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Q No 2

Ans: Introduction

Independent Power Producers (IPPs) have become a major talking point in the country nowadays, as electricity prices surge upto an all time high in the country. Pakistan relies heavily on IPPs for its energy needs since 1990s. IPPs are responsible for production of approximately 50% of country's energy production. However, there is a flip side of it as well. These IPPs charge a huge amount from the government in the name of capacity charges. This payment comes at the cost of electricity price surge, which has created hue and cry across the country.

Brief History of Agreements with IPPs

IPPs burst on to the scene in Pakistan in 1990s. It was then government of Benazir

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Bhutto which entered into agreements with IPPs to produce electricity in the country. After that every government entered into various agreements with different IPPs for energy production.

Understanding the Term Capacity Payments

Capacity payments refer to the clause in agreements between government and IPPs referring to the payment by government to a certain power producer. In every agreement it is written that government will pay to full extent of capacity of power generation of a producer irrespective of its generation. Whether a IPP generates power or not it would receive full payment equal to its capacity of production.

How Capacity Payment has Made Electricity Hyper Extensive?

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According to Ministry of Energy Government pays 2 Trillion rupees to IPPs in lieu of capacity payments. As a economically backward country and government this puts an burden of recovery on government. So to balance out this government cuts the subsidies given on electricity causing electricity to be hyper extensive.

Production Capacity \Rightarrow 44,000 MW

Peak Need of Country \Rightarrow 31,000 MW

Capacity of Distribution \Rightarrow 22,000 MW

Short fall of Electricity \Rightarrow 9,000 MW

This has caused electricity to be so expensive that majority in country cannot afford it. According to a survey by Dawn "The cost of renting a house in Pakistan is less than the cost of powering it."

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As per recent billing in the month of August, the cost of one unit in country is equal to 60 rupees, whereas of same one unit in India is 5 times less than that in Pakistan.

Recommendations to solve this Crisis and Make Electricity Affordable in the Country

The government needs to take drastic steps to get out of this mess of power crisis created by increasing capacity payment done to IPPs. Following are the steps that government can take to address the issue of overbilling and excessive capacity payment.

① Revising the agreements with the IPPs:

Government must revise the agreements done with IPPs in order to reduce the payment of unbearable capacity charges.

② Restructuring NEPRA:

NEPRA must be restructured and re-organized completely to make it a compliant oversight body. It was the incompetency of NEPRA that is root cause of these incomprehensible agreements with IPPs.

③ Forensic audit of IPPs:

Since the inception of IPPs there has been no forensic audit of IPPs. Government needs to get a forensic audit to know about the earnings of each and every IPP and its expenditure as well.

④ Not entering in any new agreement with IPPs:

Government must not enter into any new agreement with IPPs, as already (stated above) the production capacity of the country is way above the demand and supply.

③ Revamp distribution network:

Government must revamp distribution network to cut down power shortage. Resulting in broader use base and reduction in electricity charges overall. It would also help avoid technical losses as well.

④ Subsidize electricity:

To make electricity affordable government must subsidize electricity by cutting down other expenses. Punjab Government has already announced to reduce per unit price by 14 rupees for next two months. Other provinces and federal government can repeat the same as well to give relief to masses.

Conclusion

To conclude, IPPs have become a curse for people of Pakistan rather than being a blessing due to mounting capacity charges. It has caused electricity

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to be hyperexpensive and unaffordable leading to power crisis in the country. Government needs to take long-term measures to solve this issue for good. For short it must reduce electricity price so that people may survive these months of summer and extreme heat.