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POWER impasse

THE RENTAL PROJECTS CONSTRUCTION PERIOD IS VERY SHORT AND CAN TIMELY MEET THE COUNTRY'S POWER SHORTAGE.

The PEPCO is currently in the process of installing rental power projects to meet the shortfall in power generation and achieve the government's target of getting rid of load-shedding by the end of December. In the mid of quarter 2009 Pakistan Electric Power Company (PEPCO) and National Bank of Pakistan have sought response of financial institutions to the proposal of opening letters of credit and provision of advance payments for rental power projects. The demand came in a meeting between development financial institutions (DFIs) and PEPCO chief financial officer and NBP president. The PEPCO authorities believed that financial institutions would play their due role in overcoming power shortage in the country and participate in a syndicate to open Letters of Credit (LCs) or Standby Letters of Credit (SBLCs) as well as bankroll the rental power projects. Financial institutions expressed satisfaction over the awarding process of these rental projects and promised that they would discuss these projects within their institutions. Government had also advised the PEPCO to acquire 1,000-1,200 megawatts rental power projects through International Competitive Bidding (ICB). Currently for a second time Advisor to Prime Minister on Finance, Shaukat Tarin will hold a meeting with the Presidents and Chief Executive Officers (CEOs) of banks and DFIs to tie up loan facility arrangements for 14% advance payment to rental power projects. Pepco has already accredited that various stakeholders, together with Asian Development Bank (ADB) that the planned rental power plants are ineffective and expensive. Majority of the banks have refused to issue Stand-by Letters of Credit (SBLCs) to rental power plants as they have massive over exposure in the power sector, a fact that has begun to seriously compromise their capacity to spread their risks - a critical undertaking for banks. Moreover, Rental power projects are being added on the basis of 36-60 months tenure with 7 to 14% advance payments, and SBLC or GoP guarantee, as security. Pepco convened all major banks for issuance of SBLC for the intact permanent status of contracts, but the banks could not institute required SBLC for all rental power projects due to overload bank's exposure on power sector. Although, Lessors are accepting GoP's guarantees, or one-year SBLC, in-stead of SBLC for the whole tenure, but with additional 7% advance payments, totalling 14%.

Power posture

In April 2009, the Economic Co-ordination Committee (ECC) of the Cabinet had allowed the Ministry of Water and Power to arrange SBLC, on yearly basis, through GoP guarantees, to rental power projects (RPP), to be executed by Pepco/PPIB. Thus the country's fragile economy cannot withstand a continuing power shortfall for even one month and it is imperative for the government to take appropriate action to ensure that there is no delay in the operation of the rental power plants. One option being considered by the government is to allow tax exemptions to these rental power plants. However, several measures to be accompanied in meeting through bi-mutual relationship between Govt and Banks, DFIs. Furthermore banking industry facing doldrums scenario after the budget, and the total stance is depicting over to Monetary Policy, although prior relaxation in National Saving Schemes causing negative impact on banking culture

FAST TRACK PROJECTS

Projects	Capacity (MW)	Location
Atlas Power Limited	225	Sheikhupura
Nishat Chunian Power Project	200	Lahore
Nishat Power Project	200	Lahore
Liberty Power Tech	200	Faisalabad
HUBCO-Narowal	220	Narowal
Gulistan Energy	200	Gujranwala

LOA's Issued to (ICB)

Projects	Capacity (MW)
Karkey Rental Project	249
Walters Power Rental Project	230
Gulf Rental Project	81
Independent Power Rental Project	221

Source: PPIB