

WHY TO INVEST IN THE POWER SECTOR IN PAKISTAN

1. STRATEGIC IMPORTANCE

ADEQUATE POWER SUPPLY IS A KEY TO ACHIEVING SUSTAINABLE ECONOMIC GROWTH. PRESENTLY, OUT OF AROUND 162 MILLION POPULATION ONLY 65- 70% HAS ACCESS TO ELECTRICITY AND THE GOVERNMENT IS COMMITTED TO PROVIDE ELECTRICITY ACCESS TO TOTAL POPULATION IN THE MINIMUM POSSIBLE TIME.

2. STRONG AND INCREASING DEMAND FOR ELECTRICITY

DEMAND HAS OUTSTRIPPED SUPPLY OF ELECTRICITY; THE COUNTRY IS CURRENTLY FACING POWER SHORTAGES OF APPROXIMATELY 2500 - 3,000 MW. IT IS EXPECTED THAT DEMAND WILL EXCEED SUPPLY BY ABOUT 5,500 MW IN THE YEAR 2010. THE PRESENT ELECTRICITY DEMAND-SUPPLY GAP, COUPLED WITH CONSISTENT GROWTH IN DEMAND (6-7% PER ANNUM), CLEARLY INDICATES THE FUNDAMENTAL NEED FOR ENHANCING THE COUNTRY'S CURRENT POWER GENERATION CAPABILITY.

3. WORLD-RENOWNED COMPANIES ALREADY OPERATING IN PAKISTAN

PRESENTLY, SIXTEEN INDEPENDENT POWER PRODUCERS (IPPS) ARE OPERATING IN THE COUNTRY. THUS, WORLD-RENOWNED POWER SECTOR PLAYERS ARE ALREADY PRESENT IN THE MARKET, E.G. SIEMENS, GENERAL ELECTRIC, AES, INTERNATIONAL POWER, EL PASO, TENASKA.

4. IPPS UNDER CONSTRUCTION

AT LEAST TEN IPPS WITH A CAPACITY OF 2,200 MW HAVE ACHIEVED FINANCIAL CLOSE AND STARTED PROJECT CONSTRUCTION AFTER GETTING APPROVAL OF TARIFF FROM NEPRA- THROUGH A WELL-DEFINED PROCESS OF TARIFF APPROVAL THAT INCLUDES PUBLIC HEARING. THESE IPPS ARE SPONSORED BY LOCAL AS WELL FOREIGN INVESTORS.

5. GOP'S POLICY COMMITMENT TO INCREASE PRIVATE SECTOR PARTICIPATION

PRESENTLY, APPROXIMATELY 40% OF GENERATION CAPACITY OF THE COUNTRY IS IN PRIVATE SECTOR, AND ANOTHER 2,200 MW IPPS ARE UNDER CONSTRUCTION. THE SUCCESSIVE GOVERNMENTS IN THE COUNTRY HAVE REITERATED THE COMMITMENT TO INCREASE PRIVATE SECTOR PARTICIPATION. CONSEQUENTLY, MAJOR DIVESTMENTS OF PUBLIC SECTOR UNITS HAVE BEEN MADE IN VARIOUS SECTORS WHILE NO THERMAL GENERATION CAPACITY HAS BEEN ADDED IN THE PUBLIC SECTOR SINCE THE EARLY 90'S.

6. TRANSPARENT REGULATORY ENVIRONMENT

THE NATIONAL ELECTRIC POWER REGULATORY AUTHORITY (NEPRA) HAS BEEN SETUP FOR THE REGULATION OF POWER SECTOR IN PAKISTAN; IN ORDER TO BALANCE THE INTERESTS OF CONSUMERS AND POWER SECTOR COMPANIES. NEPRA HAS MADE CONSIDERABLE PROGRESS TOWARDS THE DEVELOPMENT OF THE REGULATORY REGIME AND FUTURE MARKET DESIGN FOR THE POWER SECTOR. ALL GENERATION, TRANSMISSION, AND DISTRIBUTION COMPANIES ARE NOW LICENSEES OF NEPRA, AND ABIDE BY THE RULES AND REGULATIONS LAID DOWN BY THE REGULATOR FOR RELIABLE AND EFFICIENT OPERATION OF THE POWER SECTOR.

7. ONE-WINDOW FACILITY AND INVESTOR-FRIENDLY POLICY

PPIB – WITH A SUCCESSFUL TRACK-RECORD OF ATTRACTING FDI OF OVER US\$ 4.5 BILLION IN THE LAST ONE DECADE OR SO – PROVIDES A *ONE-WINDOW* FACILITY FOR THE PROCESSING OF PRIVATE POWER GENERATION PROJECTS ABOVE 50 MW. THE POLICY FOR POWER GENERATION PROJECTS, 2002 IS AN INVESTOR-FRIENDLY POLICY THAT OFFERS AN ATTRACTIVE SET OF FISCAL AND FINANCIAL INCENTIVES TO THE PRIVATE SECTOR. THE POLICY PROVIDES A BALANCED RISK PROFILE FOR THE INVESTORS, LENDERS, AND GOVERNMENT AGENCIES.

8. AVAILABILITY OF GOP'S GUARANTEES

GOP GUARANTEES THE PERFORMANCE OBLIGATIONS OF ITS ENTITIES SUCH AS THE POWER PURCHASER, AND THE PROVINCES. GOP ALSO PROVIDES PROTECTION TO SPONSORS AND LENDERS IN CASE OF TERMINATION OF THE PROJECT.

9. PREDICTABLE MULTI-YEAR & LONG-TERM TARIFF

TYPICALLY, A LONG-TERM TARIFF OF 25 – 30 YEARS IS CONTRACTED WITH THE POWER PURCHASER. THE IPPS, THUS, ARE NOT SUBJECTED TO MARKET RISK FOR THEIR OUTPUT. THE PROJECTS ARE EXPECTED TO EARN AN ATTRACTIVE / COMPETITIVE AND STABLE RETURN ON INVESTMENT.

10. STANDARDIZED SECURITY PACKAGE

STANDARDIZED AND TESTED AGREEMENTS – NAMELY, THE IMPLEMENTATION AGREEMENT (IA), THE POWER PURCHASE AGREEMENT (PPA), THE FUEL SUPPLY AGREEMENT (FSA), ETC. – ARE AVAILABLE UPFRONT.

11. PASS-THROUGH OF FUEL COST AND ADDITIONAL TAXATION

ANY VARIATION IN PRICE OF FUEL IS TO BE PASSED ON TO THE POWER PURCHASER. SIMILARLY, ANY ADDITIONAL TAXATION OVER AND ABOVE THE TARIFF ASSUMPTIONS IS LIABLE TO BE PASSED ON TO THE POWER PURCHASER.

12. RISK COVERAGE FOR EXCHANGE RATE VARIATION

TO COVER THE EXCHANGE RATE VARIATIONS RISK, THE VARIOUS TARIFF COMPONENTS ARE INDEXED FOR VARIATION IN THE PAK RUPEE AND US\$ EXCHANGE RATES.

13. PROTECTION AGAINST CHANGE IN DUTIES & TAXES AND POLITICAL RISKS

GOP GUARANTEES PROTECTION AGAINST ANY CHANGE IN DUTIES AND TAXES, AND AGAINST SPECIFIED “POLITICAL RISKS”.

14. INCOME TAX EXEMPTION

EXEMPTION FROM INCOME TAX, INCLUDING TURNOVER RATE TAX AND WITHHOLDING TAX ON IMPORT, IS AVAILABLE TO PRIVATE POWER GENERATION PROJECTS.

15. ABUNDANT HYDEL / COAL POTENTIAL

THERE IS AN IDENTIFIED HYDROPOWER POTENTIAL OF OVER 40,000 MW, AND AVAILABILITY OF ABUNDANT INDIGENOUS COAL RESOURCES IN THE COUNTRY. THE THAR LIGNITE RESERVES IN THE PROVINCE OF SINDH ARE ESTIMATED TO BE AROUND 175 BILLION TONNES.

16. POWER PURCHASER TO BEAR HYDROLOGICAL RISK

FOR HYDROPOWER PROJECTS,
HYDROLOGICAL RISK IS TO BE BORNE BY THE
POWER PURCHASER.

17. AVAILABILITY OF SKILLED MANPOWER

GOOD QUALITY AND COST-EFFECTIVE
TECHNICAL MANPOWER IS AVAILABLE IN
PAKISTAN.

18. AVAILABILITY OF FINANCING

BANKS ARE KEEN TO LEND TO THE POWER
SECTOR DUE TO LOWER RISK PROFILE AND GOP'S
GUARANTEE FOR POWER PURCHASER AND THE
PROVINCES.