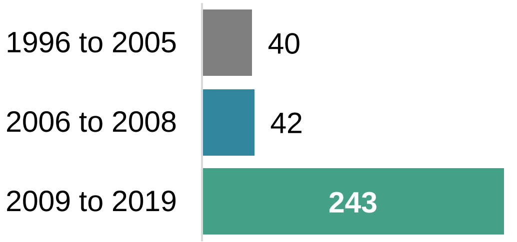
K-Electric – Privatization Turnaround

KE's Privatization & Turnaround

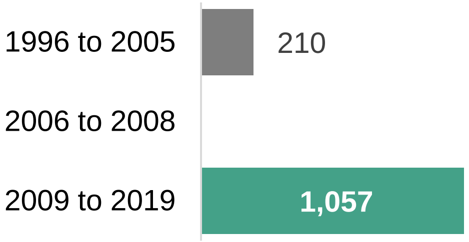
KE – Pre & Post Privatization

From a troubled utility having **sustained years of losses** along with **old and dilapidated infrastructure**, KE at the time of privatization in 2005, was **in dire need of investments across the value chain** to be supplemented with process improvements in all business verticals

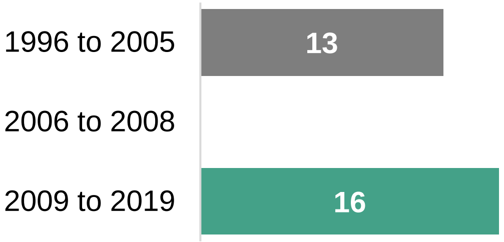
Investment
(PKR Billion)



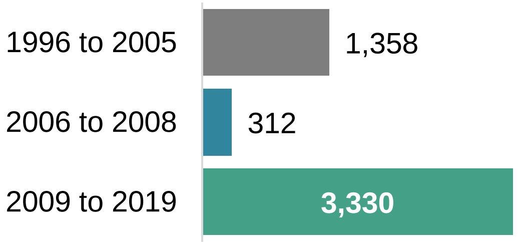
Generation Capacity Added
(MW)



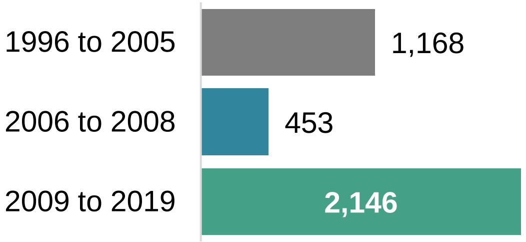
Grid Stations Added
(Nos.)



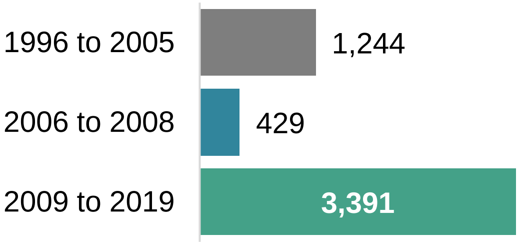
Length of 11kV lines Added
(km)



Increase in Transmission Capacity
(MVA)



Increase in Distribution Capacity
(MVA)



Investments of over PKR 280 Billion since privatization, with accelerated investments in last 10 years, resulting in significant operational improvements across the value chain

Customer Centricity at the Core of KE's Turnaround

Having customer centricity at the core of its business model, KE has been a **pioneer in several initiatives taken in the sector focusing on improved customer experience**

Implementation of SAP – ISU for greater transparency into the billing system – one of the first utilities in Pakistan to do so

First utility in Pakistan to integrate digital platforms with SAP – enriching the range of customer care touch points

Universal Customer Care Center – one stop solution for customers regardless of their power connection's physical location

State-of-the-art 118 Call Center and KE Live App providing customers 24/7 access along with strong presence on digital platforms (Facebook, Twitter etc.)

Payments for New Connections through alternate payment channels

Community Engagement Initiatives – Project Ujala, Project Sarbulandi, Engaged with 16 philanthropic institutions

HR Initiatives

Enhanced workforce effectiveness through creation of a **performance-driven culture and workforce optimization**

Rightsizing & Accountability with identification of areas of cost optimization

Change Management – Roll out of "AZM" Change Management Program (one of the largest organizational development initiatives in private sector)

Performance Monitoring and Target based KPIs

Learning & Organizational Development with targeted training interventions at all levels

Cultural Revamp and focused approach towards becoming a more inclusive organization

Diversity and Inclusion and providing an enabling environment

Key Achievements

Along side **operational improvements and technological advancements**, enhanced workforce effectiveness through creation of a **performance-driven culture and workforce optimization** were pivotal in KE's turnaround

Over 70% service territory exempt from load-shed

Process Improvements & Technological advancements (introduction of SAP-ISU, MDMS Project etc.)

Setting up of IBCs – One stop solution for customers

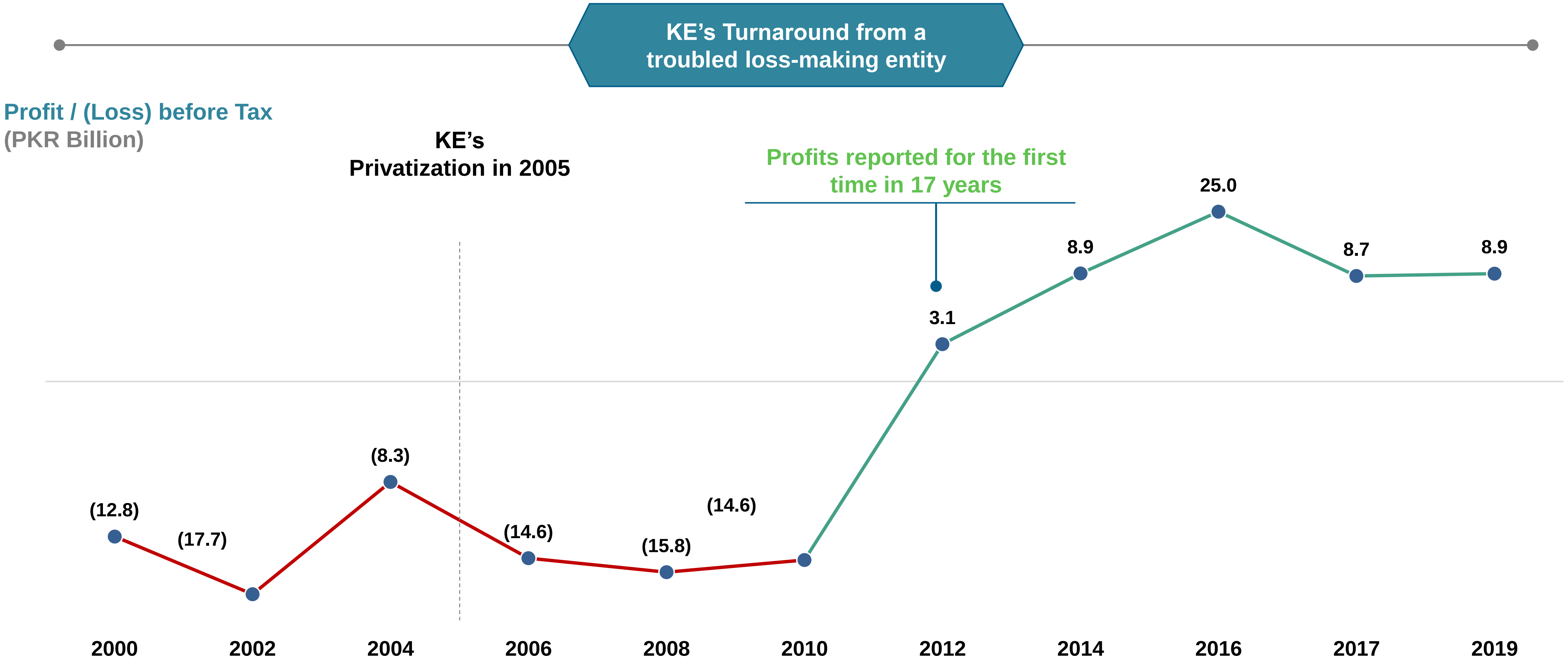
Capacity additions across the Value Chain

HR Restructuring / Target based KPIs

Improved Customer Centricity – Launch of KE Live App

KE's Turnaround – Case of XWDISCOs' Privatization

Driven by **continued investments across the value chain along with strategic initiatives & processes to unlock value**, KE's turnaround has set a **precedent in the local power sector**



KE's Turnaround – Validates Case of XWDISCOs' Privatization

During **FY 1998 to FY 2005**, the Company incurred loss before taxes of **c. PKR 12 Billion (on average basis) annually – total losses of c. PKR 95.4 Billion during the period**

To keep the operations afloat, GoP had to provide operational subsidy of c. PKR 28.5 Billion to KE during FY 2003 to FY 2005

Had KE not been privatized, would have continued on loss-making trajectory, burdening the GoP in the form of operational subsidy

KE's improvement in AT&C losses of 18.1% points (Annual impact of c. PKR 60 Billion[1]) – government would have lost in the form of operational subsidy and losses

Huge benefits for Consumers and the National Exchequer

1. FY 19 sent out x 18.1% x Average Tariff

KE's Turnaround – Impact of Privatization

Continued investments across the value chain along with process improvements not only benefited KE's consumers, but also had a **positive impact on the overall economy at large**

Savings of c. PKR 600 Billion to National Exchequer in 10 years

Had KE not improved operationally, this would have resulted in **operational losses of c. PKR 600 Billion – directly impacting the GoP in the form of operational subsidy**

Industrial Growth and Impact of around 0.5% to 0.7% on national GDP

100% LS exemption to industries since 2010 – had KE not made operational improvements achieved in last 10 years, this would have resulted in additional load-shed, including industries, having **an impact of c. 0.5% to 0.7% on national GDP (annual impact of upto c. PKR 200 Billion)**

Improved Human Development Index / Socio Economic Indicators

Direct positive impact of **greater access to power along with over 70% of the service territory being exempt from load-shed**, including strategic installations such as hospitals etc – Electricity development index is strongly correlated with HDI

Complexities of Operating in Karachi

Despite operating in a **significantly more challenging operational environment**, KE's operational improvements including T&D and AT&C losses have **outperformed state-owned DISCOs**

*With **more than 50% of the population living in slums** and **highest poverty rate among developed cities** in the country, Karachi presents unique set of challenges*

Indicator	Karachi	Islamabad	Lahore
Slum Population	>50%	10%	30%
Poverty Rate	5%	3%	4%
Per Capita Income (PKR)	56,000	70,000	60,000
Livability Index	202	193	199

Not only is Karachi intricate in its dynamics and operating environment, there are other key challenges which impact execution of planned initiatives in a timely manner and bring other operational improvements

Lack of coordination / alignment among Federal, Provincial and Local government and compliance with policies / procedures of different cantonment bodies

Right of Way Issues / Approvals – impact timely execution of planned initiatives

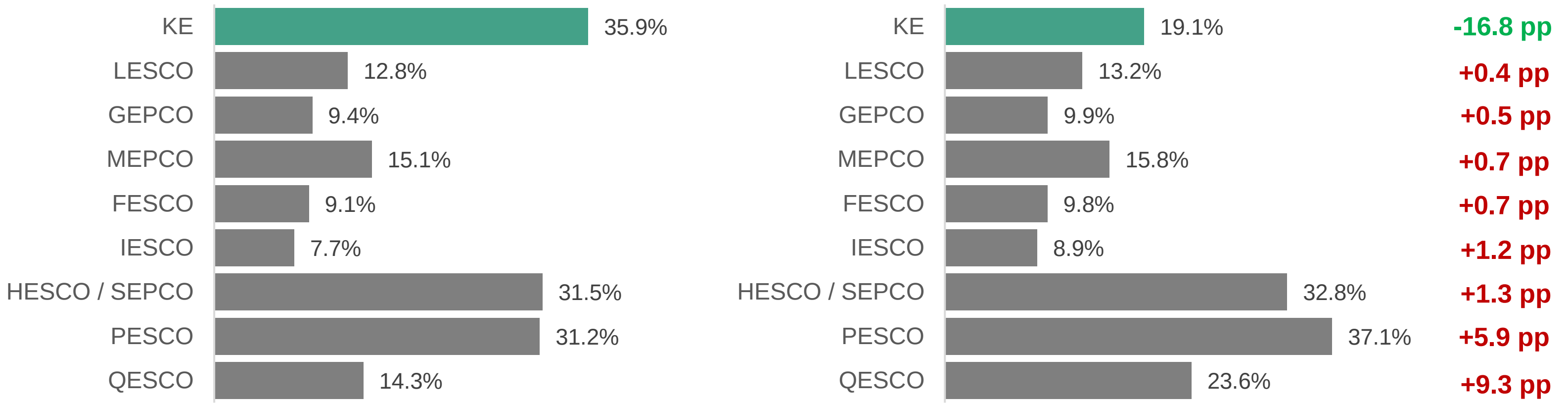
Lack of standard urban development protocols

Source: Mercer, State of Pakistan Cities report 2018 (UN-Habitat), State of Industry Reports, News Reports

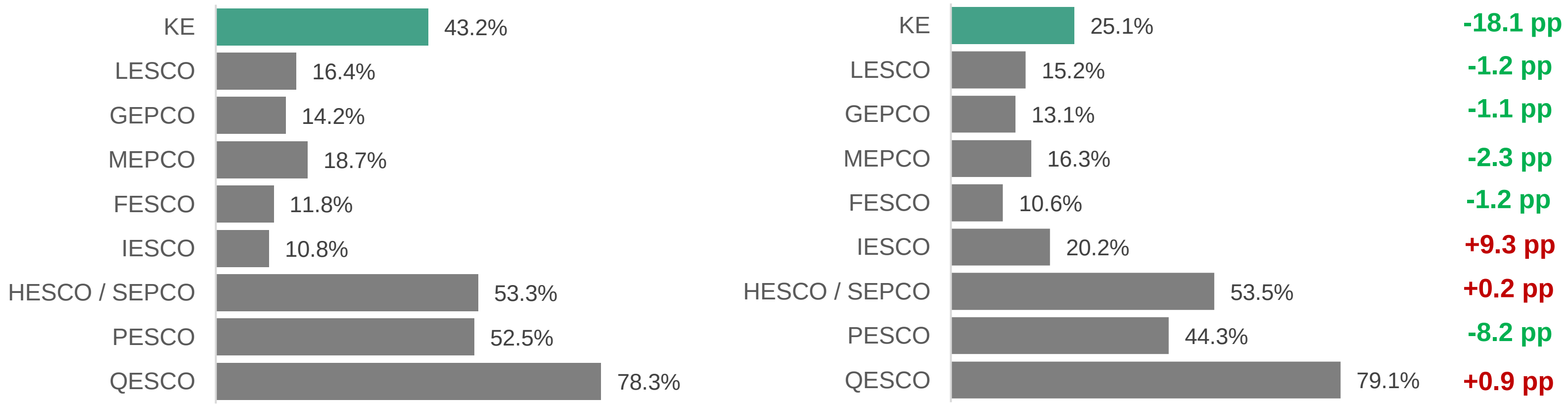
T&D and AT&C Loss Comparison – KE vs. XWDISCOs

Despite operating in a **significantly more challenging operational environment**, KE's operational improvements including T&D and AT&C losses have **outperformed state-owned DISCOs**

T&D Losses 2009 v 2019



AT&C Losses 2009 v 2019



During the last 10 years, KE is the most improved distribution company in the country

Had KE not been privatized and shown improvements in AT&C loss only similar to XWDISCOs (c. 2%) in last 10 years – would have cost the economy c. **PKR 50 Billion annually[1]**

Estimated impact of privatization of XWDISCOs and assuming similar improvements as KE – **c. PKR 300 Billion annually**

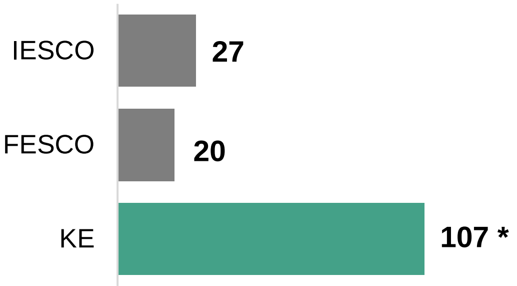
Source: State of Industry Reports

1. Improvement in AT&C losses of DISCOs (c. 2%) x Sentout FY 19 x Average Tariff
2. Improvement in AT&C loss of KE since privatization (c. 11%) x Sentout FY 19 x Average Tariff

KE's Operational Improvements vs. IESCO & FESCO

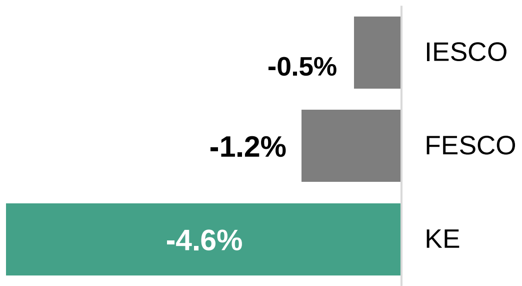
Through significantly higher investments, KE's operational improvements have outpaced IESCO and FESCO

Investment 2016 - 2019
(PKR Billion)

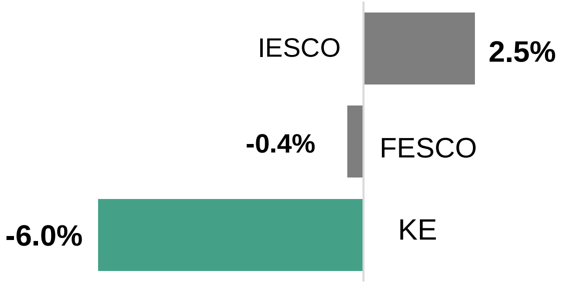


*Includes T&D

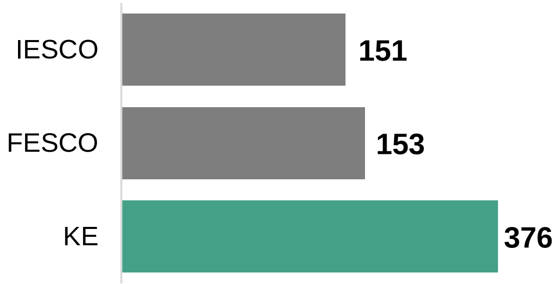
T&D Loss Improvement
(2015 - 2019)



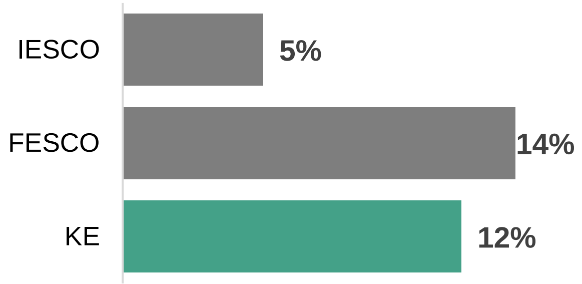
AT&C Loss Improvement
(2015 - 2019)



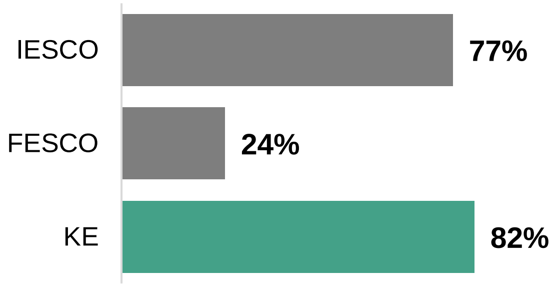
Feeders Added 2015 -2019
(Nos.)



Increase in 11kV Length
(2015 - 2019)



Reduction in Feeder Overloading
(2015 – 2019)

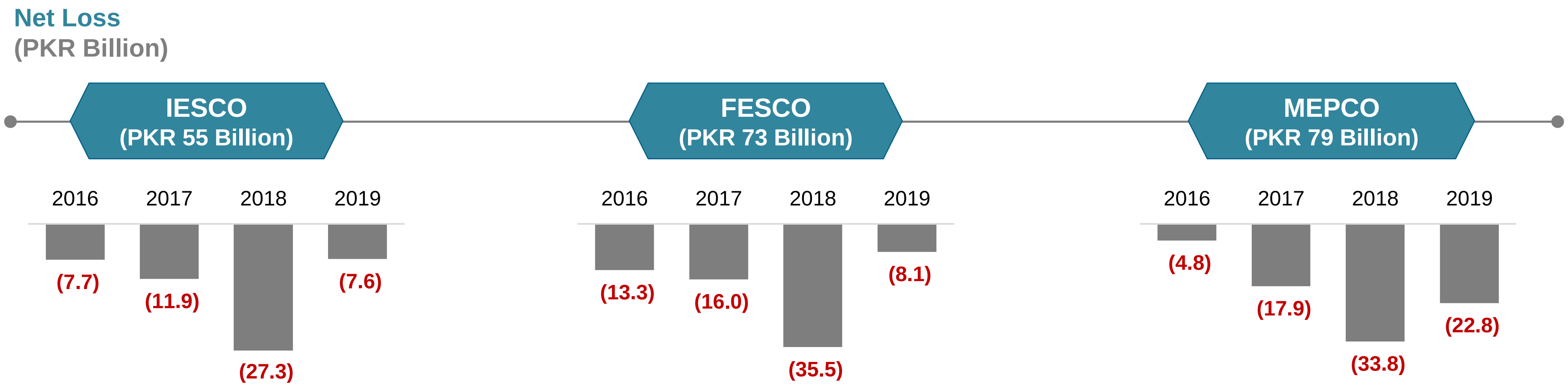


Source: State of Industry Reports, Financial Statements

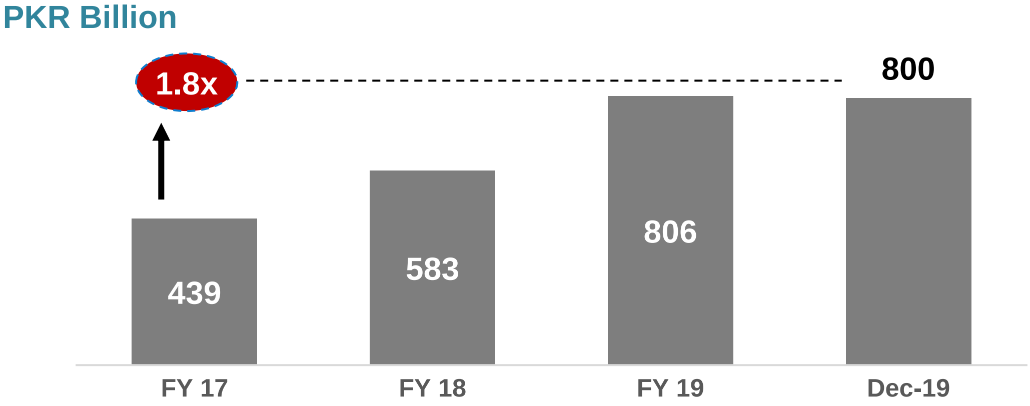
Continued Financial Losses of XWDISCOs

Due to **lack of cost reflective tariff** and **other structural issues** dominant in the sector, even **good performing DISCOs have remained in losses** – GoP's heavy reliance on commercial banks, resulting in **continuous accumulation in loans parked with Power Holding Private Limited (PHPL)**

Cumulative losses of XWDISCOs in the last three years have been over PKR 350 Billion



Financial Losses of XWDISCOs have resulted in continuous increase in loans parked with PHPL



- Based on available data, 7 out of 10 state-owned DISCOs reported losses in 2018 and therefore are not able to honor their obligations
- GoP has to borrow on behalf of these DISCOs to keep their operations afloat
- **Government has to borrow from commercial banks, typically 5 to 7 years at KIBOR + 2%**
- Servicing of PHPL loans is party made through surcharge in tariff – **impact of c. PKR 40 Billion annually**
- Further contributes to the issue of circular debt, thus putting sustainability of the sector at risk

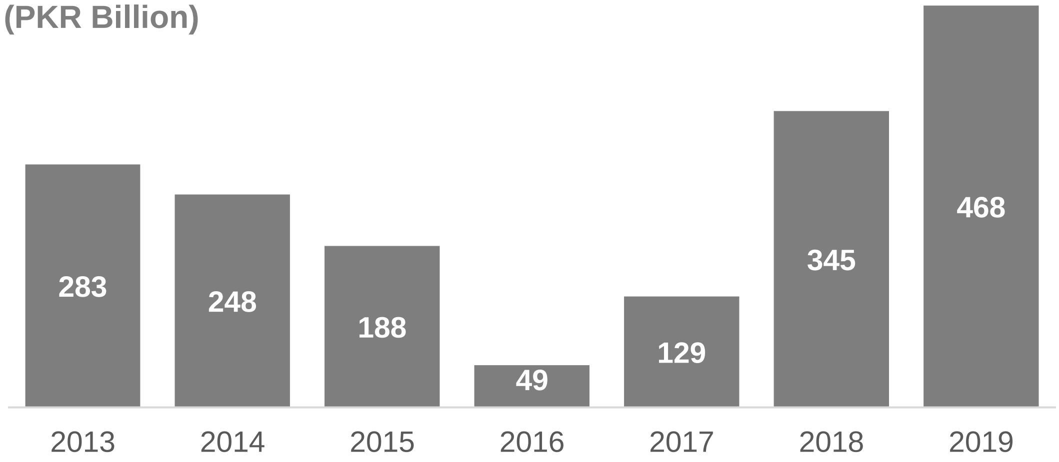
Source: Financial Statements of DSCOs, Circular Debt Report 2018, IMF

Circular Debt – Sector Sustainability at Risk

Circular debt has clogged capacity and stifled liquidity in the power sector – as a result of continuous accumulation, power sector's circular debt is now around **PKR 1.9 Trillion**

Driven by continuous accumulation, circular debt stands at c. PKR 1.9 Trillion – putting sector sustainability and the overall economy at risk

Yearly Addition in Circular Debt
(PKR Billion)



KE is in a net receivables position and has no contribution towards circular debt

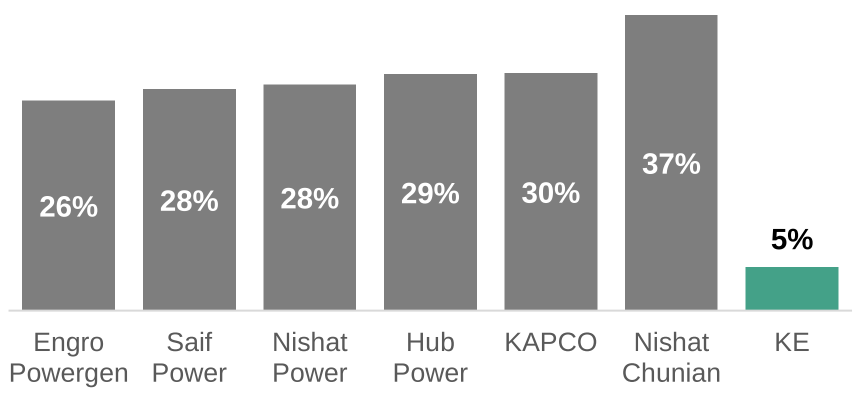
- **High Capacity Costs, Lack of Integrated Planning & Policy Misalignment**
- **Regulatory Gaps & Need for Cost Reflective Tariff Setting**
- **Operational inefficiencies & Governance issues in state-owned entities**
- **Accumulation of Receivables from Government Entities / Departments**

Source: News Reports (Express Tribune)

KE's Returns Significantly Lower than IPPs

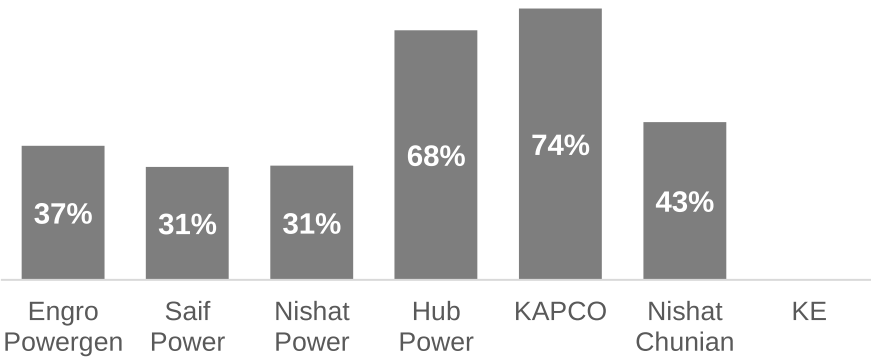
KE's average return on equity has remained well below other private industry players in the generation segment, mainly due to unreasonable tariff setting for distribution business

Average Return on Equity (PKR) (2010 to 2019)*



** where available*

Average Dividend (2010 to 2019)*



Being vertically integrated and not having any sovereign guarantee, KE's risk profile is much higher, however, KE's returns are significantly lower than IPPs

KE's average Return on Equity in the last 10 years has been around 5%, whereas, other private entities made returns between 26% to 37%. All profits earned since 2012 have been reinvested into the business by KE

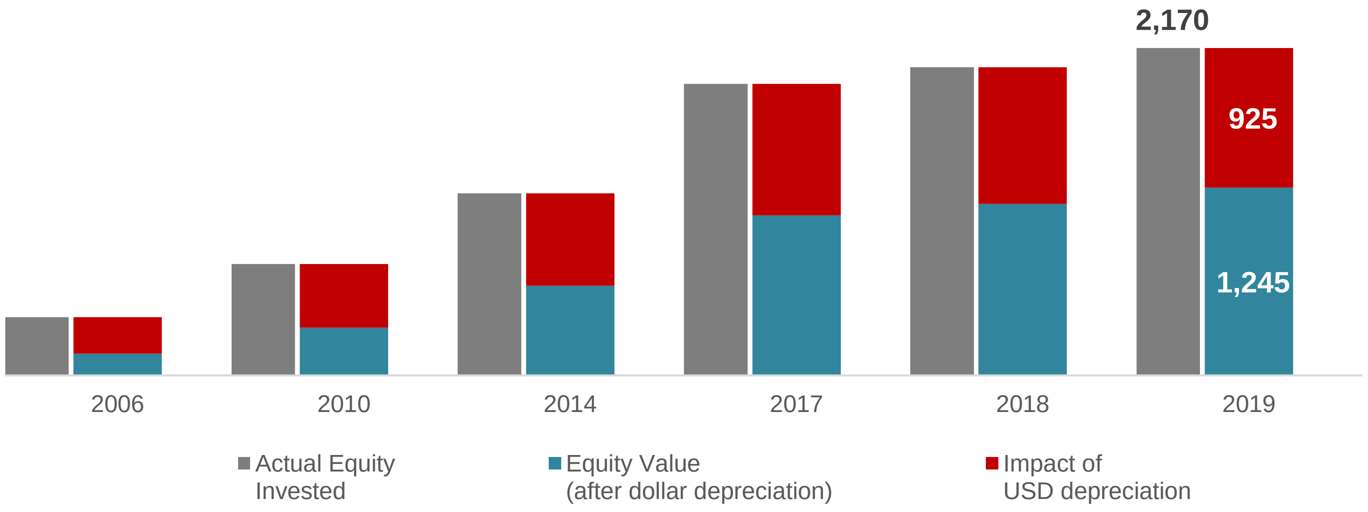
Source: Financial Statements; KE's RoE includes revaluation surplus and excludes losses

Impact of Rupee Devaluation on Investor Returns

Due to significant rupee devaluation since privatization, KE's **equity has eroded by almost 43% since privatization**

c. 43% of KE's actual equity invested since privatization has eroded due to rupee depreciation

Equity Value
(USD Millions)



- KE's risk profile is significantly higher than IPPs
- However, KE's average RoE (USD based) since privatization has been around negative 3%[1], whereas **IPPs are allowed guaranteed 15% to 17% USD based returns**
- Further, unlike IPPs, KE has reinvested all the profits earned since 2012

Note: Equity value includes reinvestment of profits (1) Excluding revaluation surplus

Recognition of KE's Post Privatization Success & Myths about KE

KE's Turnaround – An example for State-owned Entities

KE's transformational **turnaround success has been acknowledged at various forums** – both locally and internationally

2012 & 2013: Harvard Business School published 2 case studies highlighting KE's turnaround story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Abraaj Capital and the Karachi Electric Supply Company

"A utility should be faceless and invisible."
– Tabish Gauhar, Partner at Abraaj Capital and CEO of KESC

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Abraaj Capital and the Karachi Electric Supply Company (B)

Power Sector Report 2020 acknowledges KE's turnaround as "Real Turnaround"

> *"There is overwhelming evidence from the power sector **(e.g. K-Electric)** as well as other sectors (banking, cement) that **real turnaround takes place under private ownerships** because the private sector can respond better to disruptive technological changes leading to paradigm changes in conventional public utility models"*
>
> ***Report on the Power Sector, 2020***


Electrified

KESC turnaround: a success story we all missed - II

Power Sector Report 2020 lauds KE's governance improvement and investments post privatization

> *"…The **evidence from KE suggests that with governance improvements and investment**, there is scope for significant reduction in DISCOs' T&D losses"*
>
> ***Report on Power Sector, 2020***

NEPRA's conclusion in State of Industry Report 2018 based on comparative performance of KE v XWDISCOs

> *"…Therefore, it pertinent that the **Federal Government explores the option of privatization of XWDISCOs encouraging private investment**, making them financially self-sufficient and thereby, reducing the burden on national exchequer."*
>
> ***NEPRA State of Industry Report, 2018***

Myths about KE

Myth	Reality
Adequate Generation not added & Dependence on National Grid	• 1,057 MW added since 2009 and planned projects delayed due to delay in tariff – would have taken KE into surplus • KE ready to pursue 700 MW project on local coal – tariff notification on hold by GoP, while around 1,500 MW of similar coal projects are being added in the National Grid in the next 4 to 5 years • Planned additions would have also helped phase away from expensive sources resulting in reduction in tariff – KE to absorb idle capacity available in the National Grid instead of its planned projects
Higher fuel cost of KE plants due to low efficiency	• Despite GoP and SSGC commitment of 276 MMCFD indigenous gas, allocated quantity not being supplied • Gas supplied to KE is on comingled basis including RLNG at distribution tariff – expensive fuel • Around 200 MMCFD[1] gas from SSGC system being diverted to inefficient captive plants
KE Consumers are charged higher tariff	• Tariff charged to consumers is as per GoP's Uniform Tariff Policy • Under the existing regime, GoP has a cross subsidization model where high-end consumers cross subsidize low-end consumers – DISCOs including KE have no role in tariff setting
KE collectively punishes communities through segmented load-shed	• Segmented load-shed has inspired a mindset shift and helped KE reduce losses in high loss areas • KE's load-shed policy is in line with GoP's National Power Policy 2013 and is also practiced by other DISCOs across the country

Source: State of the Regulated Petroleum Industry 2017-18

KE's Segmented Load-shed Policy – A shift in Mindset

New condition

IMF wants power outages linked to recoveries

Gives Pakistan until end of January to implement the condition for $6.7bn bailout package

SHAHBAZ RANA

ISLAMABAD

The International Monetary Fund (IMF) has called for linking the frequency and duration of power outages across Pakistan to the recovery of bills. This, the international lender believes, will discourage rampant power theft and non-payment culture in the country.

Increasing power pilferage and non-payment of bills adds to the 'circular debt', which eats up the scarce public resources.

Sources familiar with the recent talks between the IMF and Pakistan told *The Express Tribune* that the international financial institution has added a new structural benchmark in the $6.7 billion bailout programme. According to which, the government will link the load-shedding duration with the revenues a power distribution company (Disco) collects on account of electricity bills.

The government has been asked to implement this before end of January 2014, sources added. Discos will be responsible for identifying areas for higher load-shedding, based on the recoveries from each small circle and division.

Discos will get their electricity quotas as usual but the areas generating less revenue will be subjected to more outages. The government will soon issue guidelines to Discos to link load-shedding with recoveries.

The Karachi Electricity Supply Company (KESC) is

NEW CONDITION, PAGE 9

NEW CONDITION, FROM PAGE 1

successfully implementing this model while the government has also introduced it in two cities where the recovery rate was on the decline. In Bannu, the government has ordered an increase in the frequency and duration of outages as compared to the other jurisdictions of the Peshawar Electric Supply Company (PESCO).

Pakistan and the IMF concluded the first review of the three-year bailout programme on Nover
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Currently, the f
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the losses on account of theft and less recovery are not budgeted at present, which is again adding to the circular debt even though the government paid Rs480 billion dues in June-July.

The official said that barring the current arrears, which are to the tune of Rs40 billion, the circular debt again swelled to Rs95 billion till end of October.

After the recent hike in power tariffs, the

NEPRA LEEWAY

16.5%

losses are being recovered from the consumers by Discos

Multan distribution companies, said MOWP spokesperson Zargham Ehsaq Khan.

He added that during the first quarter of the current fis-

SBP lauds KESC's performance

RECORDER REPORT

KARACHI: The State Bank of Pakistan (SBP) has lauded the new initiatives taken by Karachi Electric Supply Company (KESC) for improvements in its power generation, distribution and transmission networks.

According to KESC, the company's refreshing new approach has been lauded by many independent forums in the past and most recently SBP in its Annual Report 2011-12 has duly acknowledged KESC's performance.

While talking about key challenges faced by power sector, the SBP report says, "Leakages in terms of theft and inefficiencies at the generation and transmission stage must be seriously addressed. In this regard, the example of a privatised KESC is insightful: this utility has shed surplus staff (despite stiff union opposition); has cut power supply on account of unpaid bills (even for high profile government agencies); has invested in more efficient generation units; and has formulated a commercially-driven load-shedding schedule. As a result, the situation is quite different in Karachi compared to the rest of the country."

Touching upon the circular debt issue, the report says: "As circular debt continues to choke cash-flows across the power supply chain, liquidity constrained power plants were forced to remain idle (or produce below capacity) because of their inability to procure fuel. As discussed earlier, peak load management for the Pakistan Electric Power Company (PEPCO) system has risen sharply. 6 according to Nepra's annual report for FY12, at the height of the crisis, urban centres witnessed power outages of 9-10 hours in urban areas, and rural areas witnessed outages of 16-18 hours".

"In Karachi, which is supplied by the privately-run KESC, generation was also lower in FY12 compared to last year; however, the situation was quite different from the rest of the country. KESC adopted the strategy of loss-segmented load-shedding, which means the duration of power outages in a particular area depends on the recovery of bills from that area. In effect, outages were minimised for areas where bill collection was high. Furthermore, the fuel mix improved, as the share of generation from gas was increased."

KE Challenges

Multi-Year Tariff (MYT)

Delays in tariff determinations and **lack of cost reflective tariff not adequately compensating for actual cost of business impacts the ability to make required investments**, ultimately **compromising consumer interests**

Delays in Tariff Finalization

KE's Multi-Year Tariff (MYT) finalization took almost 3 years

Lack of Cost Reflective Tariff

Recovery loss, a critical cost component to be compensated through write-offs in KE's MYT – however, despite fulfilling the required criteria, there are delays in processing of these claims by NEPRA

Impact on Planned Investments

Delays and uncertainty around tariff resulted in delayed investments in KE's power infrastructure including the 900 MW BQPS III RLNG based power plant

Mid-Term Review

KE has filed for certain adjustments to enable it to execute planned investments in a timely manner – critical that NEPRA processes the same in an expedient manner

Impact of COVID-19

Significant impact on operational and financial indicators – important that the government and regulator devise a plan / strategy to compensate distribution companies

> *"While determining the end-consumer tariffs, the regulator (i.e. NEPRA)* ***assumes 100 percent collection*** *and transmission and distribution losses at 15.5 percent, a significant deviation from what Distribution Companies ("DISCOs") are able to achieve. This implies that the tariff is set at a level lower than cost recovery, therefore generating a structural shortfall in revenues in the system"*
>
> ***IMF Report dated December 19, 2019***

Impact of COVID-19

The fall out of COVID-19 and measures including **lockdown and deferment of electricity bills** are likely to have a **significant impact on the power sector, particularly distribution companies** – **estimated annual impact is c. PKR 500 Billion[1]**

Non-Operational (c. PKR 300 Billion[1])

- Change in consumption mix due to lockdown – adverse mix
- Increase in fixed costs / capacity costs due to increased under / non-utilization of plants
- Delays in determinations for tariff variations / adjustments

Operational (c. PKR 200 Billion[1])

- Reduction in units sent-out due to reduced power demand
- Adverse sent-out mix and change in consumption pattern – increase in T&D losses
- Reduced recoveries and financial impact of deferred recoveries

What needs to be Done?

- Adjustments in tariff should be allowed by NEPRA
- Compensation for compliance of government directives
- Package for vulnerable domestic segments

Source: CPPA-G

KE's Planned Projects & Demand Supply Outlook

K-E denied extension in power agreement

By Ahmad Ahmadani

ISLAMABAD: The Ministry of Water and Power has decided not to give extension to a power purchase agreement with K-Electric to supply it 650 megawatts (MW) of electricity despite the request of Sindh government to continue this facility to the power utility.

Sources at the Power Ministry told Daily Times that the Water and Power Ministry has decided not to make extension in the agreement with privately-owned electricity distribution Company (K-Electric) and with effect to the decision of the ministry, the National Transmission and Dispatch Company (NTDC), after the expiry of its agreement, is likely to disconnect 650MW power supply to the K-Electric after January 26.

Under the agreement, the NTDC was to supply 650MW of electricity to the K-Electric for a period of five years. Urging the K-Electric to generate electricity from its own power plants lying idle for a long time, officials at the Power Ministry on the condition of anonymity said that further extension in the agreement to continue power supply to the K-Electric would not be given due to ongoing electricity shortages in the country, adding that it has become imperative to stop supply to K-Electric and make reduction in the hour-long power outages in other parts of the country.

On the other hand, Sindh Chief Minister Syed Qaim Ali Shah in a letter to Prime Minister Nawaz Sharif dated January 1 asked for continuation of 650MW supply from NTDC to Karachi. "I sincerely urge your personal attention on this crucial matter and request you to direct the Ministry of Water and Power and the NTDC to continue to support Karachi and parts of rural Sindh and Balochistan with supply of 650MW from national grid," the letter reads.

Qaim Ali Shah also said that after enactment of 18th Amendment in the constitution, provincial governments have been categorically empowered to have meaningful contribution while deciding the distribution of energy resources.

"The province of Sindh contributes more than 65 percent of the gas being produced in the country, whereas it consumes less than 35 percent. Therefore, as per Article 158 of the constitution, it is fundamental right of the citizens of Sindh and particularly Karachi to have due share from the national power pool. We all are cognizant of the difficult times our nation has been going through as we continue to fight the ever-so-prevailing energy crisis, while the federal and provincial governments play their part in meeting the growing demands on limited energy supplies, reviving and safeguarding the engine of economic growth is also equally important," the letter reads.

Advocating the case of K-Electric before the prime minister, Qaim Ali Shah said that during the energy crisis K-Electric with the support of National grid has been the

resilient power utility com-

Govt to cut 300MW of power supply to KESC

'No extension in power supply accord with K-E after Jan 26'

By Ahmad Ahmadani

ISLAMABAD: Ministry of Water and Power has decided no extension in a power purchase agreement with Karachi Electric (K-E) and with effect to this decision National Transmission and Dispatch Company (NTDC) was likely to stop 650 megawatts (MW) power supply to K-E by end of Jauary 2015.

Sources in Power Ministry told Daily Times Ministry said after the expiry of agreement 650 MW power supply to K-E would be stooped after January 26, 2015.

Under the agreement, NTDC was to supply 650 MW of electricity to K-E for a period of five years.

Urging from K-E to generate electricity from its own power plants lying idle for a long time, officials at Ministry on the condition of anonymity said further extension in the agreement to continue power supply to K-E would not be given due to on going electricity shortage in the country.

It has become imperative to stop supply to K-E and make reduction in the hour's long power load shedding in other parts of the country, they added.

Earlier, National Electric Power Regulatory Authority (NEPRA) has imposed a ban on giving extension to this power purchase accord.

And, Karachi will face more power cuts after discontinuation of supply from NTDC.

The sources said power shortfall of Karachi would go up from 1,000 MW of electricity after suspension of 650 MW to K-E.

They said K-E has generation capacity of 2,957 MW of electricity from its plants. But, K-E has not produced power from these plants in line with their capacity. K-E sources, however believe that NTDC would give extension to the power purchase agreement.

Uncertainty around supply from National Grid

KE had to plan for its own power projects to meet Karachi's growing power demand

Robust Investment Plan including 900 MW RLNG and 700 MW Coal Project

Significant time and resources committed to key planned projects, including 700 MW Coal Project

Delays in approvals of 700 MW Project

Despite lapse of over 3 years, tariff for 700 MW approved by NEPRA is pending notification with Power Division and has thus adversely impacted project timelines

Projected Shortfall in KE's service area

Due to delays in approvals, there may be a shortfall of around 1,400 MW in KE's service area in FY 2023

KE being asked to absorb surplus capacity in the National Grid

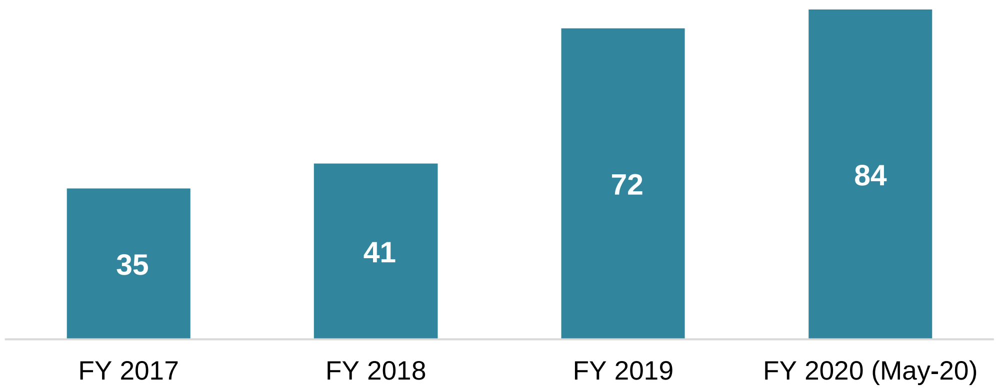
Due to fragmented planning at national level, there is now surplus capacity and further additions of around 20,000 MW have been committed till 2027

KE's Receivables from Government Entities

To ensure continued investments across the value chain, it is critical that payment of outstanding dues including TDC and other government receivables is made at the earliest

Borrowings to fund operational and working capital requirements increased by 2.7x in last 3 years

Net Receivables (Principal Basis)[1]
PKR Billion



Continuous accumulation in receivables from government entities / departments has resulted in KE's borrowings to fund operational and working capital requirements reach unsustainable levels

1. FY 2020 balance does not include claims for June 2020, however, includes TDC release received in June 2020

Safety – Risks for Citizens & Utility alike

- **Unpermitted structures extended or constructed** close to utility infrastructure
- **Violation of promulgated safety distances** from utility infrastructure
- **TV & Internet cables impeding and damaging power infrastructure –** very high risk for public safety
- **Lack of safety awareness and unsafe practices** – increases safety hazards particularly inside consumer premises

Safety – What has KE done?

Safety remains a top priority at KE and based on learnings from the 2019 Monsoon, the power utility is taking various initiatives to further improve the overall safety standards – both internal and external level

- Earthing / Grounding and **revalidation of each and every pole in the network**
- **Engaging with civic agencies** to assist in eradication of menace of kundas, illegal network of cable operators and illegal streetlights switches from KE network
- Removal of kunda / illegal internet and TV cables from KE's network
- Safety awareness campaigns at mass level

Future Outlook

Planned Initiatives Going Forward

Committed to growth of Karachi and Pakistan at large, KE has planned various initiative across the value chain focusing on **capacity additions, technological advancements and improved service levels**

Fuel Mix Diversification with focus on renewables

Continued focus on loss reduction projects

Safety – Public Accident Prevention Plan, Revalidation of Network

Growth driven by Capacity additions across all business verticals

Accelerated Technological improvements (Smart Metering etc.)

Community Engagement Initiatives – Project Sarbulandi

Solution to Power Sector Issues: Privatization of State-owned Entities

Power Sector – What is Required?

'Privatisation of distribution companies only solution to circular debt'

Staff Report

PRIME Minister (PM) Shahid Khaqan Abbasi said that the privatisation of distribution companies was the only way to transform power sector and curb circular debt.

During an interview to a private TV channel, the Prime Minister said that distribution losses of distribution companies (DISCOs) due to power theft were the major cause of rising circular debt.

He said that except for K-Electric (KE), which regularly paid charges against electricity provided by the government, all other distribution companies had defaulted.

The PM said that the fact that the privatized KE had no contribution in circular debt further supported the government's plans to facilitate private investment in DISCOs.

According to an industry analyst, "While the country

State of Industry Report released: Power sector under extreme financial pressure: Nepra

Circular debt rising by Rs21b per month: ADB

Bank's estimate counters govt's claim of reducing circular debt to Rs12b a month

SHAHBAZ RANA

ISLAMABAD

BY SHAHID KARDAR

Privatisation of DISCOS

The most important aspect following privatisation will be the need for a strong regulatory capacity.

*"The regulator notes that while the Federal and Provincial Governments are striving for the improvement in the sector, continuation of the **Federal Ministry with the centralized control of day-to-day operations of public sector entities, has led those to unacceptable levels of technical and financial performance**"*

NEPRA State of Industry Report, 2019

Evident that power sector issues call for privatization of state-owned entities to make them self reliant – KE's turnaround success validates the same and has been recognized

What is Required to Privatize XWDISCOs?

Holistic Review of Tariff & Regulatory Regime

Cost reflective tariff enabling recovery of all prudent costs with adequate returns in accordance with NEPRA Act and providing regulatory certainty

Need for Reforms and Policy Changes

Accumulation of government receivables in the form of subsidy, need to phase away from cross-subsidy model

Streamline process for approvals

Delays in required approvals discourage private investors – even after 3 years, approvals required for SEP's acquisition of a controlling stake in KE are still pending

Demerge large DISCOs

Demerge large DISCOs for better management and administrative control

'Privatisation of distribution companies only solution to circular debt'

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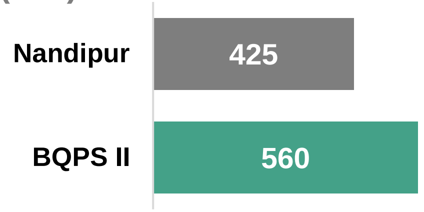
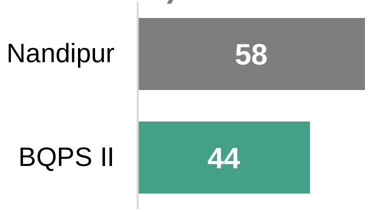
Planning Shortcomings – Nandipur Project .vs. BQPS II

Comparison below is an evidence to **KE's well thought planning in line with business and service requirements** – on the other hand, **Nandipur project is a glaring example of cost overruns and planning oversights, costing billions to the economy**

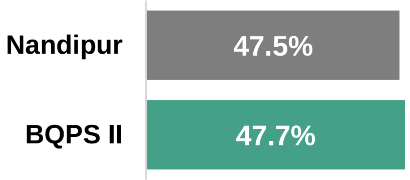
Capacity
(MW)



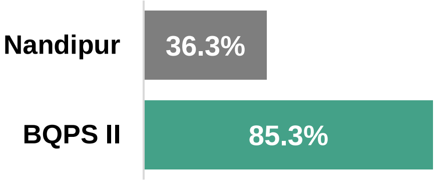
Project Cost
(PKR Billion)



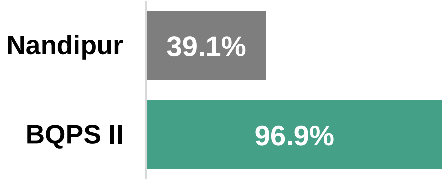
Gross Efficiency FY 19
(LHV)



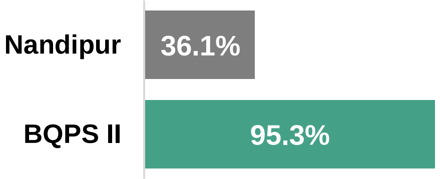
Load Factor FY 19
(%)



Utilization FY 19
(%)



Capacity Factor FY 19
(%)



Nandipur Power Project – cost overruns, annual plant utilization of less than 40% resulting in loss of billions to the economy


The Nation

Nandipur power project has become a burden

February 06, 2016 SHARE :

Islamabad - Pakistan Businessmen and Intellectuals Forum (PBIF) yesterday said power project has become a burden and demanded its closure to save public exche further losses.

Those who took decision regarding the project overlooked critical aspects w transformed over half a trillion project into a liability, stated in a press statement issue Nandipur power project has become a burden which should be closed to save public e from further losses, it said.

Nepra recently revised its tariff from Rs 11.30 to Rs 11.63 which cannot save this Titanic from sinking which will contribute to circular debt and heavy losses, Industrial Alliance and First Vice Chairman of the Businessm Hussain.

He said that Nepra is under pressure to further revise the ta national interests as government will have to endure a loss of R

He also criticised the management of the power project that s 15.63 and asked the MD of the company to stop justifying Rs36

Mian Zahid Hussain said that the controversial Nandipur pr including that of NAB and auditor general, in which some fac single big fish has been netted.

Petroleum minister has claimed that the power plant can beco without realising that the nearest gas pipeline is 170 kilometre power crisis should not be used to plunder national resources.

Daily Times

February 04, 2016

Your right to know A new voice for a new Pakistan

Nandipur power project become burden, should be closed: PBIF

PBIF President says operations to inflict loss of Rs 30 billion annually

Pakistan Businessmen & Intellectuals Forum (PBIF)

Nandipur power project termed a white elephant

Operations to inflict loss of Rs30 billion annually

Dated Feb 04, 2016

Source: State of Industry Report, 2019, Power Division letter to Transparency International

Conclusion

Drawing upon **KE's experience, privatization of state-owned entities** is critical to ensure **sector sustainability** going forward as well as make them **self reliant** which would thereafter help make **targeted and focused investments resulting in improved service levels** – important that **Government prioritizes the same**

Improved Governance – will help reduce losses and improve recoveries

Targeted / Focused investments

Efficiency / Improved service levels with greater customer centricity

State-owned entities will become financially self reliant and responsible for their own planning

Technological Advancements – will help improve network reliability

Reduced Government Dependence / reduction in circular debt

Way Forward (1/2)

- Regulatory reforms to remove bottlenecks including cross subsidy model, lack of a cost reflective tariff regime, and provide a sustainable framework to a Multi-Buyer Model balancing interest of all stakeholders – reduce the role of the government
- Reduction in T&D loss through replacing obsolete infrastructure, modern tools, data analytics / big data / technology
- Improvement in Recovery – through use of technology / data analytics identification of consumer
- Incentivize industries to use grid rather than captive to dilute impact of capacity payments
- Terminate expensive fuel and inefficient contracts
- Privatize DISCOs / consider public private partnership
- Convert circular debt to public debt – it is public debt anyway

Way Forward (2/2)

- Enhance capacity of NEPRA – independent impact assessment
- Learn from success stories like KE, Gujrat, Delhi Models
- Timely tariff announcements/adjustments
- Make a small team / task force to develop roadmap for reforms & policy changes urgently:
  - Consider recent NEPRA State of Industry Report
  - Power Sector Committee Report
  - Engage with stakeholders / experts
  - Study other good practices

Thank You