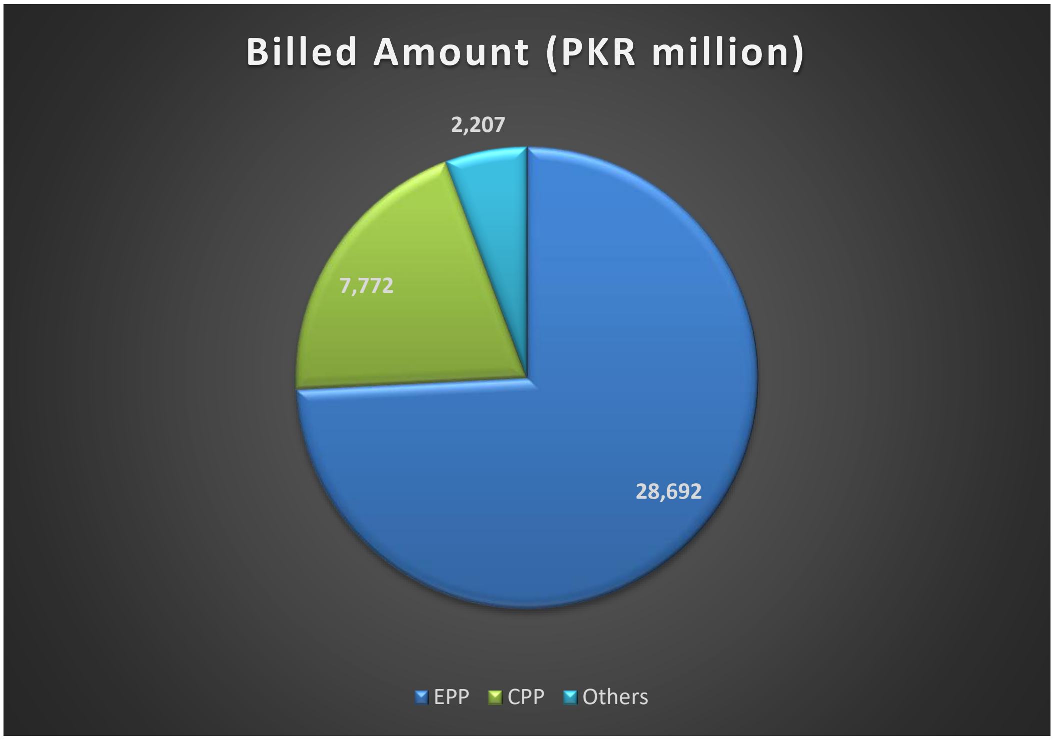

| | 0-30 days | 31-60 Day | 61-90 Days | Above 90 days | Total |
|---|---|---|---|---|---|
| EPP overdue | 22,888 | 23,355 | 12,090 | 26,698 | 85,031 |
| CPP overdue | 7,424 | 2,960 | 2,153 | 12,937 | 25,474 |
| Others overdue | 1,399 | 1,098 | 1,061 | 52,566 | 56,124 |
| Grand Total | | | | | 166,629 |

## Net Electrical Output Units (MWh) by member IPPs during March, 2017

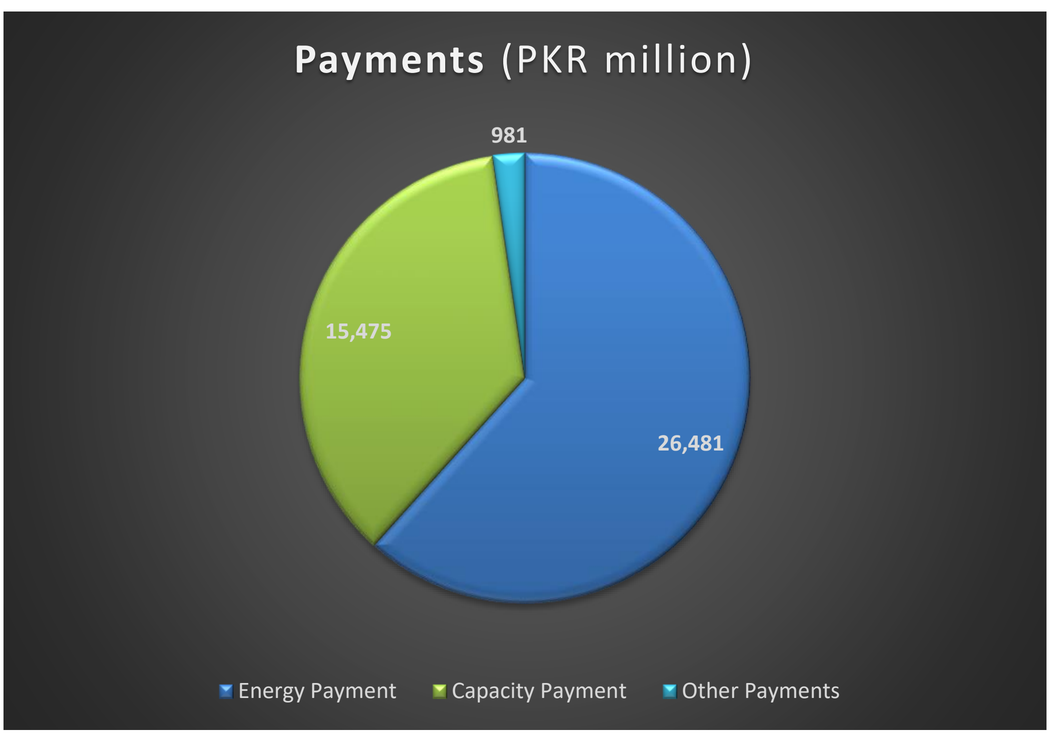



| | RFO | Gas | HSD | Total |
|---|---|---|---|---|
| Series1 | 1,687,090 | 1,617,093 | 63,022 | 3,367,204 |

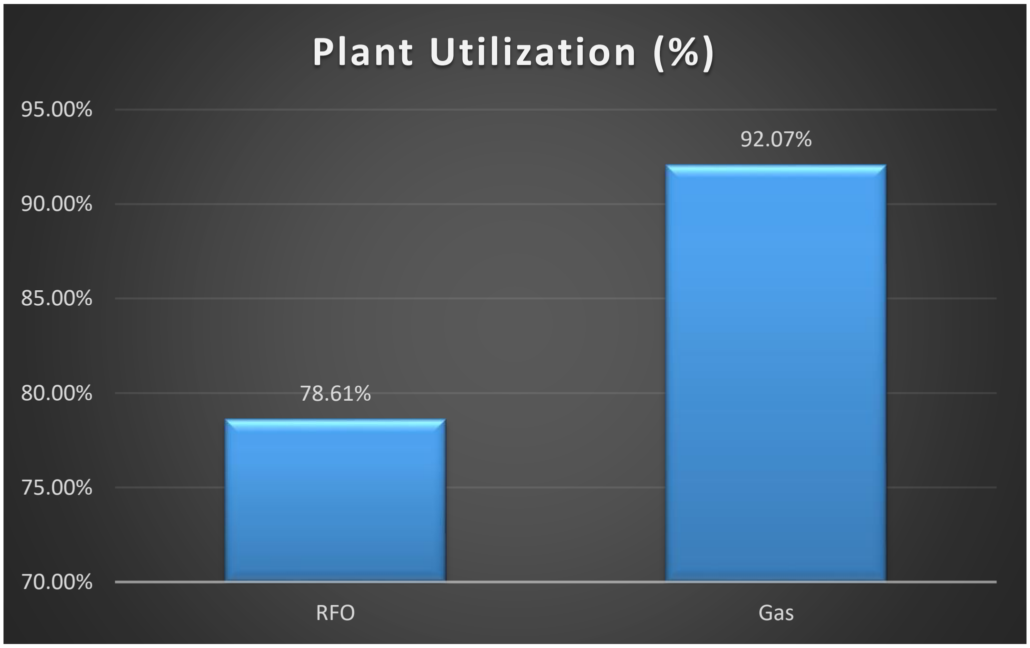
## Amounts billed by member IPPs during March, 2017




## Payments made by Power Purchaser to member IPPs during March, 2017



# Plant Utilization (%) of member IPPs, in March 2017



# Circular Debt – Causes & Consequences

**The issue of Circular Debt has consumed the power sector of Pakistan for almost a decade now, with recurring tensions between the government-owned distribution companies and the power producers. It is no secret that it has added to the problems of the end consumers, who eventually have to face load shedding as well as higher cost of power as an indirect consequence.**

**The reality is that Circular Debt is a misnomer, since it has very little 'circularity' in terms of mutual settlements. It is the amount of cash shortfall of the power purchaser, i.e. CPPA-G, which it receives from power distribution companies for power sold to them versus, the dues to the power producing companies for units of power it purchased. As of February 17, 2017, the circular debt position stands at an alarming figure of Rs 414 billion, out of which Rs 254 billion are owed to the IPPs.**

**There are several reasons behind this accumulation and existence of circular debt in the power sector but primarily, it is due to the difference between the actual cost of providing and delivering electricity to the actual end customer, and the revenue collected by the Distribution Companies, i.e. DISCOs from customers. The actual cost of delivering power to the end consumers has to be burdened by:**

- **Transmission and Distribution Line Losses**
- **Electricity Theft**
- **Non-Recovery of Bills**

**In the year 2014-15, DISCOS such as SEPCO and PESCO reported T&D Losses exceeding 38% and 34% respectively, which means that of the total number of units that they received from the power purchaser, considerably more than a quarter of it was lost in the T&D Network. NEPRA statistics also tell us that, on average, DISCOs reported T&D Loss Target of more than 18% in the same year. As this considerable figure was never recovered or billed, it added to the cash shortfall and, thereby, worsening the circular debt issue.**

**As for electricity theft losses, one estimate by NEPRA's State of Industry Report 2013 also suggests that 'on an aggregate basis about 50% of distribution losses are non-technical due to theft, non-billing and administrative problems.'**

**Similarly, collections of bills is another issue that is adding to the problem of circular debt. As of 2014-15, approximately 12% of the billed amount was not recovered mainly due to the inefficient collection at the DISCO level, specifically SEPCO, QESCO and HESCO.**

**These reasons result in insufficient and late payments to the IPPs for their energy as well as capacity charges, which in turn results in increased cost on account of more interest payments being due, which are often denied by CPPA-G for recovery from customers, thereby creating further gap. This has a snowball effect in the process, causing the problem to become larger and harder to solve as core issue is not addressed.**

**As per a joint study done by the USAID and the Planning Commission of Pakistan, the issue is centered on inefficiency across three levels:**

- **Policy Level**
- **Regulatory Level**
- **Entities Level**

**In terms of policy, there is a great level of disarray between the different government departments and policymakers, coupled with the lack of political will to address the underlying causes. The centralized role of the Ministry of Water and Power together with the political and bureaucratic influences, continue to limit competency and efficiency in monitoring and rectifying the performance of DISCO's to ensure full bill recovery.**

**At the regulatory level, the power regulator NEPRA is working in isolation from the affairs of the distribution companies and is oblivious and sets targets for the distribution and transmission companies, which are not achievable without full political backing and support.**

**And on the entities level, there seems to a breakdown of corporate governance. The USAID Study mentions that 'DISCOs do not operate on a commercial basis and are unduly subject to political influence', hindering proper revenue management and bill recovery.**

**The other main causes for this cash shortfall, as per the study, include:**

- **Poor Governance and Revenue Collection (on the DISCOs level)**
- **Delays in tariff determination by an 'inadequately empowered' regulator i.e. NEPRA**
- **Over-reliance on Uniform Tariff and reluctance to pass-on full cost of energy generated and distributed.**
- **Delayed and incomplete payment by the Ministry of Finance (MOF) on contract payments**
- **Prolonged legal stay orders on fuel price adjustments (FPAs)**

**The point to be emphasized is that when DISCOs are unable to make full payments to CPPA-G, it results in cash flow problems. Consequently, this results in a shortage of fuel supply to generating companies, diminishing capacity and limiting investment to maintain the entire power production system of the respective IPPs.**

**The issue has caused recurring problems for the power sector in terms of obtaining funding to support improvement in management and system operations and from attracting investment needed to support sector expansion and improved services. It also creates a 'liquidity crunch', where IPPs are forced to borrow more and more from commercial banks to continue their Operation and Maintenance of power plants.**

**In order to rectify and eventually eliminate the problem of circular debt, certain necessary steps must be taken which include implementing a comprehensive revenue collection and theft prevention program at the DISCO level, taking steps so that DISCOs are also made to follow proper corporate governance policies and procedures, implementing a tariff regime that is in line with the current market price of fuel and enforcing electricity supply contracts, among others. As long as these necessary steps are not taken to resolve the source of the circular debt problem, the current financial crisis in the power sector will continue to remain, hindering growth, efficiency and the economic development of the country.**

**The situation can be compared to "leaking bucket" of distribution companies. You can keep pouring more generation in the bucket and it will keep leaking out. Unless the "true cost" of delivering power to the end consumer is recovered, elimination of circular debt is merely utopia. The "true cost" can be minimized by reducing losses, theft, and non-recovery, in addition to lowering the cost of generation, to make it affordable to the end consumer. Without achieving this, subsidies have to plug the gap and when the subsidies are not paid in full, or on time, the cash flow chain breaks down, resulting in further accumulation of Circular Debt.**

# Upcoming Topics

**May**

Financial Impact of New Additions in Generation

**June**

Losses, Theft and Recoveries for DISCOs

**July**

Comparison of GENCOs and IPPs

**August**

Taxation issue in Pakistan

**September**

What is the Real position of the Power Sector

**October**

Is Electricity Trading a viable option for Pakistan's power sector?

**November**

De-Risking the Power Sector for lower pricing

Established in 2010, IPPAC serves as an advisory body for Independent Power Producers (IPPs) in Pakistan. IPPAC 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 stake holders within the power sector.

**If you have any feedback or suggestions, kindly write to us at ippac@live.com**