

Pakistan Power Sector

Circular debt - Reducing tariffs and settling dues

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Power Sector Circular Debt Resolution

Impact on power tariff

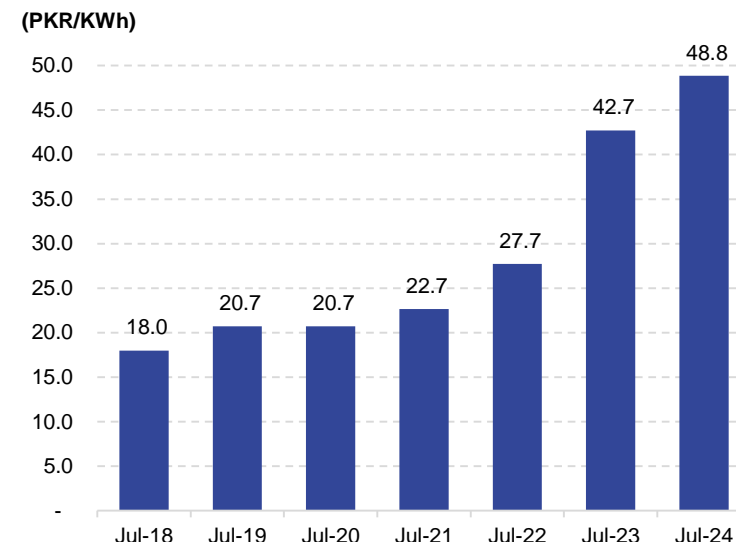
- According to the recent media reports, the government is working to resolving the power sector's circular debt of amount PKR 1.5trn.
- As per the news, PKR 1.25trn of the total amount will be financed through new loans from banks, while PKR 250bn is already allocated in the budget.
- Under this plan, the government will borrow PKR 1.25trn from banks to resolve the circular debt. Out of the borrowed amount, Power Holdings' loan of PKR 683bn will be rescheduled with an interest rate adjustment from K+2% to K-0.9%. The remaining PKR 821bn will be paid to power generation companies. The total debt of PKR 1.25trn will be parked on the CPPA's books.
- The additional surcharge currently charged from power consumers (PKR 3.23/KWh) is expected to be used for servicing the debt of PKR 1.25trn.
- It is anticipated that the government will generate PKR 342.8bn from the selling of 106bn KWh, with an surcharge of PKR 3.23/KWh, which is already being levied on consumers.
- We have conducted a sensitivity analysis to assess the potential impact of this power sector circular reduction plan on the consumer tariffs.

Exhibit: Sensitivity Analysis

	% of savings used for repayment of principal	Pass-on to Consumers		Principal Repayment	Debt Repayment period (years)
		PKR bn	PKR/KWh*	PKR bn	
Case 1	100.0%	-	-	204.1	6.1
Case 2	75.0%	51.0	0.48	153.1	8.2
Case 3	50.0%	102.0	0.96	102.0	12.2
Case 4	25.0%	153.1	1.44	51.0	24.5
Case 5	0.0%	204.1	1.92	0.0	na

Source (s): Media, AHL Research, *based on 106bn KWh

Figure: Trend of Domestic Electricity Tariffs*



Source (s): NEPRA, AHL Research, *using above 700 Units

Exhibit: Expected Savings

Interest Rate	K-0.9%	11.10%
New Debt Levels	PKR bn	1,250
Estimated Finance Cost	---	138.75
Estimated Collection* (through surcharge of PKR 3.23/KWh)	---	342.84
Savings	---	204.09

Source (s): Media, AHL Research, *based on 106bn KWh

Power Sector Circular Debt Resolution

Impact on listed companies

- As of Nov'24, the circular debt stands at PKR 2.4trn, with PKR 1.7trn owed to power generation companies (IPPs/GENCOs) and PKR 683bn held in Power Holding Ltd.
- The payment breakdown for circular debt includes PKR 683bn for PHPL, PKR 292bn for nuclear plants, PKR 232bn for coal plants, PKR 218bn for RLNG plants, and PKR 79bn for other plants.

RLNG-based Power Plants

- According to the recent circular debt plan, it is expected that these RLNG-based plants will receive PKR 218bn. These power plants obtain LNG from SNGP, while PSO imports LNG on behalf of SNGP.
- Once the RLNG-based plants receive the circular debt amount, they will pay SNGP, and in turn, SNGP will pay PSO.
- We have run a sensitivity analysis regarding PSO repaying its short-term borrowings using the expected funds received. For more details, please refer to the table on the right.
- In the RLNG supply chain, PSO does not record LPS in its income statement, whereas SNGP does include both sides of the LPS in its accounts.
- Addressing the circular debt of RLNG-based power plants would benefit PSO.

Coal-based Power Plants

- According to the recent circular debt plan, it is expected that the coal-based plants will receive PKR 232bn. The following listed IPPs will benefit; LUCK (LEPCL), HUBC (CPHGC, TEL, and TNPTL), FFC (TEL), ENGROH (EPTL), and THALL (TNPTL).
- Power generation companies record both sides of the LPS in their accounts. If the circular debt is settled with a waiver of LPS, it would be considered neutral for these companies.

Exhibit: Breakdown of Payment for Power Circular Debt

Company/Plants	PKR bn
Power Holding Ltd (PHPL)	683
Nuclear Plants	292
Coal Plants	232
RLNG Plants	218
Others	79
Total	1,505

Source (s): News Report, AHL Research

Exhibit: Sensitivity of PSO repaying its ST borrowings using the received funds

PKR bn	Amount expected to be received	ST borrowings payment	Net (PKR bn)	Net (PKR/shares)
	A	B	C= A-B	C/share
Case-1	218	100	118	251
Case-2	218	150	68	145
Case-3	218	200	18	38
Case-4	218	218	0	0

Source (s): Media Reports, AHL Research

Exhibit: Coal-based* beneficiaries of circular debt resolution

Coal Plant	Beneficiary	Fuel	Overdue receivables (PKR bn)
CPHGC	HUBC	Imported Coal	64
LEPCL	LUCK	Local Coal	25
TEL	HUBC, FFC	Local Coal	6
TNPTL	HUBC, THALL	Local Coal	5
EPTL	ENGROH	Local Coal	na
Total			100

Source (s): Analyst Briefings, AHL Research, *held by listed companies

Power Sector Circular Debt Resolution

Government targeting to curtail the power tariff

Measures taken by the government to reduce power tariffs

- **Termination of PPAs:** In Oct'24, the Govt reached an agreement to terminate PPAs with five IPPs, saving consumers PKR 60bn and reducing tariffs by PKR 0.57/KWh.
- **“Take or Pay” to “Take and Pay” Conversion:** The government has negotiated to convert contracts with 18 IPPs from a "take or pay" model to hybrid "take and pay." This could save around PKR 72bn and lower tariffs by PKR 0.67/KWh.

Additional measures that Govt can take to further reduce power tariffs

In our view, following are some of the measures that government could take to reduce overall tariff further:

- **Captive Gas Diversion to IPPs:** If the gas used by 1,500 MW of captive power plants (with lower efficiency) were redirected to more efficient IPPs, about 3,000 MW could be generated, reducing electricity costs by ~PKR 3.35/KWh.
- **Additional PDL collection:** Recently, the government has kept petroleum prices stable while increasing the PDL from PKR 60/litre to PKR 70/litre. This increase in PDL collection is expected to generate an additional revenue of PKR 53bn, which could allow the government to reduce the power tariff by PKR 0.84/KWh (PKR 2.60/KWh for domestic consumers using up to 300 units).
- **Power Demand:** The government plans to sell 106.14bn units in FY25 with a revenue requirement of PKR 3,768bn (PKR 35.5/KWh). A 5% increase in power consumption could reduce the average cost by PKR 1.17/KWh.
- **Debt reprofiling with Chinese IPPs:** The Chinese IPPs, which account for 20% of the total power capacity, to extend repayment periods of front-loaded debts. This could save PKR 277bn and reduce tariffs by PKR 2.61/KWh.
- **Distribution Losses:** The allowed T&D losses for FY25 are 11.43%. Reducing this threshold by 5% could lower tariffs by PKR 1.90/KWh. Transmission infrastructure issues, such as overloading and inadequate capacity, have led to inefficiencies. In FY24, T&D losses and short recoveries reached PKR 509bn, contributing to circular debt. Privatization of DISCOs, like K-Electric, could help reduce these losses.

Exhibit: Summary of tariff reduction

Measure	Impact (PKR/KWh)
Measures the government has taken	
Termination of PPA of five (s) IPPs	-0.57
Conversion from "take or pay" to "take and pay of 18 IPPs	-0.67
Sub-Total	-1.24
Expected measures that could further reduce power tariffs	
Captive gas diversion to the IPPs	-3.35
Addition PDL collection (Mar'25 - Jun'25)	-0.84
Increase in electricity consumption (5%)	-1.17
Debt Reprofiling	-2.61
Reduction in T&D losses by 5%	-1.90
Sub-Total	-9.87
Total	-11.11
Reference cost for FY25	35.50
Expected new cost	24.39
Expected reduction %	-31.3%
Source (s): AHL Research	

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