

### **ECC informed of factors behind circular debt**

Overall policy structure of investment as well as high rates of return on investor equities and delay in tariff determination have been termed as major causes of circular debt and subsequent unaffordable electricity to consumers. Sources said that a meeting of the Economic Coordination Committee (ECC) presided over by Finance Minister Asad Umar was informed by the Power Division of the factors leading to circular debt as well as how much circular debt was accumulated up to December 2018 and its implications on the power sector.

The overall quantum of circular debt stood at Rs 807 billion up to December 2018 with capacity purchase price of Rs 394 billion and energy purchase price of Rs 323 while other charges and interest payments stood at Rs 13.3 billion and Rs 77 billion respectively.

The implications of the circular debt, according to Power Division, include: (i) payables to IPPs under the energy purchase price (EPP) involve major payments to organisations like PSO, SNGPL, SSGC, PPL, Mari Petroleum Gas Company and to individual plants running on various fuels; (ii) these pending payments have accumulated over the last five years due to the gap between the electricity being purchased/invoiced by CPPA and the recoveries being made by the DISCOs; (iii) another major reason for accumulation of circular debt is non-payment of subsidies by the federal government; (iv) an archaic transmission and distribution system ridden with power theft and wastages is one of the root causes; (v) delay in determination and imposition of tariff creates gaps between the cost of electricity and the amount being recovered from the consumer; (vi) and such is the overall policy structure of investment and tariff determinations for the power sector that rates of return on investor equities are not only high but are also governed by principles like rupee-US dollar indexation and compounding of interest on delayed payments as well as high rates of interest while cost of the capacity component keeps on increasing, making electricity unaffordable and recovery thereof difficult.

Additionally, the meeting was told that ECC approved on October 24, 2018 tariff rationalisation for the power sector and decided amongst others that "the net hydel power (NHP) payable to the provinces, built in the tariff, other than the flow of Rs 33 billion for the fiscal year 2018-19 will be paid to the provinces by WAPDA through commercial borrowing.

Sources said that NHP payables have been included in generation of WAPDA's tariff and then in the consumer end tariff. The payables of NHP are based on the memorandum of understanding (MoU) between the federal and provincial governments of KP and Punjab as full and final settlement of the receivables of NHP. The tariff determined by NEPRA was based on revenue requirement of the sector split into prior year adjustments (PYA) and future revenue requirements.

They added that the ECC was also told that the government through their reconsideration request to NEPRA, as per approval of the ECC and the Cabinet, requested for deferment of Rs 146 billion (Rs.1.41 unit) of NHP in tariff and passed through Rs 33 billion as part of the notified tariff.

Following to the ECC approval, syndicated term finance facilities amounting to Rs 607.035 billion have already been executed through Power Holding (Private) Limited for funding the repayment liabilities of the DISCOs.

The government now decided to obtain fresh loan of Rs 200 billion from consortium of Islamic banks against the assets of the DISCOs/GENCOs as collateral and the requisite approvals from the board of directors (BODs) of DISCOs have been obtained. This loan will be used to ease out liquidity crunch of the sector by paying the outstanding liabilities to various sector entities. An assignment account is being created at the level of CPPA to ensure biannual payment against the debt servicing of the loan, added sources.

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