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Ratle, Kishanganga

WB-backed talks to be held in US

MUSHTAQ GHUMMAN

ISLAMABAD: Pakistan and India are to hold three-day “way forward” parley on 850MW Ratle hydroelectric and 330MW Kishanganga hydroelectric projects starting from April 12, 2017 in Washington under the auspices of the World Bank.

This was disclosed by the Minister for Water and Power, Khawaja Asif at a press conference, flanked by Secretary Water and Power, Younus Dagha who will head the Pakistani delegation in talks with India. The World Bank’s Vice President will personally attend the talks.

Water and Power Minister came to address a press conference when talks between Indus Water Commissioners of Pakistan and India were in progress on the designs of three proposed hydroelectric projects i.e. Pakal Dul, Lower Kalnai and Miya in Held Kashmir and flood supply data. India has not shared designs of the three hydroelectric projects.

The World Bank wanted to host Secretary-level talks in Dubai between Pakistan and India however Pakistan proposed that the venue be World Bank headquarters Washington.

Khawaja Asif reiterated that the Indus Waters Treaty (IWT) is one of the world’s agreements that provide an amicable solution to serious water issues between Pakistan and India.

He expressed the hope that things will move in a positive direction as a result of the meeting between Permanent Indus Commissioners of Pakistan and India.

Pakistani team is led by Pakistan Indus Water Commissioner Mirza Asif Beg whereas a 10-member Indian delegation is led by Indian Indus Water Commissioner P. P. Saxena. Issues like future visits of under construction projects and next date of talks will come under discussion.

“I am happy to reveal that talks on the Indus Waters Treaty have been resumed with the efforts of Government of Pakistan. Former US Secretary of State, John Kerry and the World Bank President played a pivotal role in bringing the two parties to the table,” he added.

According to Minister for Water and Power, dialogue relating to the Indus Waters Treaty was suspended in 2015 and is now taking place after almost a two-year break. He said outstanding problems relating to the Indus Basin will be discussed during the two-day meeting.

Khawaja Asif said the meeting will discuss design aspects of Pakal Dul, Lower Kalnai and Miyar hydroelectric plants as well as flood data supply by India.

He said that Pakistan had opted for arbitration after talks between Water and Power Secretaries of the two countries failed in New Delhi on July 15, 2016.

Water and Power Minister said that Court of Arbitration has already given a verdict on Kishanganga hydroelectric project in favour of Pakistan and “we are demanding implementation of the decision”. Ratle hydroelectric project is in initial stage and Pakistan has objections on its design. Both the disputes have been taken up with the World Bank.

In the past, substantial delay was witnessed in talks due to which Pakistan’s interests were badly affected. “Pakistan has crossed all milestones on Ratle hydroelectric project in just one and half months. Pakistan’s position on this project is very strong and we are in a position to get changes in the design of the project which would be in Pakistan’s interests and also in accordance with the Treaty,” he added.

“Pakistan made all out efforts to continue talks on other issues but India did

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not express any willingness. We are happy that finally India has agreed to resume talks at the level of the Indus Water Commission under the Treaty," he continued.

Pakistan has invariably adopted the stance that the IWT is one of those international pacts which provide ways to settle serious water issues through peaceful means. The sanctity of this agreement and settlement of issues through this mechanism is beneficial for the two countries, the Minister added.

He further stated that India insists on appointment of Neutral Expert but Pakistan's stand is that issues should be settled through Court of Arbitration.

"Due to this impasse, the US intervened at the highest level and World Bank's delegation also visited Pakistan aimed at easing tensions," he added.

Khawaja Asif avoided accusing any formal official of Pakistan Indus Water Commission for not properly pursuing the case of Kishanganga hydroelectric project, saying that he does not wish to start another controversy in the media.

Talking about proposed Secretary level talks in Washington, Water and Power Minister said that Pakistan would be in a position to protect its rights on Ratle hydroelectric project, adding that Pakistan's stand has not been negated at any level.

Answering another question, Minister for Water and Power said that he would not speculate on the outcome of the talks on water issues but hopes that all issues will ultimately lead to a resumption of the composite dialogue.

"We want that India should share design of three proposed projects and if the design hurts Pakistan's interests then objections will be raised at the appropriate forum. It is our right. Since the IWT was signed 116 visits regarding inspections of projects have been undertaken so far," he maintained.

In reply to another question, he said that 969 Neelum-Jehlum hydroelectric project will be operational by March 2018.

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THE RUPEE
Upward trend

RECORDER REPORT

KARACHI: An upward trend prevailed on the money market on Monday as the rupee managed to gain 10 paisas against the dollar in the process of trading, dealers said.

INTER-BANK MARKET RATES: The rupee did not show any change in relation to the dollar for buying and selling at Rs 104.85 and Rs 104.86 respectively, they said.

OPEN MARKET RATES: The rupee picked up 20 paisas versus the dollar for buying and selling at Rs 106.30 and Rs 106.50 respectively; however, it lost 25 paisas in terms of the euro for buying and selling at Rs 114.00 and Rs 115.50 respectively, they said.

In the first Asian trade, the dollar slowly ceded ground with greenback bulls still nursing grudges after the Federal Reserve's rate guidance last week proved to be less "hawkish" than many had wagered on.

There was limited initial reaction to the Group of 20 meeting over the weekend which retained the familiar form of words on currency intervention but dropped a pledge to avoid trade protectionism.

"The G20 Meeting in Baden-Baden was notable for the impasse over free trade between most countries, which want to expand it, and the US which wants to weaken it," wrote analysts at CBA in a note.

"This is not a surprise for market participants judging from the Trump administration rhetoric."

A holiday in Japan made for thin trading, leaving the dollar a fraction softer near two-week lows at 112.58 yen. That was some way from the March top of 115.51 and biased risks to a re-test of the February lows around 111.59/69.

Against a basket of currencies, the dollar was 0.1 percent softer at 100.210, having touched a five-week trough of 100.140 on Friday in the wake of the Fed's rate hike.

The retreat left a double top on the charts at 102.25/26 that looks bearish for the near-term.

The dolar was trading against the Indian rupee at Rs 65.46, the greenback was at 4.4315 in terms of the Malaysian ringgit and the US currency was at 6.9040 in relation to the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Monday: 79.58-79.60 (previous 79.57-79.57).

Open Bid	Rs. 106.30
Open Offer	Rs. 106.50

Interbank Closing Rates: Interbank Closing Rates for Dollar on Monday.

Bid Rate	Rs. 104.85
Offer Rate	Rs. 104.86

RUPEE IN LAHORE: The Pak rupee appreciated against the foreign currencies including the US dollar and British pound on the local currency market on Monday.

According to currency dealers, the US dollar resumed trading on a negative note and remained under pressure throughout the trading session. At the close, it fell to Rs 106.40 and Rs 106.75 on buying and selling sides, respectively, as compared to Saturday's closing rates of Rs 106.70 and Rs 107.00 respectively, they added.

Likewise, the national currency also followed the same suit versus the pound sterling. The pound's buying and selling rates went down from the last closing trend of Rs 131.00 and Rs 131.50 to Rs 130.80 and Rs 131.60, respectively, they said.

RUPEE IN ISLAMABAD AND RAWALPINDI: The rupee was unchanged against the dollar at the open currency markets of Islamabad and Rawalpindi here on Monday.

The dollar opened at Rs 106 (buying) and Rs 106.50 (selling) against last rate of Rs 107.50 (buying) and Rs 107.60 (selling). At closed, it showed no variations for buying and selling levels.

Pound Sterling opened at Rs 130 (buying) and Rs 131.50 (selling). It closed at the same rate.

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Saeed appointed new NBP chief

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ISLAMABAD: Prime Minister Mian Muhammad Nawaz Sharif has appointed Saeed Ahmad as President National Bank of Pakistan.

Saeed Ahmad has been serving as Deputy Governor, State Bank of Pakistan since January 21, 2014. He is currently spearheading the Financial Markets, Islamic Banking, Development Finance, IT, Payment Systems and Special Initiatives Groups at SBP.

He is driven by a vision to transform financial markets into an equitable market based system for all segments of population. His ultimate objective is achieving higher financial inclusion and poverty alleviation. Further, promoting Islamic Banking in the country is very close to his heart and he has been leading several key initiatives for its development.

Before joining the central bank, Saeed Ahmed had been appointed by the federal government the Chairman of the National Steering Committee on Islamic Finance. This apex forum is responsible for developing a road map for Islamic finance in the country. To meet the special skill requirements and develop human resources for an expanding Islamic Banking industry, he played a pivotal role in the establishment of three Centers of Excellence in Islamic Finance in three leading universities of the country. He also chairs the Coordination Committee for Centers of Excellence for Islamic Finance Education.

With a focus on smooth flow of financial services to priority sectors including agriculture, microfinance, SMEs, low cost housing, Saeed Ahmad has played a key role in developing a number of innovative market instruments.

As Deputy Governor, Saeed leads, or contributes as member, several committees playing key role in decision making in the bank. He chairs the Banking Policy Committee, Investment Committee of the Management, Management Committee on Information Technology and Payment Systems Policy Committee and sits on the Monetary Policy and Monetary Operations Committees.

Saeed Ahmed also represents SBP in various national institutions. He is the Chairman of the Boards of Directors of House Building Finance Corporation Ltd (HBFCL), Pakistan Mortgage Refinance Company and EXIM Bank. He is a member of Boards of Directors of Securities and Exchange Commission of Pakistan (SECP), State Life Insurance Corporation (SLIC) and Zarai Taraqiati Bank Limited (ZTBL). Moreover, he is a member of the Board of Governors as well as Board of Trustees of Pakistan Kidney and Liver Institute and Research Center, Lahore, Punjab.

Saeed Ahmad also chairs SAARC Payments Council, which is an international forum of SAARC countries to share experiences on payment systems.

Saeed Ahmad has extensive commercial & investment banking and management experience. He started his career with Prudential Corporation, London and qualified as a fellow of Institute of Actuaries, London. He has served Chase Manhattan Bank/ SIBC Riyadh in corporate finance and as Head of Corporate Finance and International in Kuwait Asia Bank, Bahrain. As Head of Treasury, Credit and Marketing of Bahrain Branch of Paris based Union de Banques Arabes et Francaise (UBAF), a subsidiary of Credit Lyonnais, Paris, Saeed has served for several years. He had also been associated with Faysal Islamic Bank of Bahrain-Manama, Bahrain.

Saeed Ahmad has also worked in the corporate sector at senior executive positions such as Vice President Finance & Chief Financial Officer (CFO) at the biggest Saudi multinational group in Jeddah. He had also been

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heading a Group of companies in England.

In addition to his professional qualification as a Fellow of the Institute of Actuaries, London, Saeed Ahmad holds a Masters Degree in Economics (specializing in Finance & Accounting) from the London School of Economics (LSE) and BSc (Hons) from Punjab University, Lahore. He also attended Senior Management Program of Harvard Business School at Boston, USA.

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The black box of provincial economies

Analyses & Comments by BR Research

By next summer Pakistanis will hopefully be heading towards the polls to choose their national and provincial political leaders for the ensuing five years. Before that, the incumbents at both national and provincial level can be expected to tout their 'great' performance, and their opposition to dispute it.

In the case of former, the public can at least judge PML-N's performance against the manifesto it pitched at the time of 2013 elections, and the improvements, or lack of it, in national level economic statistics. But what about the latter; how will the public judge the incumbent provincial governments.

One answer is that it doesn't really matter because provincial politics is far more feudal than national politics. Or, that each provincial government can be expected to dole out billions more in FY18 development spending, move a few political pawns and knights around, and there you have it: a recipe for success. Others may be swayed by improvements, or lack thereof, in 'thana-kachehry', or health and education services provided by the provincial governments.

Hardly any of these, however, are any black and white measures of performance evaluation. Neither there are provincial manifestos against which the performance of ruling political parties could be measured; nor do important provincial level statistics exist, such as provincial GDP or CPI.

In a recent sit down with the boss of Pakistan Bureau of Statistics (PBS), Asif Bajwa, BR Research asked him whether the PBS needs to work on sub-national GDP and CPI. He dismissed the idea saying "it is the job of the provincial statistics department. They should do it."

To that we said that provinces complain that the PBS doesn't share the detailed national accounts datasets. Bajwa responded: "They already have the data. How can the PBS make national accounts without data from provincial bureau of statistics? If the provincial bureaus of statistics want any technical support, then we are always here."

While economists have long been demanding sub-national GDP, the need for provincial GDP has become far more pronounced after the 18th amendment on account of two reasons. First, the fate of millions of Pakistanis now lies with the provinces as development is by and large a provincial subject.

Second, with signs of growing political competition between the provinces each led by different political party, the people need to be able to gauge the economic performance of their province before they can chose their provincial leaders.

It is quite understandable that economic growth of a province cannot be divorced from federal level government policies and the overall economic environment. But there are examples of what provincial government can do to achieve growth and employment within their province.

In KP, for instance, Asad Umar tells in yesterday's interviews, the number of oil rigs have increased due to the efforts of KPOGCL. In Punjab, an agricultural policy is in the works. Or how Punjab's decision to away with internet taxes had increased mobile data consumption in the province.

But what is the impact of all this on respective provincial GDP or employment? We don't know. Nobody knows. In recognition of this void, provinces have been trying to work on their GDP. However, the progress has been too little too late.

Only last year, Sindh had announced a project to come up with Sindh GDP; it had also advertised to hire technical consultants for the project. But sources say the project is yet to kick start, because technical consultants have not been hired as yet.

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Likewise, Punjab had approached the PBS to share the national level data it collects for the purpose of calculating the GDP. These include the likes of PIA or Railways revenues, banking, IT, communications and overall services sector estimations that form more than half of the national GDP, which prevents provinces to calculate provincial GDP on their own.

However, Punjab was told that the Statistical Act 2011 does not allow the PBS to share or produce sub-national statistics. Our contention is that just because the Statistical Act does not allow does not mean that it disallows it as well. Anyway, the matter was moved to CM Punjab so that it could be taken up with the Council of Common Interests (CCI). So far the matter has not been taken up with the CCI by any province.

The opening of this black box of provincial economies is paramount, and cannot be done without the coordination between the provinces as well as between the provinces and the centre. Not only must the PBS share the services sector and other national level statistics at disaggregated level, but it must also be a well coordinated effort to ensure that the sum of provincial GDPs is not more or less than the national GDP (sans statistical discrepancies). The fact that the centre is shying away from its responsibility does not mean that provinces are prevented from making it a hot issue. It takes two to tango.

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Current account report

The current account continues its slippery path; some grace is saved upon receiving CSF money in the last week of February; the deficit stands at $744 million in February, while it was $1.2 billion in January. The Jul-Feb toll stood at $5.4 billion (2.0% of GDP) which is more than double of same period last year.

Barring the $350 million CSF flows; the deficit is over a billion dollar a month. Around $200 million of CSF flew in the first week of March and finance ministry is betting another $400 million in the last quarter of the fiscal, but the toll will remain short of $600-700 million from the target; and current account for full year might slip proportionately.

Exports fell further to $1.7 billion in February; to have declined by 2 percent year-on-year to $14 billion in eight months. The export cash package is yet to translate into numbers in the last quarter to bring some semblance to full year exports. It ought to increase by $500 million each month to reach $23 billion in FY17. It's a tough task, but exporters with government's help have to push it hard.

Textile and other manufacturing exports compromise three fourth of the total and they have cash incentives in offing on incremental exports. In Jul-Feb, they fell by 4 percent 7 percent respectively; the package started in January would probably be visible in numbers from March onwards.

Imports in February fell by $261 million to $3.9 billion; still the Jul-Feb growth is in double digits with imports approaching $30 billion. How much the full cash margins on numbers of imports can curtail the rising trend is yet to be seen. Transportation group imports grew by two fifth in the eight months or by $447 million and now with hundred percent cash margin requirement on both CBU and CKD units, it can be curbed.

But that is peanuts as the group constitutes only 5 percent of total imports; while main drivers of imports are petroleum and machinery groups which grew by 15 percent and 12 percent respectively and combined they are two fifth of imports. They are likely to continue on high momentum as rapid infrastructure expansion warrants that.

The trade deficit soared by 27 percent to $15.4 billion. In the last few years, remittances were covering the trade deficit fully; and that has changed adversely now - remittances fell by 2 percent in Jul-Feb and its covering mere 80 percent of trade deficit. This simply explains $3 billion difference of CAD between Jul-Feb17 and Jul-Feb16.

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Ground-breaking of 1320MW coal-fired power plant in Hub today

KARACHI: The ground-breaking of 1320 MW Coal Fired Power Plant in District Hub, Balochistan will take place on Tuesday, March 21, 2017.

The project is being constructed by China Power Hub Generation Company (CPHGC) a joint venture project company setup by The Hub Power Company (HUBCO) and China Power International Holding Ltd (CPIH). With an estimated cost of approx US$ 2 billion, the project is one of the largest coal based power projects being constructed under China Pakistan Economic Corridor (CPEC). Project will contribute 9 Billion kWh of cheaper electricity annually into the National Grid, and it will support 4 Million Pakistani household in yearly power consumption. High ranking Government Officials along with Chinese officials will perform the ground breaking of the project.

One of the biggest issues of power sector in Pakistan is the expensive power generation; cheap electricity production through coal will help reducing the power sector deficit and ultimately bring down the circular debt. Currently, China Power International Holding Limited (CPIH) has 74 percent share while The Hub Power Company (HUBCO) has 26 percent share in CPHGC. The project would consume an estimated 3.8 million tons of coal per annum. A Dedicated Jetty Terminal would also be constructed alongside the power plants to import coal directly to the plant from the sea. China Development Bank (CDB) is leading the Bank Consortium that is providing funding for this project.

The boiler units being used for this project are State of the Art Super Critical Technology based. This super critical technology is widely used in most of the developing countries to improve coal efficiency, to lower cost of fuel and to cut down the emissions. In addition to that, Electro Static Precipitators (ESPs) are installed to control particulate matter emissions in this project. Low NOx (Nitrogen Oxides) burners for burning of pulverized coal are specially designed to reduce NOx (Nitrogen Oxides) emission in comparison with other burners. CPHGC is employing all these technologies and will spend around 10 percent of project cost on these pollution control technologies. A detailed Environment and Social Impact Assessment (ESIA) has been carried out at site. The site will follow all NEQS (National Environment Quality Standards) and IFC (International Finance Corporation) standards.

CEO of China Power Hub Generation Company (Pvt.) Limited, Zhao Yongang said that 1320 MW coal fired power project is largest power project being constructed in Balochistan province under CPEC and it will bring immense socio-economic benefits for the country, specifically for the province of Balochistan. The province will receive a tremendous boost during the construction and the operation period of the project, which will last during the project life time. The project construction will provide opportunities through induction of skilled, semi-skilled and un-skilled workforce by Project Engineering, Procurement and Construction (EPC) contractors though sub-contractors during the construction period. In addition, other economic activities around the Project Site are also likely to witness a major increase. Various CSR programs for local community such as new schools, medical centers, basic infrastructure around Site and technical training programs are under development within its CSR budget. Every year after COD, some portion of the company's annual profit will be reserved as CSR fund for the betterment of the locals and province of Balochistan.

China Power International Holding Ltd (CPIH), a wholly-owned core enterprise of State Power Investment Corporation (SPIC), one of the five State Power Corporations in the

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Peoples Republic of China. The principal business of China Power International Holding Limited (CPIH) is to develop, construct, own, operate and manage large power plants. Currently, China Power International Holding Ltd (CPIH) is managing power plants with a generation capacity of more than 2811GW in China.

The Hub Power Company (HUBCO) has an installed power generation capacity of 1601 MW in Pakistan. This includes 1,292 MW Hub Plant, 225 MW Narowal Plant and 84 MW Laraib Hydel project in Azad Kashmir. HUBCO is generating around 8.7 percent of Pakistan's electricity with reliability and sustainability.—PR

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2016-2023

Nepra announces multi-year KE tariff

ISLAMABAD: The National Electric Power Regulatory Authority (Nepra) has announced integrated multiyear tariff of K-Electric Limited (KE) for seven years, ie, (2016-2023) slashing average tariff by Rs 3.50 per unit due to reduction in losses and improvement in efficiency.

The regulator has also done away with territory exclusivity rights of KE, opening access to all generation and transmission companies.

Nepra's Senior Advisor (tariff), Sajad Qureshi, Director (Tariff) Sajid Akram and Legal Advisor, Irfan Gill briefed a group of media persons about the new tariff for KE. The first time KESC (now KE) was granted multi-year tariff was in 2002, with the projection that the company will be privatized in 2003 but it was privatized in 2005 and its tariff continued till 2012.

Nepra claimed it has rebased the tariff and reduced it from existing tariff of Rs. 15.57kW/h to Rs.12.07 kW/h against the claim of KE for Rs.16.23 kW/h which will remain applicable for the current fiscal year. However, if fuel prices rise again, tariff will be readjusted. With the new tariff, Rs 48 billion financial benefit will be passed on to the KE consumers. The company's losses have come down from 35 per cent in 2009 to 22.1 per cent in 2015-16. The average national tariff is Rs 11.45 per unit.

"We have passed on reduction in losses and efficiency in generation and transmission to the consumers and this was the objective of multi-year tariff," Nepra official added.

KE has been bound to invest an amount of Rs.237.6 billion: generation (Rs. 48.1billion), distribution (Rs. 69.4 billion), transmission (Rs.115.7 billion) and others (Rs. 4.2 billion) over the control period of seven years. KE has been further made accountable and would be subject to a midterm review to ensure that proposed investments have been carried out.

T&D target losses have been reduced and target for FY 2016-17 fixed at 20.40 percent. The consumers have been given immediate benefit of reduction of 9.6 % losses from 30.0% already built-in in the existing tariff. Further the consumer end tariff will now be adjusted with the yearly targeted T&D losses in accordance with provisions and adjustment mechanism framework provided in the determination. At the same time the Authority being mindful of the interest of the KE has ensured a reasonable return to KE on its existing asset base as well as adequate cash flows to carry out the proposed investments. Nepra has also allowed 3.6 per cent losses as law and order margin for Hesco, Sepco, Qesco and Pesco.

Giving justification of margin of 3.6 per cent loss, Nepra officials said that theft is uncontrolled in several areas like Malir, Korangi and Orangi.

KE can also challenge the determination of Nepra within specified timeframe and if the company's request is not entertained, federal government can file a review. In case the review is not filed or rejected, Ministry of Water and Power is bound to notify tariff.

In reply to a question, Nepra officials said that the government has yet to inform the regulator about the proposed subsidy to the consumers but it is a fact that the volume of subsidy will be lowered.

In another milestone decision, Nepra official claimed that keeping in view the interest of the consumers, the Authority has disallowed KE from collecting bank collection charges from the consumers through monthly billing and has also directed the KE to pay interest on security deposits to consumers through their bills. Moreover, KE has been restrained from charging meter rent from all the consumers whether existing or new.

KE is also directed to start billing immediately on TOU

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rates to consumers having installed TOU meters. Further TOU meters are to be provided to all existing consumers having sanctioned load of 5kW and more by December 31, 2017. In future, the new consumers with the said sanctioned load of 5 kW or more will have the said meter provided with TOU metering facility.

The new connection charges shall be determined by the Authority in separate proceedings and till then KE is directed to ensure that new connection charges levied to the prospective consumers are comparable with the other DISCOs.

KE is the only vertically integrated utility in Pakistan and is principally engaged in the generation, transmission and distribution of electrical energy to over 2.4 million consumers. The Authority allowed a multiyear tariff to KE in 2002. After privatization of KE in 2005, multiyear tariff was set to expire in 2012. Consequently, on signing of amended implementation agreement by new management of KE with Ministry of Water and Power, KE filed a tariff petition in 2009 for certain amendments in tariff. While deciding on the proposed amendments, the Authority extended the multiyear tariff to next seven years till June 2016 in line with the tariff control period provided in the amended implementation agreement.

After expiry of abovementioned tariff, KE submitted a petition on 31 March 2016 for an integrated multiyear tariff for a period of ten years. In its petition KE requested the Authority to continue the existing multiyear tariff till 2026 with the increase of Rs. 0.66/kWh in respect of its O&M costs.

After taking into account the extensive input and feedback received from interveners and commentators and conducting public hearings, the Authority approved the tariff determination for 7 years (2016-23).

The Authority observed in the tariff determination that previously multiyear tariff awarded to KE was a performance based tariff. KE was not allowed a pre-determined fixed return on its existing and future investments unlike the tariff allowed under cost plus regime. KE was required to earn profit by bringing in efficiency through investment from its own resources in its generation, transmission and distribution system. For this reason KE was guaranteed that no downward revision would be made till expiry of the control period of tariff. Previous tariff was awarded to KE, in view of circumstances prevailing at that time, ie, inefficient generation plants, T&D losses hovering at a level of round 40 percent, etc. Therefore, KE was allowed a number of incentives for optimization through its own investment.

The Authority observed that previously KE was given targets for T&D losses based on the premise that KE will make investments in its transmission and distribution business to reduce losses. However, KE focused its investment in its generation business and lack of investment in the transmission and distribution resulted in deterioration of the system over time, consequently increasing the technical losses.
Considering the change in ground realities, the Authority deemed it appropriate to reassess the tariff based on heat rate, T&D losses and investment to make it more cost reflective so that neither the utility nor the consumers bear any unnecessary burden. To this end each generation facility has been assessed individually in terms of heat rate and auxiliary consumption instead of cumulative assessment of the entire generation fleet. In case of new generation facility is added, benefit of its efficiency in form of relief will be shared with the consumers.

For this reason among others, the Authority has decided not to continue the existing multiyear tariff and instead to rebase the same by taking into account the efficiencies achieved by KE over time and at the same time allowing KE a reasonable return on its existing and future proposed investments.

The Authority also did not cede to the request of KE to allow tariff for ten years and decided that seven years is

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a reasonable allowed tariff period to provide certainty to the utility to raise debt and invest. Further, the Authority has provided an in-built protection mechanism to ensure that excess profits over the regulatory benchmarks are shared with consumers. This excessive profit sharing has been ensured through a profit claw back mechanism. Previously excessive profits could not be shared with consumers owing to litigation in courts with respect to claw back mechanism. In this regard a new mechanism has been devised which will ensure excessive profit sharing with the consumers in an effective manner.

The Authority also observed that KE was required to reduce the provision for doubtful debts and achieve 100% recovery target which unfortunately has not been the case. Therefore, allowing any further cushion in the tariff for the inefficiencies of KE in terms of under recoveries would not be fair to the consumers. Thus, the Authority has decided that KE will not be allowed any provision for the doubtful debts and like other DISCOs only actual bad debts written off by KE has been allowed.

The Authority has also turned down the request of KE for allowing force majeure and compensation for late payments by government entities and tariff differential claims by the Federal Government. KE had claimed that these may be allowed to be passed on to the consumers. The Authority while refusing this request has observed that these matters may be settled between GoP and KE rather than being passed on to the consumers in the tariff.

The tariff determination takes into account the interests of the consumers and a deliberate effort has been made by the Authority to resolve all the outstanding issues without compromising the ability of KE to provide service in its territory in accordance with the performance standards in the NEPRA Act, 1997, rules and regulations.

Answering a question, Nepra officials said that the new buyers of KE have already been made aware of the tariff petition and had expressed no objection to it.—MUSHTAQ GHUMMAN

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Declining exports, remittances widen C/A deficit: SBP

RECORDER REPORT

KARACHI: Pakistan's current account deficit has increased to $5.47 billion due to declining exports and workers' remittances in the eight months of running fiscal year.

According to data issued by the State Bank of Pakistan, the current account deficit was recorded at $5.47 billion during the period from July 2016 to Feb 2017 as compared to $2.48 billion deficit recorded in the similar period of the last fiscal year.

The data shows that the country's exports decline to $14.05 billion in the 8 month period of running fiscal year against $14.3 billion worth of goods exported in the corresponding period last year. On the other hand, the country's imports increased to $29.4 billion in this period and the balance of trade in goods recorded at $15.3 billion in this period against $12.13 billion in the 8 months of last fiscal year.

The services sector's exports were recorded at $3.5 billion while imports stood at $5.5 billion in this period. Services sector's deficit in the last fiscal was $1.9 billion. The accumulated balance of goods and services trade stood at $17.3 billion during the current fiscal year against $13.9 billion of the same period last year.

On the other hand, the remittances inflows also declined to $12.3 billion in the running fiscal year against $12.6 billion of the same period of last fiscal year.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2016-17 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/16" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL					
Rate For	**Ex-Gin Price**	**Upcountry Expenses**	**Spot Rate Ex-Karachi**	**Spot Rate Ex-Karachi As on 20.03.2017**	**Difference Ex-Karachi in Rupees**
37.324 Kgs Equivalent	6,800	135	**6,935**	**6,935**	NIL
40 Kgs	7,288	145	**7,433**	**7,433**	NIL

New York cotton

RECORDER REPORT

The fluctuations observed during the day:

	Current Session						Prior Day		
	Open	High	Low	Last	Time	Set	Chg	Vol	Set
May'17	77.33	77.48	76.68	76.84	14:19 MAR 20	76.84	-0.49	12981	77.33
Jul'17	78.62	78.70	77.99	78.09	14:19 MAR 20	78.09	-0.45	5498	78.54
Oct'17	75.80	75.82	75.80	75.48	14:19 MAR 20	75.48	-0.70	12	76.18

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Current account deficit surges by 120pc

THE NEWSPAPER'S STAFF REPORTER

KARACHI: Current account deficit widened by more than 120 per cent to $5.4 billion in July-Feb, the State Bank of Pakistan (SBP) reported on Monday.

Rising current account deficit puts the exchange rate under pressure and affects the country's external sector. It shows the country is a net borrower from the rest of the world and uses foreign funds to meet its domestic requirements.

The deficit in trade amounted to $15.4bn in the first eight months of 2016-17, up 26.8pc from a year ago. The growing deficit is a result of rising imports — which went up 11.2pc — coupled with a decline in exports that dropped 2pc over the same period.

The current account deficit was 2.6pc as a percentage of GDP in July-Feb as opposed to 1.3pc during the same period in the preceding year.

Remittances from overseas Pakistanis shrank 2.5pc during the period under review. Low oil prices have forced oil-rich nations of the Middle East to curtail their fiscal spending. This has resulted in job losses and reduced disposable income for Pakistani expatriates in the Gulf region.

Remittances from Saudi Arabia, United Arab Emirates and United States declined 6.8pc, 1.6pc and 2.5pc, respectively, over the eight-month period.

Imports are rising partly because of the increased trade activity under the China-Pakistan Economic Corridor (CPEC). Imports under machinery, transport and petroleum groups in July-Feb rose 12pc, 38.6pc and 15.4pc, respectively.

At a recent press conference, SBP Governor Ashraf Mahmood Wathra downplayed concerns over the rise in imports since the beginning of 2016-17. He said imports included $6bn of capital goods, which would eventually help grow exports and reduce the trade deficit.

The SBP recently imposed a 100pc cash margin requirement to curtail the imports of non-essential items, such as mobile phones and consumer goods.

Banks now require importers of around 400 non-essential goods to furnish liquidity beforehand, which will reduce their imports that currently cost the country around $8.5bn a year.

The government has also announced a number of relief packages for export-oriented sectors like textile and clothing, but exports have continued their slide nonetheless. The latest in the series is a Rs180bn subsidy package for the textile, clothing, sports, surgical, leather and carpet sectors, which will remain effective until June 30, 2018.

According to the SBP, growing exports is going to be "somewhat more challenging" in view of the recent wave of anti-trade sentiment in the United States and European Union, which are Pakistan's largest export destinations.

Citing a World Trade Organisation report, the SBP said that G20, a bloc of 20 advanced economies, applied 145 new trade-restrictive measures between October 2015 and May 2016. This came to an average of around 21 measures per month, which was the highest monthly average recorded since the beginning of the monitoring exercise in 2009.

Tuesday, 21st March, 2017

K-Electric's average tariff cut by Rs3.50 for seven years

KHALEEQ KIANI

Nepra has set K-Electric's tariff at Rs12.07 per unit, although the power company sought a tariff increase to Rs16.23.—AFP/File

ISLAMABAD: The National Electric Power Regulatory Authority (Nepra) on Monday cut average electricity tariff for K-Electric by Rs3.50 per unit for the next seven years besides legally doing away with its service monopoly.

The new multi-year tariff — which came on the heels of the proposed sale of the privatised entity to Chinese firm Shanghai Electric — is estimated to provide an annual relief of Rs48 billion to Karachi-based consumers and the federal government, according to a team of the regulator.

KE's previous tariff, announced originally in 2002, became effective in 2009 due to delayed sale of Karachi's integrated utility and then its resale to Abraaj Group, and expired on June 30, 2016. The new tariff would now become effective from the date of its notification by the federal government, legally required within 15 days unless challenged for review or reconsideration. It will remain effective until 2023.

At a hurriedly called press conference, a Nepra team led by adviser tariff Sajjad Mohammad Qureshi said the determined tariff was structured to be balanced, transparent and in the interest of the consumers as well as KE.

Regulator ends power utility's service monopoly

Mr Qureshi said the regulator has now set KE tariff at Rs12.07 per unit (kilowatt-hour) against its existing tariff of Rs15.57 per unit determined by the regulator. The KE management sought an increase in tariff to Rs16.23 per unit.

He explained that the government subsidy being paid to KE to keep the power tariff uniform across the country would come down by about 67 paise per unit at the existing applicable tariff of about Rs11.45 per unit.

He said the previous tariff helped the KE to scale down its transmission and distribution (T&D) losses from 35pc to about 22.1 per cent over the years, but most of the efficiency gain was allowed to the KE to let it invest and become profitable from being a loss-making entity.

In the new tariff, the efficiency gains would now go to the consumers and the system operator would get its return on all assets. He said the exclusivity of service area currently available to KE like other power companies has already expired with a recent notification of Nepra regulations. Moreover, it is now mandatory for the KE to "allow open access" to new entrants.

Also, Nepra has made it mandatory on the KE to ensure 100pc time-of-use (TOU) metering to all its existing consumers having sanctioned load of five kilowatts latest by Dec 31, 2017. Out of its 2.24 million consumers, the KE had so far reported TOU facility (cheaper rates for the day and expensive for five peak hours) to only 25,000 consumers, said Sajjad Akram, a director of Nepra.

The KE has also been made bound to invest an amount of Rs237.6bn during the tariff period. This would include Rs48.1bn in generation, followed by distribution Rs69.4bn and transmission Rs115.7bn and others areas Rs4.2bn. The tariff would be subject to a midterm review to ensure that proposed investments have been carried out. T&D target losses have been reduced and fixed at 20.40pc for the current year from existing loss of 22.1pc.

"The consumers have been given immediate benefit of reduction of 9.6pc losses from 30pc already built in the existing tariff," Nepra said, adding that the consumer-end tariff will now be adjusted with the yearly targeted T&D losses. At the same time the authority has ensured a reasonable return to KE on its existing asset base as well as adequate cash flows to carry out the proposed investments.

The regulator has disallowed KE from collecting bank collection charges from the consumers through monthly billing and has also directed the KE to pay interest on security deposits to the consumers through their bills. Moreover, KE has been restrained from charging meter rent from all the consumers whether existing or new.

The new connection charges shall be determined by the regulator separately and until

Tuesday, 21st March, 2017

then the regulator has been ordered to ensure that new connection charges levied to the prospective consumers are comparable with the other power distribution companies.

KE is the only vertically integrated utility in Pakistan and is principally engaged in the generation, transmission and distribution of electrical energy to over 2.4m consumers. The regulator had allowed a multi-year tariff to KE in 2002. After privatisation of KE in 2005, the multi-year tariff was set to expire in 2012, but it was extended in 2009 for another seven years on signing of amended implementation agreement by the power ministry with Abraaj.

Nepra held that the previous multi-year tariff awarded to KE was a performance-based tariff. KE was not allowed a pre-determined fixed return on its existing and future investments unlike the tariff allowed under cost plus regime. KE was required to earn profit by bringing in efficiency through investment from its own resources in its generation, transmission and distribution system.

The regulator noted that KE was given targets for T&D losses based on the premise that KE will make investments in its transmission and distribution business to reduce losses. However, KE focused investment in its generation business; lack of investment in the transmission and distribution resulted in deterioration of the system over the time, consequently increasing the technical losses.

Considering the change in ground realities, the regulator reassessed each generation facility individually in terms of heat rate and auxiliary consumption instead of cumulative assessment of the entire generation fleet.

The regulator said that an in-built protection mechanism has been provided in the new tariff to ensure that excess profits over the regulatory benchmarks were shared with consumers through a profit clawback mechanism. The regulator, however, conceded that excessive profits could not be shared with consumers owing to litigation in courts.

Tuesday, 21st March, 2017

Cotton price rises

THE NEWSPAPER'S STAFF REPORTER

KARACH: Cotton prices rose on Monday though trading was slow as buyers and sellers remained to the sidelines owing to short supply of quality lint.

According to market estimates, ginners currently hold 500,000 bales of cotton and they are also careful in disposing of these stocks in order to get best prices.

Spinners are facing difficulty in exporting cotton yarn on the world market owing to uncompetitive prices, however, there was fairly good demand for yarn on the local market, brokers said.

Moreover, drop in prices of polyester cotton (PC) influenced by falling global petroleum prices could also encourage the value-added textile sector to use more PC yarn than cotton yarn, they added.

PC yarn prices have dropped to Rs127 a kilogram from Rs129 last week.

The Karachi Cotton Association raised its spot rates by Rs50, to Rs6,800 per maund (around 37kg). On the ready counter, only one deal of 200 bales was officially reported at Rs7,100 per maund until the filing of this story.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2015-16 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/32" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL			
Rate For	Ex-Gin Price	Upcountry Expenses	Spot Rate Ex-Karachi
37.324 Kgs Equivalent	6,800	135	6,935
40 Kgs	7,288	145	7,433

DAWN
Tuesday, 21st March, 2017

MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market*		Open market**	
	Buying	Selling	Buying	Selling
USA	104.50	104.70	106.30	106.50
UK	129.43	129.68	131.30	132.80
Euro	112.47	112.68	114.00	115.50
S.Arabia	27.86	27.92	28.25	28.45
UAE	28.45	28.51	29.00	29.20
Japan	0.9287	0.9305	0.9338	0.9538

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

	Bid	Offer
Three months	5.84	6.09
Six months	5.88	6.13
One year	5.91	6.41

LIBOR

Special US dollar bonds for Mar 17

Three months	1.15178 %
Six months	1.43156 %

THE NEWS
Tuesday, 21st March, 2017

Rapid industrialisation impossible due to flawed govt policies

LAHORE: The state alone cannot accelerate industrialisation unless it is prudently guided by industry associations that are the actual stakeholders facing problems in running their manufacturing plants due to flawed government policies.

Though we see several industrial associations in Pakistan in regular contact with the top government functionaries, their problems remain unresolved. Experts wonder whether it is due to the weak presentations by the associations or the government functionaries do not listen.

The government planners assert they announce policy after careful deliberations with all stakeholders, whereas the industry associations often complain they were not taken into confidence when policies relating to their sectors were being formulated.

Most of the industrial associations are operating at a disadvantage, as their head quarters are far away from the policy centres. All Pakistan Textile Mills Association (Aptma) has its head office in Karachi although there are hardly 60 textile mills out of over 425 in the province that are Aptma members.

The policy makers sit in Islamabad. To lobby their case they have to go all the way to Islamabad that is over 1,200 kilometres away.

In the same way, the Pakistan Association of Auto Parts and Accessories Manufacturers (Paapam) has its head office in Lahore, but most of the vendors are operating from Karachi. Again the policy centre is in Islamabad.

These associations do not know about policy changes when they are made as they operate hundreds of miles away from the policy centres. In India, most of the trade associations are head quartered at Delhi where the policies are formulated.

Industry associations' the world over guide the government in formulation of policies needed by their sector on the strength of extensive research. They provide irrefutable global data from creditable institutions and with references for the bureaucracy to recheck the facts.

In Pakistan, distorted facts are presented to the planners, some of which are proved wrong on recheck by the bureaucracy. This hurts the creditability of the concerned association and results in delayed decisions.

Another problem with our trade and industry associations is that they not only operate as a national body representing the entire sector but also operate on regional basis with national associations operating at provincial level.

In recent times, it has been observed that the priorities of different zonal associations of the same industry have different priorities. The central chairman in such instances would toe the line adopted by the region he/she belongs to.

Take for instance the case of Aptma. Its central chairman belongs to Punjab and pleads for the reduction in power tariff in line with the stance of the Aptma Punjab zone. Their members from other three industries produce power from natural gas which is cheaper.

The industries in Punjab cannot get the natural gas as the right to use gas lies with producer province; so they get imported re-gasified liquid natural gas that is very expensive compared with natural gas.

Aptma Punjab wants the imported gas to be mixed with the natural gas and want a weighted average tariff of the average price of natural gas and RLNG. This suggestion if accepted would increase the gas price for other three provinces and reduce the tariff of RLNG users.

Naturally, the regional associations outside Punjab oppose this move. To develop gas infrastructure, the federal government has levied gas infrastructure surcharge on supplies of gas to industries. Again, this decision too is opposed by the zonal associations outside Punjab.

THE NEWS
Tuesday, 21st March, 2017

SSGC ready to distribute RLNG

By our correspondent

KARACHI: Saeed Ahmed Larak, SGM director of Sui Southern Gas Company (SSGC), has said the utility was ready to distribute RLNG to industries as per their requirements.

During his visit to Korangi Association of Trade and Industry (KATI) on Monday, the SGM said industries, which required additional gas, should inform their concerned associations. He said the SSGC was ready to structure a mechanism for RNLG with the consultation of industries.

He said gas consumption was growing on a daily basis. “Meeting provincial consumption was the top priority of the utility, only gas acquired from other resources will be sold out to other provinces,” the SSGC official said.

KATI president Masood Naqi assured of providing assistance to reduce unaccounted for gas (UFGO). Other members of KATI informed high level officials of the SSGC regarding the load problems and also put up their suggestions to settle the load, billing and other issues.

THE NEWS
Tuesday, 21st March, 2017

Govt to finalise IPRs draft by year-end

LAHORE: The government will finalise the draft of intellectual property rights laws by this year-end after completing the consulting process with all the stakeholders, commerce minister said on Monday.

Commerce Minister Khurram Dastgir Khan, talking to media after 3rd consultative session of national intellectual property strategy, said the strategy is being worked out and “this consultative seminar was also one of its components.” Khan said all measures are being put in place to increase country's exports. Pakistan’s trade with India is being done under the trade policy 2012.

On cyber issues, he said following the directives of the prime minister, the parliament has initiated legislation process in this regard. The parliament passed the cyber crime bill last year. Commerce minister said the country's growth rate came down because of severe energy crisis, but the present government is all committed to cover this reduction and also to ensure the highest economic growth rate. “That is why the government has initiated a number of power generation projects by utilising all resources including coal, hydropower, wind and solar.”

He said the projects worth $30 billion have been started under the China-Pakistan Economic Corridor. About Pakistan-Afghanistan trade, he said turmoil in Afghanistan is affecting Pakistan, adding the recent terror incidents were a great setback to Pakistan. “We have to maintain balance between security and trade.”

Earlier addressing the session, minister Khan said rights of exports, technological expertise, cultural and literature could not be secured without having proper mechanism for intellectual property. Awareness regarding intellectual property among public will support innovative development.

The government is in constant liaison with the Intellectual Property Organisation for working out a strategy to protect intellectual property, including trade mark, patent and copy rights. Commerce minister said intellectual property was envisaged in the prime minister’s vision 2025, which focuses to integrate the country’s trade in consonant with the requirements of 21st century.

“If we want to protect our intellectual property rights then we also have to care about the intellectual property of other countries in the world,” he added. “Under the leadership of Prime Minister Nawaz Sharif, the government has taken the matter seriously and trade protection laws have also been passed by the parliament in 2015, while geographical induction laws for protection of local industrial and agricultural production are in final process and would be tabled in the parliament within next two to three months.”

THE NEWS
Tuesday, 21st March, 2017

Non-cash banking transactions sharply fall 29 percent in July-Feb

KARACHI: Non-cash banking transactions by non-filers of income tax returns sharply declined 28.5 percent to Rs193 billion during the first eight months of the current fiscal year of 2016/17 as they switched to informal banking to avoid an enhanced withholding tax, sources said on Monday.

Non-cash banking transactions by non-filers, falling under an extended scope of withholding tax rate, amounted to Rs270 billion in the July-February period of 2015/16.

Consequently, the sources added, the Federal Board of Revenue (FBR) managed to collect only Rs7.72 billion under this head in July-February FY17 as compared to Rs8.04 billion in the corresponding period of the last fiscal year, showing a decline of four percent.

The government, through Finance Act 2015, introduced a new section 236P into Income Tax Ordinance 2001 under which a 0.6 percent withholding tax rate was imposed on a non-cash banking transaction above Rs50,000 by the non-filer. The measure was taken to encourage filing of annual income tax returns and documentation.

Soon after the imposition of the withholding tax, there was a hue and cry from the trade community, which forced the government to reduce the tax rate to 0.3 percent, implemented from July 11, 2015 and prevailed until February 29, 2016. However, despite reduced rate traders and other potential taxpayers remained unwilling to get registered and so the rate was revised up to 0.4 percent, which is applicable till to date.

The FBR sources said increase in tax filers, during the tax year 2015, was a major reason in reduction in tax collection under this head. Number of 2015 filers increased to 1.2 million from the preceding year's 0.86 million. Sources said the tax departments launched strict monitoring of banks in order to identify shortfall in revenue collection under this head.

The State Bank of Pakistan (SBP), in its annual report 2015/16 on state of Pakistan's economy, said the use of cash would further increase due to imposition of withholding tax on non-cash banking transactions. "Not only would these developments constrain future tax collection, these may also undermine financial inclusion efforts of the government and SBP." The SBP said there was a rise in purchase of higher denomination of prize bonds as a consequence of an increase in withholding tax rate.

Businesses were using higher denomination prize bonds to settle their transactions instead of using banking instruments like demand drafts and cheques, it added. "This is the major reason why the increase was more pronounced for larger denomination bonds, including Rs40,000 and Rs25,000. Hence, higher investments in prize bonds have come at the expense of bank deposit growth."

THE NEWS
Tuesday, 21st March, 2017

Current account deficit widens 120.50 percent to $5.473 billion

Erum Zaidi

KARACHI: The country's current account deficit more than doubled to $5.473 billion in the eight months of the current fiscal year of 2016/17, mostly on the back of high import growth and contraction in remittances, the central bank data showed on Monday.

The current account deficit was $2.482 billion in the same period a year ago. "The balance of payments figures are worrisome, as it recorded a whopping 120.50 percent year-on-year surge in July-February FY17, intensifying concerns that there will be a pressure on external account this year," an analyst said.

"We signify a considerably weaker balance of payments than the last fiscal year." However, the twice collation support fund (CSF) receipts provided a relief to the weakening balance of payments," the analyst said.

The State Bank of Pakistan (SBP) reported that the current account deficit was equivalent to 2.6 percent of the gross domestic product, up from 1.3 percent during the corresponding period of the last fiscal year.

The latest balance of payment numbers might not be a shocking reading for many analysts. They had already predicted the current account gap to surpass $5 billion mark in the eight months of this fiscal year due to growing trade imbalances.

The exports fell 3.90 percent to $13.318 billion in July-February FY17, while imports jumped 16 percent to $33.520 billion. That took the total trade deficit to $20.202 billion for the eight months of this fiscal year, up from $15.039 billion in the corresponding period of July-February FY16.

The widening current account deficit was also driven by a rise in overall balance on trade and goods and services, which soared to $17.381 billion as compared to $13.937 billion last year.

Besides, the fall in workers' remittances and a meager growth in foreign direct investment added to the current account deficit. Remittances flows declined 2.47 percent to register $12.363 billion in July-February FY17.

The country attracted $1.284 billion in foreign direct investment, showing a six percent increase over the same period of FY16. Most analysts, including the central bank, are expecting an increase in the current account deficit as imports continued to record high growth and
the hope for boost to exports from the fiscal package has dried.

Moreover, the rising external debt servicing obligations continued to put pressure on the foreign exchange reserves. Some economists foresee the FY17 current account deficit may exceed $6.7 billion.

Pakistan's forex reserves increased $122 million to $22.274 billion as of March 10 due to $200 million received from the US under the head of coalition support fund, taking the total inflows to $500 million.

The CSF proceeds are crucial for reducing the current account deficit, but have been erratic in the last few years and with the Trump administration now in control, may be termed uncertain.

The current account deficit narrowed to $744 million in February as compared to $1.202 billion in the previous month. An analyst at Topline Research in his report issued last week noted the current account deficit in FY17 widens, but will remain manageable this year and next year.

"We are revising up our current account deficit forecast to $6.6 billion from the previous $4.7 billion." "Given higher CAD, we are revising down our FY17 year-end forecast of foreign exchange reserves to $22-23 billion from the previous estimate of over $25 billion," he said.

The report estimates goods exports to stand at $21.1 billion and the realisation of budgeted CSF inflows of $1.1 billion (received $500 million) should help alleviate some pressure on the external account.

Further, amnesty scheme for foreign ownership of assets could help realise around $1 billion. But analysts are unanimous that the government needs to focus on supply side efficiencies (for the external sector) and revenue generation (for fiscal management).

THE NEWS
Tuesday, 21st March, 2017

Cotton improves

Karachi

Dull trading was witnessed at the Karachi Cotton Exchange on Monday, while spot rates increased Rs50/maund.

The spot rates rose to Rs6,800/maund (37.324kg) and Rs7,288/40kg. Ex-Karachi rates also increased to Rs6,935/maund and Rs7,433/40kg after an addition of Rs135 and Rs145 as upcountry expenses, respectively.

“After announcement of the prime minister’s package for textile exporters, demand of the lint further increased, while crop is short of the demand,” a trader said.

“Despite an increase in the spot rates, trading activity is slow, as ginners want to get higher prices, while spinners are not ready to pay more.”

KCE recorded only one transaction of 200 bales at the rate of Rs7,100/maund.

Pakistan has so far recorded cotton arrivals of 10.72 million bales till March 15. Of this, 6.9 million bales come from Punjab and 3.78 million bales from Sindh.

The Nation on Web
The Nation
Tuesday, 21st March, 2017

Nepra reduces Rs 3.5/unit in multi-year tariff of KE

To ensure transparency, KE has been made bound to invest Rs237.6 b for generation, distribution and transmission over period of 7 years

Fawad Yousafzai

ISLAMABAD - National Electric Power Regulatory Authority (Nepra) has announced integrated multi-year tariff of K-Electric Limited (KE) for the period of seven years (2016-2023) and reduced its base tariff by Rs3.50 from existing Rs15.57 to Rs12.07 per unit.

The determined tariff is structured to be balanced, transparent and in the interest of the consumers as well as KE, said a notification issued here on Monday. The authority has rebased the tariff and reduced it from existing tariff of Rs15.57kW/h to Rs12.07kW/h against the claim of KE for Rs16.23kW/h. The authority also did not cede to the request of KE to allow tariff for ten years and decided that seven years is a reasonable allowed tariff period to provide certainty to the utility to raise debt and invest.

To ensure transparency and objectivity and keeping in mind the comments of the interveners and commentators, tariff and cost has been segmented into three components of generation, distribution and transmission. In this regard, KE has been made bound to invest an amount of Rs237.6 billion; generation (Rs48.1billion), distribution (Rs69.4 billion), transmission (Rs115.7 billion) and others (Rs4.2 billion) over the control period of seven years. KE has been further made accountable and be subject to a midterm review to ensure that proposed investments have been carried out.

Similarly, T&D target losses have been reduced and target for FY 2016-17 have been fixed at 20.40 percent. The consumers have been given immediate benefit of reduction of 9.6 percent losses from 30 percent already built in the existing tariff. Further the consumer end tariff will now be adjusted with the yearly targeted T&D losses in accordance with provisions and adjustment mechanism framework provided in the determination. At the same time, the authority being mindful of the interest of the KE has ensured a reasonable return to KE on its existing asset base as well as adequate cash flows to carry out the proposed investments.

The authority has disallowed KE from collecting bank collection charges from the consumers through monthly billing and has also directed the KE to pay interest on security deposits to the consumers through their bills. Moreover, KE has been restrained from charging meter rent from all the consumers whether existing or new.

KE is also directed to start billing immediately on TOU rates to consumers having installed TOU meters. Further TOU meters should be provided to all existing consumers having sanctioned load of 5kW and more by December 31, 2017. In future, new consumers having the said sanctioned load of 5kW or more, the said meter shall be provided with TOU metering facility.

The new connection charges shall be determined by the authority in separate proceedings and till then KE is directed to ensure that new connection charges levied to the prospective consumers are comparable with the other DISCOs.

KE is the only vertically integrated utility in Pakistan and is principally engaged in the generation, transmission and distribution of electrical energy to over 2.4 million consumers. The authority allowed a multi-year tariff to KE in 2002. After privatisation of KE in 2005, multi-year tariff was set to expire in 2012. Consequently, on signing of amended implementation agreement by new management of KE with Ministry of Water and Power, KE filed a tariff petition in 2009 for certain amendments in tariff. While deciding on the proposed amendments, the authority extended the multi-year tariff to next seven years till June 2016 in line with the tariff control period provided in the amended implementation agreement.

After expiry of abovementioned tariff, KE submitted a petition on 31 March, 2016 for an integrated multi-year tariff for a period of ten years. In its petition, KE requested the authority to continue the existing multi-year tariff till 2026 with the increase of Rs0.66/kWh in respect of its O&M costs.

After taking into account the extensive input and feedback received from interveners and commentators and conducting public hearings, the authority approved the tariff determination for seven years (2016-2023).

The Nation on Web

The Nation

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The authority observed in the tariff determination that previously multi-year tariff awarded to KE was a performance based tariff. KE was not allowed a pre-determined fixed return on its existing and future investments unlike the tariff allowed under cost plus regime. KE was required to earn profit by bringing in efficiency through investment from its own resources in its generation, transmission and distribution system. For this reason KE was guaranteed that no downward revision would be made till expiry of the control period of tariff. Previous tariff was awarded to KE, in view of circumstances prevailing at that time ie inefficient generation plants, T&D losses hovering at a level of round 40 percent etc. Therefore, KE was allowed a number of incentives for optimisation through its own investment.

The authority observed that previously KE was given targets for T&D losses based on the premise that KE will make investments in its transmission and distribution business to reduce losses. However, KE focused it investment in its generation business and lack of investment in the transmission and distribution resulted in deterioration of the system over the time, consequently increasing the technical losses. Considering the change in ground realities, the authority deemed it appropriate to reassess the tariff based on heat rate, T&D losses and investment to make it more cost reflective so that neither the utility nor the consumers bear any unnecessary burden. To this end each generation facility has been assessed individually in terms of heat rate and auxiliary consumption instead of cumulative assessment of the entire generation fleet. In case of new generation facility is added, benefit of its efficiency in form of relief will be shared with the consumers.

For this reason among others, the authority has decided not to continue the existing multi-year tariff rather to rebase the same by taking into account the efficiencies achieved by KE over time and at the same time allowing KE a reasonable return on its existing and future proposed investments.

Further, the authority has provided an in-built protection mechanism to ensure that excess profits over the regulatory benchmarks are shared with consumers. This excessive profit sharing has been ensured through a profit claw back mechanism. Previously excessive profits could not be shared with consumers owing to litigation in courts with respect to claw back mechanism. In this regard, a new mechanism has been devised which will ensure excessive profit sharing with the consumers in an effective manner.

The authority also observed that KE was required to reduce the provision for doubtful debts and achieve 100 percent recovery target which unfortunately has not been the case. Therefore, allowing any further cushion in the tariff for the inefficiencies of KE in terms of under recoveries would not be fair with the consumers. Thus, the authority has decided that KE will not be allowed any provision for the doubtful debts and like other DISCOs only actual bad debts written off by KE has been allowed.

The authority has also turned down the request of KE for allowing force majeure and compensation for late payments by the government entities and tariff differential claims by the federal government. KE had claimed that these may be allowed to be passed on to the consumers. The authority while refusing this request has observed that these matters may be settled between the government and KE rather than being passed on to the consumers in the tariff.

The tariff determination takes into account the interests of the consumers and a deliberate effort has been made by the authority to resolve all the outstanding issues without compromising the ability of KE to provide service in its territory in accordance with the performance standards set forth in the Nepra Act, 1997, rules and regulations.

The federal government base rate for the entire country is Rs11.45 per unit therefore it was paying Rs48 billion in subsidies for the K-Electric consumers. The decision will help the federal government save the subsidy.