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### Coal-fired project in state of uncertainty

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THAR: Sindh Engro Coal Mining Company's (SECMC) 660 MW local coal-fired project being established in Thar is in doubt with Chinese banks unwilling to extend a loan for the power plant on a Pakistani sovereign guarantee.

SECMC, however, believes that the flagship project will be out of the troubled waters with the help of government.

This was the crux of a briefing given by the Chief Executive Officer (CEO), SECMC Shamsuddin Ahmed Shaikh, to Islamabad-based journalists in an open air project site at Thar. Government of Sindh, M/s Engro and House of Habib are the key stakeholders of the project.

He gave a detailed presentation on the project along with phase-wise progress besides hardships being faced by the management despite the fact that three top political parties i.e. PML (N), PPP and PTI are supporting it.

He said, Chinese banks i.e. ICBC, Bank of China and China Development maintain that in addition to GoP sovereign guarantee, Sinasure should also give loan's repayment guarantee.

"Chinese banks want that 50 percent risk should be accepted by Engro and 50 percent by SinoSure and insist that they cannot take the risk," he said, hoping that the issue would be resolved during the visit of Prime Minister Nawaz Sharif to China scheduled for the first week of next month. He further maintained that 80 percent risk should be taken by Sinasure and 20 percent by Chinese banks. The country would save \$ 1.2 billion per annum compared to producing electricity from furnace oil.

He said when there is political instability, no one will come to invest in that country and Pakistan is facing instability. "Thar coal project has been put in early harvest projects to be implemented with Chinese cooperation despite that Chinese banks' including Exim, China Development Bank and ICBC are

reluctant to extend loan and the project has been placed in high risk area," he added.

He also maintained that the regulator had capped upfront Sinosure fee at 7 percent, however, due to the prevalent circular debt situation in Pakistan, Sinosure is asking a fee of 9 percent for credit risk insurance. "Therefore, Sinosure fee cap needs to be aligned with the market rate," he added.

"Thar coal project can not be implemented unless financing issues with China are settled," he said adding that China was the only country which had agreed to extend financing as no other country has shown any willingness.

He further stated that SECMC would invest \$ 2.2 billion - \$0.9 billion for coal mining and \$1.1 billion for power plant. He said that Chinese banks were to extend \$ 560 million.

He said that Engro had already raised funds from local banks against a sovereign guarantee. In reply to a question, he said that M/s Engro is not in a position to take commercial risk.

"We have no issue of financing for the coal mining project as local banks and firms have agreed to extend financing but the issue is financing from China to set up Thar coal-based power plant project," he said adding that National Electric Power Regulatory Authority (Nepra) had allowed a spread of 4.5 percent over Libor rate. However, Chinese banks did not accept it and demanded 5.5 percent. "The Authority has allowed a spread of 4.5 percent over Libor rate. GoP, on the other hand, recently issued dollar bonds for five and ten years at pricing of 7.5 percent and 8.25 percent respectively. Thus Nepra's proposed rate of financing is extremely low for a project with a tenor of 14 years containing all sorts of project and commercial risks in addition to high country risk of Pakistan," Shaikh continued.

He further stated that currently Nepra has allowed one Commercial Operation Date (COD) for a complex of two power plants but the second power plant will become operational four months after the first one. He suggested that the Authority should allow two CODs as it will allow the first power plant to start providing power to the grid instead of remaining idle for four months.

CEO, SECMC rejected the minimum plant availability approved by Nepra, saying that the Authority revised the condition from 82 percent to 85 percent. He added that the value of 85 percent is impractical for the first two years.

He said that they were facing problems at domestic level as Economic Coordination Committee (ECC) had approved a package to treat this project on

IPP model but no SRO had been issued so far.

“Four vehicles for project are stuck at Karachi airport for nearly two months and Federal Board of Revenue (FBR) is not clearing those vehicles,” he added.

He said that contract had been awarded to local contractor to exploit reserves of Thar coal and one percent work had been completed so far.

“Government of Sindh has allotted 3000 acres of land for Thar coal project where SECMC has purchased 3000 acres from private people at Rs 180,000 per acre,” he added.

However, the chieftain of one of the village that needs to be resettled has expressed unhappiness at the price of land given to the land owners. He said, they had sought Rs 0.5 million for each acre. Fayyaz Soomro Manager land acquisition, SECMC told Business Recorder that land owners have been paid the best possible price for their land in consultation with district management. He said the Sindh government has not approved resettlement policy.

Shamsuddin Shaikh revealed that the Sindh government has been requested to waive off royalty till the time coal prices are at international level. He maintained SECMC is negotiating royalty between 2 percent and 5 percent with the Sindh government. Engro's equity is \$ 260 million in the project and one percent of work has been completed on the project.

He said that current installed capacity was 20213 Megawatt (MW) and local requirement would increase to 113,695 MW by 2030 with 35 percent rise in demand every year.

“In India, 70 percent electricity comes from coal and Pakistan is the 7th largest country with coal reserves,” he said adding that the best option for Pakistan is also to generate electricity from coal,” he said.

Shamsuddin Shaikh complained that Thar coal power project has not enjoyed the benefits of the Economic Corridor. He further stated that Thar coal project has not been given coal tariff so far and until this issue is resolved, Nepra's tariff will remain controversial. In reply to a question, he said, Thar coal power project will achieve financial close during the first quarter of next year.

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# DAWN

## *Sahiwal coal-fired power plant: Builders expect power generation before deadline*

FAISAL ALI GHUMMAN — UPDATED JAN 02, 2016 11:12AM

LAHORE: Chinese companies building the 1,320MW Sahiwal coal-fired power plant, the first-ever such a project in Pakistan, expect power generation next year which will be the 'cheapest' in terms of tariff and environment friendly.

Though the consortium of two Chinese companies which started work on June 9, 2015, is raising basic infrastructure at over a thousand acre land reserved for the plant with an official target of completing it by Dec 25, 2017, officials say the provincial chief executive wants it to be completed much earlier.

Around 3,000 workers, including 1,000 Chinese, are working at the site which is guarded by police personnel.

"We are going to offer 8.1 cents per electricity unit to the Pakistani government under an agreement with the National Electric Power Regulatory Authority and this is the cheapest rate in Pakistan", says Song Taiji, the Chief Executive Officer of Humeng Shandong Ruyi (Pakistan) Energy (Pvt) Limited.

He told Lahore-based reporters at the site on Friday that the company would produce and sell the electricity for 30 years on a BOT basis before handing over the plant to the Punjab government. He said average life of the plant was 30 years approximately.

Song said the upfront tariff was agreed after Nepra involved international experts and bidding process. He said the plant was being constructed with an estimated cost of \$1.8 billion jointly sponsored by two Chinese companies.

He said the coal-fired power generation was much popular in China as more than 80 per cent electricity production came from coal there.

Song said the reason behind importing coal from Indonesia and South Africa was the non-availability of standard coal in Pakistan. "Though Pakistan has huge reserves of indigenous coal but we cannot use them at the moment because of absence of excavation technology and quality material", he added.

He said the coal would be transported from Port Qasim, Karachi, to the site via rail while canal water with the help of a reservoir would be used in the power generation process. To a question, Song claimed the solar power was costlier than coal's.

He said the super critical technology would be used in the plant which required high temperature for the perimeter of steam and less coal consumption.

Regarding environmental concerns, he said the height of the Chimney had been set at 180 meters for safe emission.

He said two per cent component of sulphur dioxide in the imported coal would be brought down to zero level to avoid environmental hazards. "We will have proper sulphurization process in the plant for less carbon emission."

Song further said plants having capacity of more than 300MW fell in the category of super critical technology, adding in Pakistan the coal generation share was even less than one per cent compared to developed countries where share of electricity from coal was about 50 per cent, which meant more environmental pollution.

Song, whose company is the largest in China to generate coal-fired electricity, said he had security concerns before coming to Pakistan last year but now he was comfortable.

"We now feel secure in Punjab and will continue our work without any fear. I rate Pakistan as my second hometown", Song told a questioner.

Asked why coal-fired technology was being introduced in Punjab when it was becoming redundant in other countries of the world, he said coal-fired power was not an old-fashioned rather it was very advance technology being used by China and other countries.

"This plant is not sub-critical rather super critical which burns less coal and gives less emission as for as environmental protection is concerned."

Nadeem Aslam Chauhdry, who is energy coordinator for the Punjab government, told reporters that the chief minister had asked the company to complete the plant much earlier than the deadline. "We cannot give you the exact date but we are determined to do the job in less than two and half years."

He said the federal government had announced upfront tariff for the coal power projects and the company had accepted the tariff of 8.1 cents per unit irrespective of its cost estimates.

He claimed the tariff would not remain exactly 8.1 cents in future as, at the time of agreement, the cost of coal was \$ 120 per ton and it was now \$60 per ton which implied that the power tariff was the cheapest for this plant as compared to other fossil fuels.

Chauhdry told a questioner that an army brigade was being raised to secure projects linked with the China Pakistan Economic Corridor and this power plant also included in the CPEC.

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