

1US\$ will be equal to Rs172 by year's end, Nepra told

ISLAMABAD: National Electric Power Regulatory Authority (Nepra) was apprised on Wednesday that US 1\$ will be equal to Rs 170-172 by the end of the current year as per International Monetary Fund's (IMF's) and State Bank of Pakistan's (SBP's) foreign exchange forward policy for commercial banks.

This was disclosed by the legal representative of eight wind power project companies, Akbar Bilgrami, at a public hearing regarding modification in tariff determination of November 19, 2018.

The following 12 wind power projects had filed tariff review petitions: (i) M/s Master Green Energy Limited; (ii) Tricom wind Power Limited; (iii) Gul Ahmed Electric Limited; (iv) Din Energy Limited; (v) Act 2 Wind (Private) Limited; (vi) Artistic Wind Power (Private) Limited; (vii) Metro Wind Power Limited; (viii) Liberty Wind Power 2 (Private) Limited; (ix) Nasda Green Energy (Private) Limited; (x) Liberty Wind Power 1 (Private) Limited; (xi) Lakeside Energy (Private) Limited and; (xii) Indus Wind Energy Limited) .

Commenting on the exchange rate, the representative of wind power projects stated Pakistani rupee was kept static for too long artificially. Traditionally, over the last 25 years rupee has been devalued by 5 per cent per annum but for some reasons previous government decided to keep it static and that this huge bubble burst. He further stated that when wind power projects submitted their review petitions, rupee stood at Rs 160 against dollar which is Rs 155 versus dollar now. With new developments in the Middle East, he said he does not know what will happen but there are predictions that crude oil will reach \$ 100 per barrel from \$ 72 per barrel today if current situation persists , adding this is what no one can control.

The IMF, however, according to him, had projected that exchange rate will go Rs 182 by the end of December 2020 but they made a correction and think that it will be between Rs 170-172. He said the State Bank of Pakistan in its foreign exchange rate forward policy shared with the local banks said it is also showing Rs 170-172 versus dollar by December 2020. He said wind projects will achieve COD by 2021, requesting the authority to approve exchange rate at Rs 170 versus dollar or at the rate of Rs 160 at least.

In reply to a question raised by Nepra, the legal representative of eight wind power project said that someone has to pay the difference between the approved rate and the rate at the time of payment. This difference has also to be paid during construction period.

He was of the view that SBP too has limitations as it does not have foreign exchange these days and they pay only 50 per cent for up to 50MW projects.

According to Nepra's case officer, the projects up to 20MW were eligible to get 100 per cent financing from SBP whereas projects up to 50 MW would get 50 per cent financing from the central bank.

The SBP introduced a concessionary financing scheme in June 2016 for renewable energy projects having capacity up to 50 MW which could secure a loan up to the limit of Rs 6 billion. Financing cost was 6 per cent for a period of 10 years. The Authority determined / decided the tariff of these 12 projects on the basis of SBP refinance scheme instead of the claimed conventional local/ foreign financing.

The case officer further briefed that determinations/ review decisions of these power projects consisted of a clause that in case these projects were not able to secure financing under the SBP scheme then the tariffs of these projects will be adjusted on conventional local/ foreign financing, or a mix of both, at the time of their Commercial Operation Date (COD). However, the projects, in that case, had to prove through documentary evidence issued by the SBP/ commercial banks that they have exhausted the option of availing 100 per cent financing under SBP scheme before availing part/ full of conventional local / foreign loan.

When Saif Ullah Chatha, Member Tariff, asked the case officer if it means wind power projects have not be given financing, he clarified that funding has been extended to these project but it was partly.

The financing cost of local loan was to be approved at KIBOR plus spread of 2.25 per cent and foreign loan at applicable LIBOR plus spread of 4.25 per cent. The term debt servicing was not be less than 13 years.

According to MWPL, the SBP scheme 2019 is not available for projects with capacity more than 50 MW as it has the capacity of 60 MW, which is higher than the limit specified in SBP's scheme. Therefore, the company was not eligible to avail the SBP scheme, 2019. The Authority has been requested to modify its tariff determination and reference tariff table to reflect the 100 per cent foreign financing being availed by MWPL instead of 100 per cent financing under the SBP scheme in the following manner i.e. 100 per cent financing through foreign debt at 3 months LIBOR plus 4.25 percent and repayment term is 13 years after COD on a quarterly basis.

The company further says that tariff determination and the reference tariff table are based on the USD/PKR exchange rate of PKR 120 and assume no foreign debt components requesting Nepra to allow exchange rate on the basis of exchange rate of Rs 160 = USD 1 and is further expected to increase by the time the project achieves COD.

The company is of the view that due to: (a) the unprecedented depreciation of the PKR, (b) the extremely competitive tariff awarded to the project, (c) the high debt to equity ratio (only 20% equity which does not permit the equity component to bridge the funding gap caused by devaluation), and (d) payment delays from the power purchaser, MWPL will face extreme hardship in payment of its USD financing obligations immediately upon

achievement of COD, until the tariff true-up determination is issued by the Authority, which as per precedent is expected to take considerable time.

As these projects are above 20 MW, therefore, they are only eligible for the SBP's scheme with a 6 per cent financing cost up to 50 per cent of their total debt. Rest of 50 per cent needs to be financed through conventional debt servicing.

The Authority has been requested to modify the tariff determination and the tariff table based on most recent exchange rate of USD conversion to PKR (PKR 160 to USD 1).

The foreign lenders required repayment schedule to reflect their payments as they cannot close this transaction. This has to be shown in the repayment agreement. The wind project of M/s Metro is of 60 MW and it cannot be funded by the local banks in accordance with the policy guidelines of State Bank of Pakistan (SBP). This project is being funded by the foreign banks and its tariff is lower because of prolonged repayment schedule.

International Finance Corporation (IFC) has also requested Nepra to allow for an updated PKR/ US\$ exchange rate that reflects the prevailing exchange rate. A determination issued by Nepra upon a modification petition would indicate the reference tariff table based on the foreign debt financing as outlined in the term sheet submitted with the petition, reflecting the actual tenor agreed by the project with the foreign financiers and the standard indexations as awarded to the project based on foreign debt, including adjustments on account of exchange rate fluctuations and LIBOR. Such reference tariff table would form part of the EPA at financial close.

After hearing the arguments of the petitioners, the Authority reserved the determination to be issued after a couple of weeks.