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The truth about rental power

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The furor being raised in the media led by Dr Farrukh Saleem regarding Rental Power is based upon illogical assumptions and incorrect data. The bias against the investment climate for Rental Power is, thus, nothing more than a storm in a tea cup. The argument, in fact is based upon a comparison of Rental Power Producers (RPPs) with the Independent Power Producers (IPPs), even though the two are not at all comparable. The logical fallacy in which Dr Farrukh Saleem is indulging is called 'comparing the un-comparable'. Thus, arguments that follow are also non-sequitur.

The fact of the matter is that the situation does not warrant any fair comparison between RPPs (Rental Power Projects) and IPPs because there cannot be an apple-to-apple comparison between these two different sets of power projects.

The arguments put forward by Dr Saleem in his article 'Rental power vs IPPs' in The News (Aug 16) in addition to his previous articles 'Rental power bonanza' (Jul 25), 'Cost of rental power' (Aug 9) lack adequate professional knowledge. Thus there is a dire need to set the record straight and share the simple truth about RP with the readers.

The writer is right when he says that IPPs take anywhere from two to five years to start producing whereas RPPs can start delivering in less than a year. However, both of them are different and, thus, cannot be compared. The statement that the cost of electricity from IPPs is Rs1.77 per kilowatt hour (KWH) while that from RPPs is Rs14-65 per KWH, thus rental power is 24 per cent costlier exposes lack of understanding of the subject on part of Dr Saleem. He forgets to take into account various in-built components that affect the IPP tariff. The reference tariff of IPPs is subject to adjustments on Commercial Operation Date (COD) whereas the rental charge is not subject to indexation. Hence, the tariff for RPPs is less than the reference tariff of IPPs for the first 10 years of IPPs operation.

However, Dr Saleem's assertion that a used 100MW RPP sells in China for \$15 million is wrong. Owing to international increasing demand, the availability of reliable, second-hand generating plants that can meet an availability requirement of up to 92 per cent are costlier and may go up to \$75 million for a 100MW of RP.

It is also quite incorrect to state that IPPs are mostly financed by foreign financial entities. Out of the 12 IPPs signed under the Government of Pakistan's power policy of 2002, so far only one has foreign financing.

Furthermore, the assertion that Karkey RP is based on new machinery is a tacit admission that Rental Power is not exclusive to used equipment. Also, Dr Saleem pointed out that IPPs are to hand over their plants to the government after 30 years at a cost of one rupee. All IPPs contracted under the 2002 policy are on built-own-and-operate basis and not otherwise.

It is also worth mentioning that RPPs, being short-term solutions to meet system energy shortfalls, are perforce generally based on used machinery as the lead time for the purchase of new machinery may be anything up to two years. Thus, in order to ensure the availability and performance of RPPs, companies are required to furnish guarantees.

Then, the efficiency of rental power plants being based on used equipment may not be compared with state-of-the-art IPP plants based on a combined cycle technology. However, the efficiency of rental plants is comparable with IPP plants installed under the 1994 IPP policy.

Meanwhile, the government has already denied the writer's claim that it is bent upon extracting Rs214 billion from Pakistani financial institutions to finance RPPs. It has been clarified that no government money is involved in financing of RPPs. The sponsor is responsible for the finances and no one else.

Dr Saleem has also called into question the difference in requirement for project costs for IPPs and RPPs. It is a fact that sponsors in case of IPPs have to submit financing debts as well as equity to PPIB at financial close of the project. However, in case of RPPs, the achievement of financial closure is not required as it is the sole responsibility of the sponsor to arrange for finances. As such, the submission of project costs in case of RPPs is not mandatory.

The writer has calculated the annual fuel payment for a typical 200MW RPP as \$211 million. The actual calculations done for a typical 200MW RPP reveal that the figure works out at about \$100 million per year which is less than the fuel payments of \$174 million for a typical IPP as quoted by the writer.

Finally, he has calculated the annual cost of providing fuel for 1900MW to RPP plants as two billion dollars which actually works out to \$1.3 billion.

There is nothing wrong with Rental Power. The projects are being legitimately processed by PPIB, PEPCO and NEPRA in a very transparent manner. Rental power suits our requirements and is the only viable option for a short-term solution under the present circumstances.

The writer works with PEPCO.