

## **9. Payment System**

### **9.1. Framework for allocation of funds:**

9.1.1. Following framework for allocation of funds is currently implemented in CPPA:

- i) The total system of the electricity under NEPRA tariff regime is based on the assumptions that total cost of generation, transmission and distribution will be recovered from the consumers of electricity or through Subsidies approved by Government of Pakistan, and any shortfall due to inefficiencies will not be charged to the consumers. The whole system run smoothly if all the billing and collections are as per the projected tariff assumptions and modalities. From 2007 to date the DISCO's are not paying 100% of cost of generation to CPPA. The difference in billing and collection is mainly due to certain inefficiencies at distribution level and/or delays in regulatory tariff issues. In case 100% is collected from DISCOs the issue of allocations is resolved all invoices will be paid on due date.
- ii) The operational practice that has been experienced includes that once a shortfall of power remittances by DISCOs occurs in a month, the same has never been made up by the DISCOs until the support of the Government of Pakistan is extended by way of equity injection or swaps of the energy payables through commercial lending from banks. Furthermore, with the increased capacity available in the system, the merit order is being followed for the economy of the electricity generation requiring financial space to the economical electricity producing generators to keep the basket price at its lowest possible level. The constraints suffered are exacerbated by the electricity generators/IPPs requirement of discharging its debt service, taxes and Operation and Maintenance liability when due. Maintenance of fuel is compromised due to low payments. The debt servicing becomes more critical for the new generation's plants/IPPs where the amounts involved are heavy because of front end loaded tariff. In addition, in most cases the international financing is involved and, default in debt repayment will trigger the default of project sponsors and create problems for arrangement of further financing for Working capital arranged by IPPs, Public Sector Projects and upcoming projects in Power Sector.
- iii) The current allocation methodology/basis being followed in constrained circumstances with at times competitive considerations require the weighing of implications has been listed as under:
  - a) CPPA is collecting funds from the DISCOs on daily basis and disburses the funds to generators same day with the capacity to pay to generators as per collection of funds from DISCOs and subsidies.
  - b) CPPA considers, on daily basis the sum of the verified undisputed invoices overdue for the period July 01, 2017 to date, and the sum of the payment made during the same period to calculate the percentage of the payment against total billing. The computed percentage is maintained and closely matched with each IPPS. While keeping the overall percentage at close band following factors are further monitored which cause variation in percentages.

- c) The percentage varies when new invoices are added on due dates, especially once the arrears are claimed due to determinations or other reasons.
- d) CPPA strives to ensure enough payments on account of fuel (Energy Purchase Price including GST) to generation companies/IPPs having low cost of generation so that the operation of the IPPs remained smooth.
- e) CPPA considers the seasonal requirements i.e. different fuels availability is taken care as per required in Winter/Summer or holidays. Especially the Projects running on RFO and Coal (being stock able fuels.)
- f) CPPA strives to maintain sufficient payments on account Capacity Purchase Price to allow generation companies/IPPs to discharge its debt service liabilities (commonly at quarter or half yearly) and to meet the O&M operations.
- g) CPPA strives to avoid defaults in payment of Taxes to Government i.e. income tax, sales tax or customs Duty etc.
- h) CPPA considers that projects on take and pay based invoices are paid over and above percentage if such projects are non-operational over months.
- i) CPPA strives to ensure payment to WAPDA keeping in view its operational requirement plus fixed amount on account of Net Hydel Profit to the tune of Rupees 5 to 6 billion each month. The O&M payments are mainly based on the need basis. However, the WAPDA billing is on higher side therefore in case funds are available more payments can be released to WAPDA.
- j) CPPA strives to ensure payments to the GENCOs disbursed to maintain operations and avoid any sort of default. Occasionally percentage of the GENCOs is on higher side because of its efficiency losses however newly installed CPGCL (Guddu Gas fired) and Nandipur is at par with IPPs.
- k) Advance Payment to GENCOs is not allowed after operationalization of the CPPA.
- l) Nuclear is one of the important sector in generation. Funds are allocated to Nuclear to keep it at par with IPPs on best efforts basis. However, during refueling its percentage may rise over and above the IPPs.
- m) After the imposition of sanctions on Iran and subsequent non availability of banking channels, payments to Tavanir were held up for 3 years approx. Eventually, in order to ensure that the much-needed electricity to Baluchistan border areas do not get interrupted due to non-payments to Tavanir, it was decided in the 19<sup>th</sup> session of Pak-Iran Joint Economic Commission held on 8<sup>th</sup> to 9<sup>th</sup> December 2014 that in order to resolve the issue of outstanding payments, NTDC shall make necessary arrangements to make payment to Tavanir's designated companies within Pakistan as an applicable alternative (**Annex-B**). Payments to Tavanir has ever since been made accordingly.

- n) This decision was reinforced during the meeting held on 14<sup>th</sup> and 15<sup>th</sup> March, 2019 between Tavanir, Ministry of Energy (Power Division), CPPA and NTDC. Further it was agreed that CPPA shall pay monthly US\$ 12 million to Tavanir on account of clearance of current and outstanding payment for supply of electricity (**Annex – C**).
- o) CPPA receive Payment Order Letters (POL) from Tavanir nominating a beneficiary on its behalf for receipt of payments in Pak Rupees in Pakistan and CPPA makes payment there against, later, on daily basis such payments are communicated to Tavanir Iran for confirmation of receipt of funds. On completion of the POL confirmations is sought again from Tavanir.
- p) CPPA strives to ensure payments for the allocation to NTDC against UoSC to meet its requirements and in accordance with funds collected against UoSC billing.
- q) CPPA strives to adjust for MOF for CPPAG for its own operation.
- r) The FC Surcharge as collected and remitted separately by DISCOs, is paid to PHL for payment of the mark up on loans. Disbursement of funds from revenue collection to meet the PHL requirement in case of shortfall in FC Surcharge collection account. Such allocations are required to avoid bank default.
- s) In case the assistance received from GoP to reduce payables, the amount so received is paid against the overdue amounts payable to the power generation companies/ IPPs for this purpose, CPPA considers.
  - a. In case of any special instructions from Government such instructions are followed in true letter and spirit.
  - b. Fuel supplier's liabilities or defaults avoidance.
  - c. the overall overdue payables (From July 17 to date) may be considered according to the overall liquidity situations of the generation companies.
- t) The non-cash adjustments among public sector entities are posted against the generators as per instructions of the Ministry of Finance.
- u) The payments to IPPs under Master Agreement and amendments to PPA signed during February 2021 will be adjusted to fully settle old payables prior to July 2017 first and balance amounts will be settled against the payables arisen after July 2017.
- v) The Power Purchase Agreements mandated CPPA to follow the First In First Out "FIFO" methodology to retire the overdue invoices. However, it was not followed due to funds constraints but pursuant to master agreements signed in February 2021 with IPPs CPPA is following FIFO payments method to avoid the Interest on interest claims of the IPPs.

## **9.2. Transparency and sharing of Data.**

9.2.1 For all the stakeholders following different steps are taken for enhancing transparency in the Funds allocation of Power Sector:

- a. Uploading the daily payment allocation on CDXP. IPPs can review online the payment % allocated to other Power Plants as well.
- b. All distribution companies can access payments details as well.
- c. Sending the power producers all the details related to the payment disbursed, through auto email generated by the ERP on daily basis.
- d. Reporting to MoE on daily basis, CCoE and NEPRA on monthly basis.

### **9.3. Allocation Committee**

At operational level officer working in banking section prepare the allocation on daily basis and at least two officers of the following committee approve the payments.

- Chief Financial Officer
- Chief Technical Officer
- General Manager Finance (Corporate Accounts & Taxations)

Chief Executive officer is informed on daily basis, in case of major collections of funds from any sources the draft allocation is approved by the CEO before disbursement.

Under the present circumstances till CPPA recovers full amount from DISCOs against monthly billing the above detailed allocation policy shall remain operational being most suitable to keep all generating units operational.