

# Expert Opinions

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## IPP MOU's Analysis

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immediately and government should shift 25 percent capacity on direct multilateral contracts increasing to 100 percent in 4 years. It will save 100 percent capacity payment in 4 years.

There was hope that this trillion rupees IPP fraud will be properly investigated and the culprits will be taken to task and nation will be given relief but the new IPP agreement has permanently taken away the competitiveness of the business and export industry of the country. These MOU's clear the IPPs of any wrongdoing and sanctifies all amounts billed and commits to payment schedule of Rs 600 billion current outstanding amount prior to any agreement being signed.

1994 Policy MOU	Comments	Impact on CD	Impact on Tariff Going Forward	Recommendations
Project costs have been overstated by at least 25% leading to no equity investment by investors.	Not part of MOU.	None	None	Investment costs should be re-determined and excess payments recovered. It will reduce CD and tariffs.
Existing capacity payments and variable O&M shall be reduced by 11%.	Reduction of 1.2 cents on tariff of 14	----	0.2 cents/kwh on these plants only	A very small reduction, should have been more.
USD exchange rate and US CPI indexations shall be discontinued on 50% of the reduced capacity payment, which shall be fixed at NBP TT/OD selling PKR/USD exchange rate prevailing as on August 12, 2020 without any local or international currency indexation or inflation adjustment for the future.	In future only	None	Rs 3.4 billion per annum (Rough estimate)	Share prices of these companies are increasing rapidly showing IPP's have won. Most of these plants are FO based and hence are not going to be dispatched in future.
In lieu of the tariff reductions herein above, any heat rate sharing by any IPP as per its existing arrangement shall cease to exist.	Negative Impact	None	NA	
USD exchange rate and US CPI indexations on reduced variable O&M and 50% of the reduced capacity payment shall continue as per existing arrangements.		None	Less than 0.0001 cents/kwh for these plants.	
To review the possibility of termination of plants considering their commercial and technical viability.				Inconsequential but would be good if the matter can be put to bed.
GOP intends to create competitive power markets. Without prejudice to the terms of its generation license, the IPP shall actively support and participate in the Competitive Trading Arrangement when it is implemented and fully operational.				Inconsequential as plants are to be transferred to GOP at Rs 1 each within a few years.
Power Purchaser and GOP shall devise a mechanism for payment of the outstanding receivables of the IPPs within agreed time.				All past payments due including LPS have been sanctified and IPP's exonerated.

2002 Policy MOU	Comments	Impact on CD	Impact on Tariff going Forward	Recommendations
Project costs have been overstated by at least 25% leading to no equity investment by investors.	Not part of MOU.	None	None	Investment costs should be re-determined and excess payments recovered; to reduce CD and tariffs.
Fuel Oil: To ensure that the actual efficiency is same as reported in the financial statements, the power purchaser (PP) shall appoint an international independent consultant to perform a one-time detailed heat rate test for all IPPs, based on TORs, standards and corrections required agreed between GOP and IPPs.	Going Forward: Only Heat rate audit and then sharing in difference non-operative as fuel oil will not be dispatched in future due to high cost.	None	Very minimal as fuel oil plants are not going to be dispatched due to high costs and economic dispatch.	Heat Rate Audit first: Recover the over billed amount for 8 companies for 10 years which is Rs 45 billion. It will reduce CD and future tariffs.
For O&M Charges-Oil: Any future savings in O&M shall be shared 50:50 after accounting for any reserves created, or to be created, for major overhauling, to be reviewed by PP or NEPRA as mutually agreed. If the reserve for major overhaul remains unutilized, it shall be shared in the ratio of 50:50 between the PP and the IPP. In case the major overhaul expense exceeds the reserves available at the time of major overhaul, the difference shall be carried over to the future years. PP shall not share in O&M and major overhaul losses.	Going Forward: Only share in savings past over charging sanctified although full record available.	None	Very minimal as fuel oil plants are unlikely to be dispatched.	Recover all excess payments to date which are appearing on balance sheet and allow only actual costs going forward. O & M savings from what again highly subjective but if applied properly will save Rs 1.5 billion per project annually, Rs 120 billion over the time period of 10 years from all companies. Will reduce CD and future tariffs substantially.
For O&M Charges-Gas: Fuel and O&M shall be taken as one consolidated line item and any future net savings shall be shared 60:40 in favour of the PP and IPP respectively, after accounting for any reserves created, or to be created for major overhaul; if the reserve for major overhaul remains unutilized, it shall be shared in the ratio of 60:40 between the PP and the IPP. In case the major overhaul expense exceeds the reserves available at the time of overhaul, the difference shall be carried over to future. PP shall not share fuel, O&M & overhaul losses.	Going Forward: Only share in savings past over charging Sanctified although full record available.	None	Minimal savings as gas projects will continue to supply 800 MW's.	Recover all excess payments to date which are appearing on balance sheet and allow only actual costs going forward. O & M savings from what again highly subjective but if applied properly will save Rs 1.5 billion per project annually, Rs 60 billion over the time period of 10 years from all companies. Will reduce CD and future tariffs.
For all future invoices, Delayed Payment Rate (DPR) under the PPA shall be reduced to KIBOR + 2% for the first 60 days after the due date, and thereafter at KIBOR + 4.5% as per the PPA. For IPPs where Gas Supply Agreement is signed with an entity with significant ownership of GOP, same DPR rates shall be payable by the IPP to Gas supplier. Further, for all invoices, the PP shall ensure that payments follow the PPA mandated FIFO payment principle.	Going Forward: Only KIBOR +4% will always remain the case as in the last 10 years no invoice has been paid in 60 days. In effect no change.	None	Very minimal as invoices will already be at full rate.	Offer L/C based payments in future after correction of issues which will mean no LPS. Will reduce CD and future tariffs.

<p>License does not permit take-and-pay clause, it is therefore redundant. Negotiations are aimed to exempt producers from competition, allow them cost plus, negotiated, or fixed up-front tariffs. In 2006 policy, upfront or fixed tariffs were imposed_ now there is no competition.</p> <p>GOP shall actively support the creation of competitive power markets. All projects shall convert their contracts to take-and-pay basis, without exclusivity, when Competitive Trading Arrangement is implemented and operational. In the interim period, CPPA (G) shall work towards providing access to the bilateral market at the earliest.</p>		None	None	<p>Immediately, shift 25% capacity on direct multilateral contracts increasing to 100% in 4 years. Will save 100% capacity payment in 4 years.</p> <p>Will reduce future CD as no capacity payments.</p>
<p>In future, for foreign equity investment presently registered with SBP, the Return on Equity (RoE) including Return on Equity During Construction (RoEDC) shall be 12% per annum, and for local investors, the RoE including RoEDC shall be changed to 17% per annum in PKR on NEPRA approved equity at CoD calculated at USD/PKR exchange rate of PKR 148/USD, with no future USD indexation. The miscalculation of IRR, on account of periodicity of payments, has been addressed through reduction in return component.</p>	<p>Going Forward: Only Investment in future shall be subject to these rates and returns of future will only be adjusted.</p>	None	<p>Minimal as no new investment by these plants is planned on future returns and tariff. The impact is about 5% of the tariff i.e. 0.5 cents in case of 10 cents tariff of fuel oil or which will translate to .05 cents in overall generation tariff.</p>	<p>Should be applicable from day one and rate of exchange should be actual at Rs 80/\$. Will reduce CD and future tariffs.</p>
<p>Rs 600 billion current O/S to be agreed to be paid with iron clad schedule.</p>	<p>Seals the fate of the existing CD and guarantees payment. Agrees to all misdeeds done in the past.</p>	None	None	<p>IPP's have been given a clean chit so that they cannot be questioned on any of these issues in future even if malfeasance surfaces.</p>
<p>Payment of the receivables of the IPPs is an integral part of this MoU. The PP and GOP shall devise a mechanism for payment of the outstanding receivables within an agreed time period, reflected in the final agreement.</p>	<p>IPP's are getting the GoP to commit to pay the past dues. Should only be done after redetermination.</p>	None	None; as LPS is not part of tariff.	<p>MOU's can only be interpreted in the light of existing contracts /licenses and hence no change.</p>

Wind Policy MOU	Comments	Impact on CD	Impact on Tariff Going Forward	Recommendations
Project costs overstated by over 50 to 100% leading to no equity investment by investors.	Important but not addressed.	None	None	Investment costs should be re-determined, and excess payments recovered: will reduce CD & tariffs.
WPPs shall coordinate with their lenders and make all efforts to extend the debt-tenor by five years, reduce the spread over LIBOR by 50-75 basis points and reduce the spread over KIBOR by 100-125 basis points.		None		Any reduction in lending rates would reduce tariffs significantly.
GoP shall support the WPPs in replacing their current KIBOR based long-term domestic debt with SBP refinancing facility for renewable projects.		None		But this is completely left to the will of WPPs.
WPPs shall coordinate with their O&M operators and make all efforts to reduce their operations & maintenance cost by 20-25%		None	Less than 0.00001 cents/ kwh	Inconsequential
WPPs shall reduce their insurance during operations from existing arrangement to actual, subject to a cap of 0.7% of EPC cost approved under the respective tariff.		None		Inconsequential
WPPs developed under the upfront tariff regime of 2015, tariff sharing will remain same for net annual plant capacity factor (NAPF) till the NAPF approved in the respective lender's technical advisor report (P90 level). For NAPF above the P90 level, the tariff shall be reduced to 50% for the WPP.			Less than 0.01 cents / Kwh	Inconsequential
In future, the RoE including RoEDC shall be reduced to 13% per annum. The miscalculation of IRR, on account of periodicity of payments, has been addressed through this reduction in return component.		None	None; as no new investment in projects.	To have any impact, it should be from start of construction of existing plants and not on new plants only.
For WPPs where DPR is set at KIBOR + 4.5% in their existing contractual arrangements, the DPR in all future invoices shall be reduced to KIBOR + 2% for the first 60 days after the due date, and thereafter at KIBOR + 4.5%. Furthermore, for all invoices, the purchaser shall ensure that payments (including the DPR invoices) follow the EPA mandated FIFO payment principle.		None	None	Inconsequential as LPS is not part of tariff.
The mechanism for cessation/compensation of curtailment shall be devised by the WPPs, PP and GoP collectively, whereas the mechanism for outstanding receivables shall be devised by the PP and GOP, each of which shall be reflected in the final agreement(s). PP and the GOP shall ensure adherence to its contractual obligations.		None	None	All past payments due in full including LPS have been sanctified and IPP's exonerated.