

## **To end power woes, govt first needs to short-circuit the circular debt**

Page No.15 Col No.01

LAHORE: The Independent Power Producers (IPPs) expect that Asad Umer, the next finance minister, will try to restore the country's image by honoring sovereign guarantees under which their dues have to be paid in time.

Of all the public sector companies the electricity distribution companies are posting more losses than the combined losses incurred by Pakistan International Airlines, Pakistan Railways, and Pakistan Steel Mills. These companies purchase electricity from National Transmission & Dispatch Company (NTDC), which in turn buys power mostly from numerous independent and public sector power producers, Water & Power Development Authority's (WAPDA), and Atomic Energy Commission that supplies nuclear energy. When power distribution companies default on payments, the NTDC withholds the payments of power producers.

This is the basis of regular power crisis in the country.

When the power producers in the private sector do not get their payments for long time, they have to stop producing electricity. This results in load shedding. This load shedding is not due to any shortage of power in the country but it is due to non-payment of power dues to the electricity producers. The electricity supplied by them is consumed and billed and some of it is pilfered. It is the duty of all power distribution companies to ensure smooth power supplies to the consumers, collect bills on time, and plug all pilferages. Companies around the world perform this task efficiently and pay their dues timely to the power producer and earn some on services provided by them. Ours are not operating efficiently so much so that they do not fully collect the billed amount.

But this is the way all public sector companies in Pakistan operate. This does not justify stopping the payments of the electricity purchased by the state for the electricity distribution companies. It is worrisome because the government has given sovereign guarantee to private sector power producers to make the payment for power supplied within 45 days of the supplies. The Pakistan People's Party (PPP) and Pakistan Muslim League-Nawaz (PML-N) governments defaulted on these sovereign guarantees.

Most of the time these companies refrained from going to the London based arbitrators and foreign courts to get their payments released. A few times they did go and the matters were settled before the arbitrator announced the decision. In some cases the government moved to local courts against fines imposed by foreign courts that are against the agreements it signed with power producers.

This default on sovereign guarantee is one of the main hurdles in investment in Pakistan. Investors are wary of coming to Pakistan where even the state does not honor its guarantees. The IPPs are expecting empathy from Asad Umer, who was the chief of Engro Group, when its state-of-the-art \$1 billion fertiliser plant was denied gas despite a written government commitment granted before the plant was commissioned. Engro Fertilizer incurred huge losses because of this default by the government. The IPPs are also in the similar situation.

The previous PML-N government cleared the entire dues of power sector immediately after assuming power. These over-dues have now reached very high and are stated to be over Rs600 billion.

The verified, audited and undisputed overdue portion of these 21 IPPs, which are approximately 50 percent of the total power producers within the industry, is approximately Rs248 billion as of July 15, 2018 --in respect of 21 members of the Independent Power Producers Association (IPPA).

It looks surprising that though the payments of all the IPPs have been withheld but these 21 IPPs are in deeper trouble than those that were established in 1992. The over-dues against older (1992 power policy) IPPs are almost double than those 21 IPPs established under 2002 power policy. The reason is simple. The government is bound to provide fuel (the main power generation input) to older IPPs. This is managed through Pakistan State Oil (PSO) and gas distribution companies. When the government does not pay to these IPPs they subsequently withhold the payments to the PSO or gas companies. However, these public sector companies go on supplying fuel and generate huge payables. Thus circular debt is created.

The apportionment of input general sales tax (GST) is another issue that relates to wrongly declaring of fixed capacity payment as exempt supply resultantly apportionment of input tax case is pending in superior court. Although IPPs are cost neutral and power purchaser has to repay to the IPP any of the change of tax consequence. Resultantly the consumers will bear the further load in the shape of cost hike.

Also, the IPPs are expecting the resolution of an old dispute regarding the withheld amounts by the NTDC. It is to be noted that in 2017 the London Court of International Arbitration ruled in favour of the IPPs and awarded Rs14 billion in respect of the NTDC's unduly withholding payments to nine IPPs in 2011-2013.