Volume 4, Issue:4, April 2020

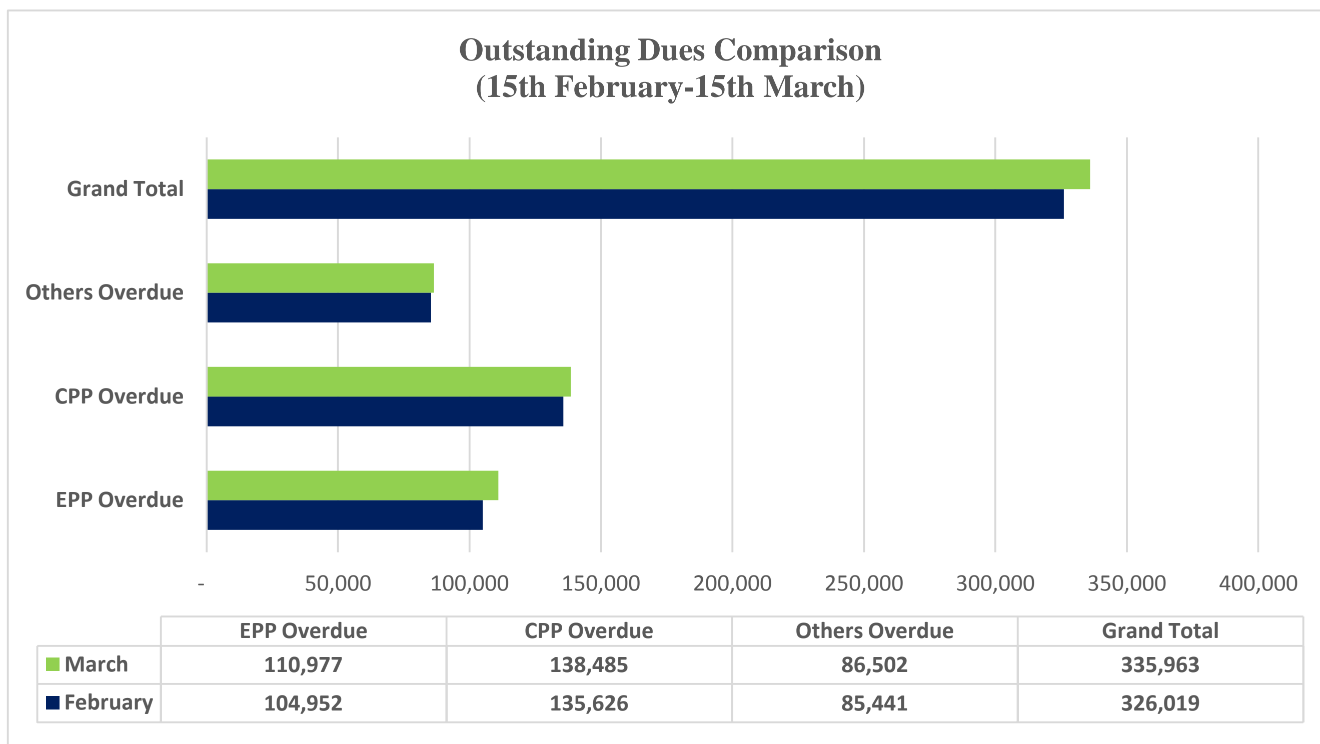
# INDEPENDENT POWER PRODUCERS ASSOCIATION

## MONTHLY NEWSLETTER

Welcome to the thirty-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 March, 2020 in PKR Millions

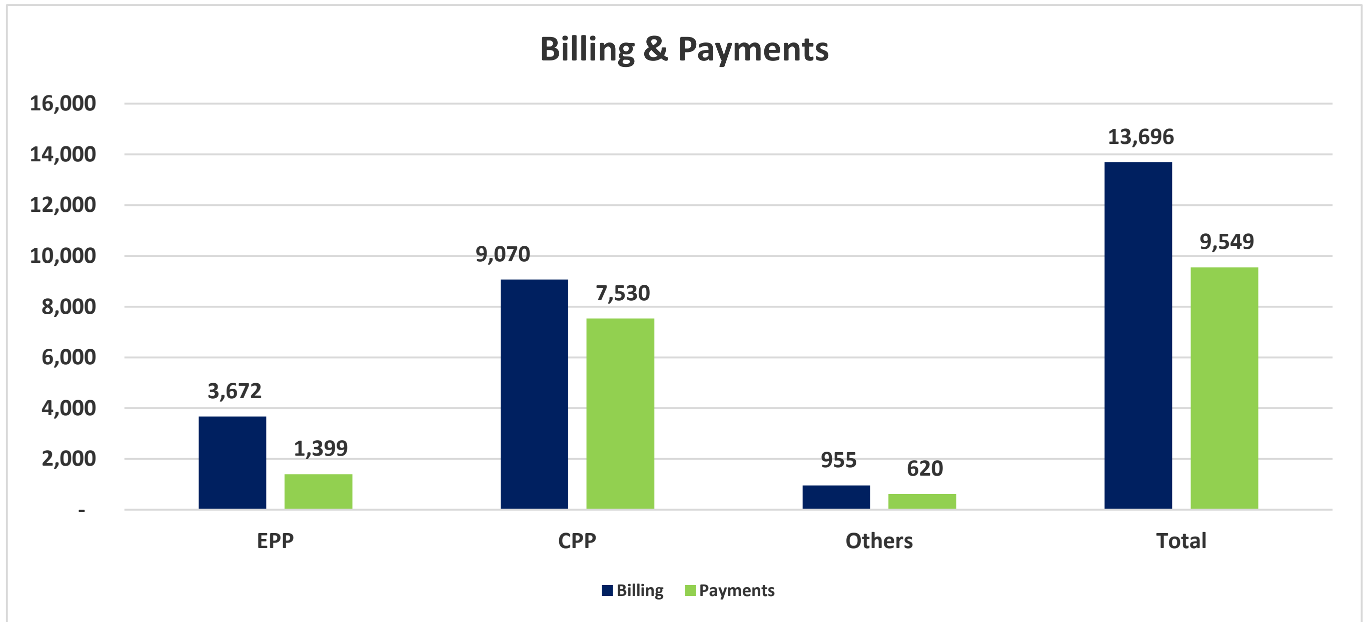



| | EPP Overdue | CPP Overdue | Others Overdue | Grand Total |
|---|---|---|---|---|
| March | 110,977 | 138,485 | 86,502 | 335,963 |
| February | 104,952 | 135,626 | 85,441 | 326,019 |

Source: Member and Subsidiary IPPs

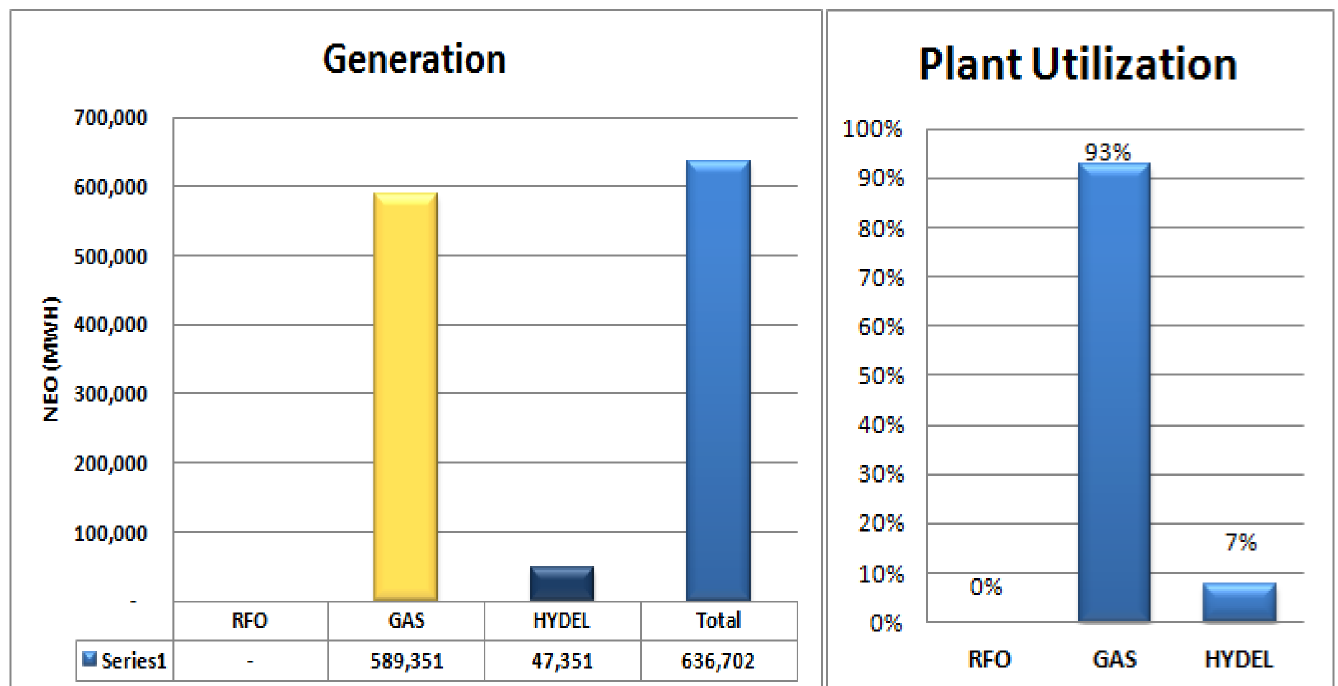
# Monthly Infographics

## Billing and Payments in March 2020 in PKR Millions




Source: Member and Subsidiary IPPs

## Net Generation and Plant Utilization in March 2020




Source: Member and Subsidiary IPPs

## Committee's claims rebutted: T&D losses, taxation cause increase in tariff: IPPs

ISLAMABAD: While rebutting most of the claims of a nine-member committee's 296-page report, Independent Power Producers (IPPs) asserted that the main reason for high power tariff in Pakistan is higher Transmission and Distribution (T&D) losses and taxation. Independent Power Producers Advisory Council (IPPAC) have sent consolidated reply of all its members to the concerned public sector stakeholders which is expected to come under discussion in the Private Power & Infrastructure Board (PPIB) and CPPA-G. IPPs, in their joint reply maintain that the report has ignored 'Time Value of Money' and 'Dollar Indexation', giving the example of investment in a 12% Defense Saving Certificate which increases 3.5 times in ten years. Similarly, increase in gold prices has resulted in a profit 18 times the amount invested twenty years ago.

The companies maintain that returns are not analyzed against contracted returns but stated in absolute terms, which is meaningless. Due to typical tariff structure, profits of IPPs need to be adjusted to get true returns for investors / shareholders (such as, principal repayment and late payment interest are subtracted while depreciation is added back). The report itself states the adjusted profit of 2002 IPPs Policy, which is Rs 152 billion against reported profits of Rs 203 billion. Similarly, the adjusted profits of 1994 Policy IPPs will also need to be worked out which would be significantly lower than their reported profits of Rs 415 billion. In a number of cases, the stated amounts in the report do not reconcile with amounts reported in IPP's records, financial statements. On high dollar returns and returns during construction, IPPs further state that returns were offered by the government based on prevailing rates of returns, taking into account country risk. The returns were offered across the board without discrimination and if government does not want to offer dollar returns, it should change the future power policy. The PIB yield does not take into account country risk and equity/project risk. Had a 15% Rupee based return been offered, a 7% devaluation of the Rupee would provide net returns of 8% in Dollar terms, which is equivalent to rate offered on Risk Free Eurobonds. Commenting on high RoE and short payback period, IPPs say the report ignores 'Time Value of Money' and 'Dollar Indexation'. Payback period ignores construction period, which ranges from 2-4 years for different plant technologies. This results in total payback period of 4-6 years, which is normal. Further, payback should be calculated based on adjusted profits or more precisely, dividend net of taxes, instead of accounting profits.

Rebutting the committee's claims about excess payment on account of fuel, heat rate and O&M, IPPs claim that tariff initially determined at feasibility stage by NEPRA is trued-up based on actual costs at COD which is fixed for the entire PPA term and no true up is allowed post COD. Both Heat Rate and O&M are fixed for the entire PPA term of 25 years. Similarly, PPA does not provide for a claw-back mechanism for better performance and neither provides any compensation to IPPs for lower performance against the approved benchmark and any gains/(losses) are also to the account of the IPP. Mismatch in debt repayment - IPPs claim Capacity payments are never made on time. Even if made on time, the debt and O&M would filter through the waterfall under financing documents. On recovery of excess profits, IPPs say that the recommendation of recovery of excess profits, regardless of wrong calculations, is contrary to constitution of the country, which provides for sanctity of the contract. The report does not address the major issue of foreign debt (70-80% of project cost), which was a policy decision by the Government to make it mandatory to bring 50% of foreign currency requirement from outside Pakistan for all projects under 2013/2015 policy.

Commenting on the recommendation "shift from take or pay contract provisions" the IPPs are of the view that it is naive to suggest that any entity can operate on marginal cost for extended period without recovering all the fixed costs. IPPs further say that the following areas have been ignored in report's Budgetary subsidies of Rs 3,202 billion ;(i) circular Debt of PKR 2,000 billion with annual markup cost of PKR 270 billion;(ii) Discos receivables and Discos under collection Rs 633 billion;(iii) massive Net Hydel Profits (NHP);(iv) 3% transmission losses, 17% distribution losses, 9% under recovery ;(v) cost of electricity on generation basis of 10.6 cent/kWh translates to cost of 14.5cents/kWh on collection basis and ;(vi) excess transmission line cost.

Tariff of regional countries is lower because of lower T&D losses and lower taxes.

*Business Recorder/30-04-2020*

## IPPs reject allegations of wrongdoings

ISLAMABAD: Independent Power Producers (IPPs) have brushed aside all allegations of wrongdoings in the purported inquiry committee report tailored by a committee. In response to the recent reports appearing in media on the Inquiry Committee's Report over alleged losses in the power sector, the Independent Power Producers Advisory Council (IPPAC) in a clarification has categorically rejected the allegations being attributed to such report. The reports appearing in the media makes unsubstantiated allegations against the Independent Power Producers (IPPs), accusing them of having unfair agreements, and misappropriation in tariff and fuel consumption rates. "Neither the IPPAC nor any IPP was consulted or approached in preparing of the report or its contents. The allegations being levelled on the IPPs are ill-conceived, unfounded, baseless and disappointing, which is causing serious damage to our reputation," said the IPPAC. The IPPs, the clarification says, have given their sweat and blood for the development of Pakistan at a time when no one was willing to invest in the country. The IPPs have empowered an uncertain economy, which had not witnessed such a sizeable quantum of Foreign Direct Investment ever in the past.

The clarification says while the government has not paid the IPPs for years, and IPPs are at the brink of default being owed an amount of approximately Rs 600 billion, they still continue to remain available to provide uninterrupted supply of electricity for the country, always keeping the greater national interest at the forefront. Previously, nine IPPs had already given a lot of relaxations to the government in the form of a settlement agreement, keeping in mind the national interest. Yet it was the government that has been unable to obtain formal approval(s) to implement the same; hence that opportunity has been lost. The settlement agreement was consented to by such IPPs that had won the Arbitral Award by the London Court of International Arbitration (LCIA) in 2017 for the recovery of unpaid capacity payments, which had been deducted in contravention of legally valid and binding Power Purchase Agreements (PPAs). IPPs are of the view that similar witch-hunting exercises in the past have caused immense damage to the investment climate and economic prospects of the country, and if we do not learn from the past mistakes, it will again lead to the same negative results. The IPPs have always remained available to engage in a meaningful dialogue with the government to discuss and find an amicable solution to the most pressing needs of the country. In the prevalent conditions, given the Covid-19 Pandemic, the IPPAC and IPPs stand ready to do their part to help the Pakistan economy and nation during this time of need, in addition to providing uninterrupted power supply.

*Business Recorder/13-04-2020*

## Independent Power Producers summoned for crucial talks

ISLAMABAD: The government on Monday made first formal contact with the managements of all power plants, particularly Independent Power Producers (IPPs) for a structured dialogue on possible options to reduce immediate liabilities amid constrained electricity demand. A senior government official told Dawn that a high-level inter-ministerial committee led by Energy Minister Omar Ayub Khan would hold its first meeting on April 15 with the public sector generation companies formerly part of the Water and Power Development Authority and the government-run power plants set up more recently mostly in Punjab for their input and brainstorming. Formal letters have been issued for separate meetings on April 16 with IPPs set up under 1994 and 2002 Power Policies. Top officials of the Power Division had been in informal contact with the managements and sponsors of the IPPs following top-level consultations in the government for a constructive engagement on the pattern of amicable settlement with nine IPPs despite international arbitrations.

*Dawn News/14-04-2020*

## Khawaja Riffat Hassan appointed as NTDC Managing Director

ISLAMABAD: The Ministry of Energy (Power Division) has appointed Dr Khawaja Riffat Hassan as Managing Director of the National Transmission and Despatch Company (NTDC) as a stopgap arrangement. His predecessor, Power Division Joint Secretary Zafar

Abbas, had resigned as NTDC's MD due to his commitments at the Power Division.

*Pakistan Today/30-04-2020*

## Pakistan's energy imports shrink 33% to $668 million

KARACHI: The share of oil and petroleum products in the total import bill shrank massively to one-fifth in March 2020 as refineries shut down temporarily due to full reservoirs and demand dropped significantly under the nationwide lockdown imposed to contain the coronavirus pandemic. Earlier, the share of oil and petroleum products in total imports had been one-fourth in first eight months (July-February) of the current fiscal year ending June 30, 2020, according to the Pakistan Bureau of Statistics (PBS). The import of crude oil – the raw material for refineries – dropped 42% to 444,670 tons in March 2020 compared to 766,911 tons in the same month of previous year. The import of refined products increased over 14% to 886,791 tons in March 2020 compared to 758,622 tons in March 2019, the PBS reported. The overall energy import bill fell 33% to $668.33 million, which was one-fifth of the total import bill of $3.31 billion, in the month under review compared to $995.42 million (one-fourth of $4.11 billion) in the corresponding month of last year. Energy imports declined ahead of expected 0.1-1.5% contractions in the national economy after a gap of 68 years. Transport, industrial and commercial sectors remain the bulk users of energy.

*The Express Tribune/28-04-2020*

## WAPDA working on strategy to raise $2bn financing

ISLAMABAD: Water and Power Development Authority (WAPDA) is working on a strategy to raising $ 2 billion financing through different tools in addition to issuance of green Eurobond for the projects. The sources said, Ministry of Water Resources, in its two summaries had pointed out that Wapda, besides execution of mega hydropower projects including Mohamand, Dasu and Diamer Basha hydropower project, is currently undertaking its credit rating process with the aim to diversify its financing avenues through a green Eurobond issuance. Likewise, a multi-pronged strategy is being employed using syndicate loans, export credit agencies and Islamic Sukuk for raising approximately $ 2 billion over the next 2-3 years to meet foreign financing needs of these projects which requires a highly qualified and experienced professional to steer all this process effectively.

*Business Recorder/28-04-2020*

## NEPRA forms experts' team to examine power sector report

ISLAMABAD: The National Electric Power Regulatory Authority (NEPRA) has constituted a team of experts to examine the report prepared by the committee for power sector audit, circular debt resolution as well as future roadmap and prepare a detailed response and suggest suitable actions thereof. According to a statement issued by the national electricity regulator, it will take every action within its powers to ensure that consumer interest has not been compromised by carefully looking into any misrepresentation of facts and figures by any independent power producer as suggested in the report. The report has never been shared with NEPRA before despite a clear agreement at the onset with the committee's convener. "Public hearings are held in which all the stakeholders, including the government/power sector representatives, industry experts, members of civil society, media and legal experts participate," it said. "Every single word during public hearing is recorded and verbatim transcript is maintained for any future reference."

*The Express Tribune/27-04-2020*

## NTDC wins legal battle against Iranian company

LAHORE: National Transmission and Despatch Company (NTDC), a company falling under the Ministry of Energy (Power Division), has prevailed in an international commercial arbitration initiated by an Iranian company (GAM ARAK Ind. Co.) in 2017 before an arbitral tribunal constituted under the rules of the International Chamber of Commerce (ICC), Paris. According to the NTDC spokesman, "In its detailed

award released on 24 April 2020, the arbitral tribunal has dismissed all claims brought by the Iranian company and accepted and granted several counterclaims of NTDC amounting to approximately Rs714 million ($4.5 million) plus interest at the rate of 7.9pc per year. While dilating upon the details, the spokesman said that the dispute arose out of a contract between the Iranian company and NTDC executed in February 2011 for the design, supply, installation, testing, and commissioning of 500 kV Guddu-Multan 3rd Circuit at Rahim Yar Khan 500kV substation. NTDC had terminated the contract due to persistent delays on part of the Iranian contractor and another contractor eventually completed the project. The spokesman said that the Iranian company, GAM ARAK, initiated the arbitration in early 2017 claiming an amount of approximately Rs180 million ($1.1 million) on account of unpaid invoices and damages. During the hearing, NTDC was represented in this matter by its Managing Director Zafar Abbas, Chief Legal Officer Hamza Randhawa and Legal Manager Arslan Akhtar.

*Pakistan Today/25-04-2020*

## National, Attock refineries report hefty losses

KARACHI: Attock Refinery (ARL) reported a 400% increase in its loss during the quarter ended March 31, 2020 owing to hefty inventory losses arising from a dip in global oil prices. According to a notice sent to the Pakistan Stock Exchange, the company reported a loss of Rs1.07 billion during the quarter compared to Rs213.6 million in the same period of the previous year. Loss per share of the company during the three-month period amounted to Rs10.11 compared to loss per share of Rs2 during the corresponding quarter of previous year. Finance cost of the company dropped 38.25% during the quarter to $340.9 million on a year-on-year basis. National Refinery Limited's losses grew exponentially to Rs5.1 billion in the quarter ended March 31, 2020 from loss of Rs1.33 billion in the same quarter of the previous year. The company reported loss per share of Rs64.32 in the quarter under review compared to a loss per share of Rs16.61 in the previous year. Net revenue decreased to Rs26.8 billion during the quarter from Rs37.7 billion in the previous year. Finance cost surged by a massive 99% to Rs1.2 billion, while other income dropped 12% to Rs78.5 million in the period under review.

*The Express Tribune/24-04-2020*

## IPPs to urge government to put technical body on ice

ISLAMABAD: The Independent Power Producers (IPPs) are to request the government to put technical committee on ice until the Inquiry Commission approved by the Cabinet completes its assignment. The IPPs have brushed aside the findings of the nine-member committee headed by a former Chairman SECP. The IPPs, sources said, will send a joint letter to the government on the formation of a Commission and rebut every charge of the committee. IPPs are of the view that the committee's report has glaring gaps with respect to profits. During the first meeting of the committee constituted by the Cabinet Committee on Energy (CCoE), Minister for Power, Omar Ayub emphasized on reducing and providing relief in the cost of electricity and resolution in the quantum of capacity payments. The purpose of technical committee is to consult with the IPPs on the proposed reduction in tariff. Power sector experts are of the view that the committee did not find any violation in implementation of contracts signed with the IPPs and the only way out is to sit with the IPPs across the table and request them to give some concession to the government with respect to capacity payment and tariff and any highhandedness on the part of government will lead the IPPs to go to London Court of Arbitration where IPPs have already won the case.

*Business Recorder/24-04-2020*

## PTI government to reduce rate of return for state-run power plants

ISLAMABAD: The government has decided to reduce the rate of return for state-owned power plants that have cumulative generation capacity of 22,972 megawatts, a move that may hamper the privatization of such power plants. Capacity charges for government-owned power plants constitute 42% of the total capacity payments and as new plants come on line they will further rise to approximately 47%. The government has also decided that the rate of return for state-owned liquefied natural gas (LNG)-based power plants should be reduced before their privatization. The rate of return for government-owned independent power plants (IPPs) ranges from 13.75-17%. The Cabinet Committee on Energy (CCOE)

has given the go-ahead for reducing the rate of return to 10%. The cabinet body has also given its nod for fixing the rate of return in rupees rather than in dollars due to fluctuation in the exchange rate.

At present, the average consumer tariff is Rs18.65 per unit, which includes Rs4 on account of taxes, duties, and surcharges. However, several tariff revisions, determined by the regulator, are due to be notified by the government. If all pending tariff revisions are notified, the electricity price will surge to Rs24.47 per unit. However, the government has decided to freeze the tariff on account of monthly and quarterly adjustments till June 2020, which will cause a financial gap of Rs150 billion. The government-owned power plants receiving capacity charges include GENCOs – based on furnace oil or natural gas, hydroelectric power plants owned by the Water and Power Development Authority (Wapda), LNG-based power plants and nuclear power plants. Total capacity of these plants is 22,972MW. Officials said the Power Division wanted to reduce the rate of return from 13.75-17% to 5%. It has also proposed that state-owned power plants including Nandipur, Guddu and the government of Punjab's plants based on LNG may be privatized.

*The Express Tribune/15-04-2020*

## Energy sector circular debt touches Rs2trn

ISLAMABAD: The country's energy sector circular debt has touched whopping level of Rs 2 trillion as failures are witnessed starting from generation, transmission, distribution, and recovery. A couple of months ago, Chairman National Electric Power Regulatory Authority (Nepra), Tauseef H Siddiqui opened a pandora's box when he submitted report to the Prime Minister, Imran Khan, challenging all the claims of Power Division including the figures of circular debt. According to Chairman Nepra, the stock of circular debt (payables to IPPs and Gencos) and debts parked in the books of PHPL stood at Rs 1.926 billion as of February 2020. His claim was also certified in a presentation of the defunct Pakistan Electric Power Company (Pepco) being headed by an Additional Secretary of Power Division, to the Senate Standing Committee on Power. On March 17, 2020, Power Division explained to the Cabinet that on August 20, 2018 circular debt was Rs 1.262 trillion (Rs 658+604) and till December 2019, the amount was Rs 1.765 trillion (961+ 804 billion). The build-up during the period was Rs 503 billion. It was also claimed that circular debt build-up till June 2020 was to be an addition of Rs 134 billion for one year, which was as per planned circular debt capping plan. Prime Minister Imran Khan maintains that status of power sector is a major challenge for the government and is the area of prime focus. He further stated at one of a recent meeting of federal cabinet that complexity of power sector required disaggregation of various issues for the purpose of presenting them before cabinet. He cited that the example of subsidy being given to tube wells in Balochistan was one such issue, which required detailed deliberations. While referring to the seemingly intractable problem of circular debt he gave the example of Turkey, which had resolved this issue.

*Business Recorder/13-04-2020*

## Oil and gas companies set to lose $1 trillion in revenues this year

NEW YORK: Oil and gas exploration and production companies, or E&Ps, are slated to lose a staggering $1 trillion in revenues in 2020, according to analysis by research firm Rystad Energy. The E&P industry, which includes oil majors, made $2.47 trillion in revenues globally last year, the firm says. But this year it's projected to bring in $1.47 trillion, reflecting a 40% decline year-on-year. It comes as the coronavirus pandemic and ensuing lockdowns cripple demand and force companies to slash spending and cancel projects. Returns for 2021 are now also projected lower, at $1.79 trillion compared to a forecast of $2.52 trillion before the pandemic. The slashed revenues, a similar story for most industries amid the worst economic downturn since the Great Depression, have clearly manifested themselves in the industry's equity market position. The energy sector is shrinking so dramatically that it's become the second-smallest group in the whole S&P index. The industry now represents just 3% of the index, compared to 15% a decade ago and 30% in 1980. The International Energy Agency predicts a record demand loss of 9.3 million barrels per day (bpd) in 2020, as all but essential businesses across many major economies are forced to remain closed and millions of residents shelter in place for an indefinite period of time. Air travel has dropped by 95% in the U.S. year-on-year, a reflection of the global travel industry as a whole.

*CNBC/30-04-2020*

## 'Europe's largest' solar power facility comes online as the industry faces coronavirus challenges

NEW YORK: A 500 megawatt solar photovoltaic plant, described by Spanish utility Iberdrola as "Europe's largest," sent its first megawatt hour of energy to the grid earlier this week, a welcome bright spot for an industry that in the months ahead could experience difficulties brought about by the coronavirus pandemic. The Núñez de Balboa facility is located in Extremadura, a region in the west of Spain. According to Iberdrola, it has over 1.4 million solar panels and will be able to supply energy to 250,000 people per year. The plant is collaboration between Iberdrola and Ecoenergías del Guadiana and construction work on the project finished in December last year. While the commissioning of Núñez de Balboa is an undoubted positive, the solar industry, like many in the renewable energy sector, is facing up to difficulties caused by COVID-19. A research and consultancy firm Wood Mackenzie said global solar installations for 2020 had been revised down from 129.5 gigawatts (GW) to 106.4 GW, which represents an 18% drop compared to pre-coronavirus levels.

*CNBC/09-04-2020*

## Google Enters Upside Down World of Renewable Supply and Demand

Google and its parent company, Alphabet Inc., have long put themselves forward as leaders in renewable energy use. Last week, they took that a step further by announcing that they are now "working toward 24x7 clean energy everywhere we have data centers." Because renewable energy supply fluctuates based on the availability of things like sun and wind, that means that in practice, Google will have to shift computing demand in its data centers to renewable energy at times when the supply on the power grid is at its peak. This is a form of demand response in which energy consumers change their power consumption to better match the grid. Maximizing renewable energy consumption, though, means optimizing for a supply curve that looks different. In grids with a significant amount of solar generation, there will be ample zero-carbon generation at midday, meaning that companies will want to shift consumption to those hours. Wind generation peaks in the mornings and evenings, meaning that any large electricity consumer will want to push its peak consumption into those same hours. There are a few other things about this plan that highlight how much our grid has changed, and how responsive to the grid a big power user like Google can now be.

*Bloomberg/30-04-2020*

## Solar and Wind Cheapest Sources of Power in Most of the World

Solar and onshore wind powers are now the cheapest new sources of electricity in at least two-thirds of the world's population, further threatening the two fossil-fuel stalwarts coal and natural gas. The Levelized cost of electricity for onshore wind projects has fallen 9% to $44 a megawatt-hour since the second half of last year. Solar declined 4% to $50 a megawatt-hour, according to a report by BloombergNEF. The prices are even lower in countries including the U.S., China and Brazil. Equipment costs have come down, technologies have improved, and governments across the world have boosted clean-power targets as they seek to combat climate change. That could squeeze out coal and natural gas when utilities develop new power plants. "Best-in-class solar and wind projects will be pushing below $20 per megawatt-hour this side of 2030," Tifenn Brandily, an analyst at BNEF, said in a statement. Yet it remains unclear whether the coronavirus' impact on coal and gas prices will erode the competitiveness of wind and solar. "If sustained, this could help shield fossil fuel generation for a while from the cost onslaught from renewables," Seb Henbest, chief economist at BNEF, said in the statement.

*Bloomberg/28-04-2020*

## China to Help Build $3 Billion Coal Plant in Zimbabwe

Zimbabwe's Rio Energy Ltd., a unit of RioZim Ltd., will build a 2,100-megawatt thermal power plant with China Gezhouba Group Corp in northern Zimbabwe at a projected cost of $3 billion, Rio Energy said Monday. "CGGC will develop the project and assist with the fund raising," Caleb Dengu, chairman of Rio Energy Ltd said. The power plant at Sengwa will be constructed in four phases of about 700 megawatts each, bringing total capacity to 2,800 megawatts. The first phase of the project will cost about $1.2 billion, he added. Zimbabwe generates and imports about 1,300 megawatts of electricity, short of its 2,200-megawatt demand.

*Bloomberg/28-04-2020*

## Covid-19 crisis will wipe out demand for fossil fuels, says IEA

LONDON: Renewable electricity will be the only source resilient to the biggest global energy shock in 70 years triggered by the coronavirus pandemic, according to the world's energy watchdog. The International Energy Agency said the outbreak of Covid-19 would wipe out demand for fossil fuels by prompting a collapse in energy demand seven times greater than the slump caused by the global financial crisis. In a report, the IEA said the most severe plunge in energy demand since the Second World War would trigger multi-decade lows for the world's consumption of oil, gas, and coal while renewable energy continued to grow. The steady rise of renewable energy combined with the collapse in demand for fossil fuels means clean electricity will play its largest ever role in the global energy system this year, and help erase a decade's growth of global carbon emissions. The collapse of fossil fuel demand could lead global emissions to fall by 8% compared with 2019, a drop six times larger than the record fall after the financial crisis in 2009 to lows not seen in the past decade.

*The Guardian/30-04-2020*

## Shell cuts dividend for first time since WW2

LONDON: Royal Dutch Shell has cut its dividend for the first time since World War Two following the collapse in global oil demand due to the coronavirus pandemic. The energy giant also suspended the next tranche of its share buyback program. The move came as it announced a 46% fall in first-quarter net income to $2.9bn (£2.3bn). Chief executive Ben van Beurden warned of "continued deterioration in the macroeconomic outlook". He said Shell was taking "further prudent steps to bolster our resilience" and "underpin the strength of our balance sheet". Global demand for oil has all but dried up as lockdowns across the world have kept people inside. The collapse in the oil price has given Shell the perfect opportunity to do something it wanted to do for years. Cutting the dividend for the first time in 80 years will give the company some much-needed wiggle room. The company debt has ballooned from $1bn in 2005 to $73bn today. During

that same period, it's paid out $153bn in dividends and spent $48bn buying backs its own shares. That could not go on.

*BBC News/30-04-2020*

## Oil Prices Fall Below Zero for First Time in History

NEW YORK: Oil continued its unprecedented sell-off as the prices fell below zero for the first time in history. Demand for oil has crumbled due to the coronavirus crisis, thrusting markets into a parallel universe where traders were willing to pay US$40 a barrel just to get somebody to take crude off their hands. West Texas Intermediate (WTI) futures have been the benchmark for America's oil industry for decades, seeing the market through booms, busts, wars and financial crises, but no single event holds a candle to this. By the end of trading on Monday, the WTI contract for delivery in May had crashed 300 per cent from US$17.85 a barrel to minus US$37.63. "Today was a devastating day for the global oil industry," said Mr Doug King, a hedge fund investor who co-founded the Merchant Commodity Fund. "US storage is full or committed and some unfortunate market participants were carried out."

*EcoWatch/21-04-2020*

# COVID 19 AND ITS IMPACT ON PAKISTAN'S POWER SECTOR

The novel COVID – 19 has delivered the economic shock of years long recession within a quarter. This will reverberate throughout the value chain. Power sector forms a very important part of that value chain.

## Decreased demand

The biggest shock to the power sector will come in the form of a demand reduction. This demand reduction will result in reduced economic activity in commercial and industrial sector which consumed 30% of the power in 2017-18 (according HDIP). This leaves the household, government and agricultural sector. Agricultural sector may see sustained demand due to the fact that the country might have to rely on a domestic crop for meeting food security needs. However, the household and government sector[1] will see a fall in demand. Though empirical evidence from New York shows a meagre jump of 4% and 7% on weekends and weekdays respectively, that is unlikely to hold true for Pakistan due to two reasons. First, a number of commercial activities such as tuition centres, offices and clinics are run in residential houses on household connections. As these activities' shutdown, the consumption associated with households is expected to fall down. Second, Pakistani households have lower electricity penetration for doing household work. Moreover, even if the demand for household electricity consumption were to increase, electricity up to 300 units is cross subsidised by the government[2] which would further contribute to recovery rate issues in the long run.

To make matters worse the lockdown has come in the high demand months of April, May June and July. According to Energy Purchase Reports for 2019, 37.5% of the electricity procurement for 2019 happened between May to July 2019. Therefore, the power demand will be very sensitive to the government's decision about the timing of the lockdown.

However, a few factors will ensure that 2020 is a low demand year for the power sector. First, industrial sector might see lower demand due to fall in global demand for textiles, disruption of global value chain, closure of borders and fall in demand for cement and other consumables.

## Affordability of Power

Luckily, the international conditions have contributed to potential reduction in cost of generating power. This reduction in costs will be stimulated by a decrease in price of Coal, Gas and Oil. Indirectly, the reduction in their cost has decreased the current account deficit. This in turn has reduced depreciation pressure on the currency and hence appreciation pressure on the tariff. Moreover, COVID 19 induced quantitative easing can come to the aid of firms performing financial close for investments in Coal generation and Hydel projects. If the power projects are able to lock in these loans at such low rates, the sector will benefit from their low financing costs.

Though it is important to note that these positive effects remain contingent on a number of factors. First there is assumption that there is no "whiplash" from the oil sector. A whiplash will occur when some oilfields will close down due to inability to sustain operations, and hence would remain closed even after the global demand has recovered. Second, we assume that new projects are not hampered by unavailability of critical capital required to complete projects in their country.

## Aggravated cash flow issues

Pakistani Power Sector, which has historically suffered from cash flow availability on the back of dismal DISCO performance, will see its performance worsen with COVID 19. For starters, the government has allowed consumers to submit their bills in multiple instalments. Then, most of the billing in DISCOS is done manually. Some of that billing might not be done accurately or on time. This can lead to billing-delay induced cashflow issues. Both these concerns would further contribute to the current figure of Circular Debt.

[1] Includes government schools and public dealing offices.

[2] In the form of higher tariffs for commercial sector and via indirect taxation.

## Reduction in Investment

In the medium term (1-5 years) the power sector will see reduced interest by investors because of a number of reasons. First, the disruption of the global value chain is bound to lead to delayed growth in demand and power sectors are going to be wary of that investment. This will especially hold true if different countries disagree on the length of quarantine and decide to close borders as a form of precaution. Apart from demand related issues, government will also be less willing to provide financial support for investment in these projects due to sudden increase in medical spending. The private sector might not be able to fill that gap due to financier concerns about the ability of project managers to construct new projects on time given the current condition of the global supply chain. Moreover, investment in interest in Renewable Electricity might wane due to the expectation of an oil glut well into the first quarter of 2021.

## Conclusion

The Power sector in Pakistan will suffer due to COVID 19. These difficulties will come in the form of reduced electricity demand, lesser investment and a challenging cash flow situation. The reduced electricity demand will result from the reduced commercial, household and industrial demand. Moreover, wary investors in the power sector will prefer to wait out the uncertain medium term. Furthermore, the country's circular debt crises is expected to get a whole lot worse due to cash flow constraints induced by COVID 19.

# 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**