

Final Project Report:

PROJECT FINANCING BY INDEPENDENT POWER PRODUCER

Client Organization:

STAR HYDRO POWER LIMITED

Under the supervision

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DEDICATION

This project is dedicated to our beloved families and all our teachers who taught us throughout our educational career.

Abstract:

The study is designed for the whole sector of Independent Power Producers by taking the Star Hydro Power Limited as a case. Purpose of this study is to analyze the potential risks faced by the Independent Power Producer while investing through project finance in Pakistan. To identify the risks confronted by the investors, various risk analysis tools and techniques are applied that include; risk analysis, PEST analysis, conditions precedent analysis and trend analysis. The main risks identified by this study are political risk, terrorism and circular debt. This project is beneficial not only for the power sector but also for the whole economy because power sector is the life blood for any industry.

ACRONYMS:

IPP:	Independent Power Producer
PPIB:	Private Power and Infrastructure Board
PPA:	Power Purchase Agreement
LOS:	Letter of Support
PPA:	Power Purchase Agreement
WUA:	Water Use Agreement
LOI:	Letter of Interest
BOOT:	Build-Own-Operate-Transfer
GOP:	Government of Pakistan
GOAJK	Government of Azad Jammu & Kashmir
GOKP:	Government of Khyber Pakhtunkhwa
FBR:	Federal Board of Revenue
IRSA:	Indus River System Authority
WAPDA:	Water and Power Development Authority
NEPRA:	National Electric Power Regulatory Authority
NTDC:	National Transmission and Dispatch Company
AEDB:	Alternative Energy Development Board

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1. Executive summary:

Energy is considered to be the indicator of socio-economic well-being. Currently Pakistan is facing severe energy crisis adversely affecting the living standards of people, industrial growth and economy. To resolve this critical issue, government is trying to find the less expensive alternatives to generate the electricity and transfer the benefit both the commercial as well as domestic users. According to the researches carried out related to the potentially available resources of energy, Pakistan is one of the countries that have huge potential for generating renewable energy such as hydro, solar, nuclear, wind and coal. The country is facing the challenge of deficit in financial strengths to generate power from available renewable resources of the country. The governments its-self do not have the enough funds to construct Power Stations, and for that reason, they look for foreign and local Individual Power Producers to invest and provide financing and expertise. Project Financing is the well renowned practice for investment in power sector, infect all mega-structure projects, where the bulk quantity of capital investment is required. All the mega structure projects are riskier to the extent that not a single company or even a host government can bear its risk solely, that's way they use Project Finance technique that allows to transfer the risk among the all parties. But still there is some riskiness factors that cannot be ignore while the investor wishes to finance in developing countries.

The foreign individual power producers hesitate to invest in developing counties like Pakistan, where the credit risk, political risk and legal risk (country specific risk) is high as compare to developed countries. The government trying to convince the investors to invest in power sector of Pakistan by providing security, Tax exemptions and sovereign guaranty but this is not enough to convinced them, because risks are more related to the system failure.

The report is design for all Independent Power Producers by taking Star Hydro Power limited as a case study to investigate the potential risks of project financing in Pakistan, and conditions impose on individual power producer to fulfill for financial close. This report also suggests some recommendation and actions that can be supportive to build the confidence of independent power producers of Pakistan.