

Q. Increasing capacity payment to IPPs has made electricity hyper expensive. critically evaluate the statement and give recommendations.

### Introduction:-

IPP stands for Independent power producers. They are private companies that generate electricity and sell it to consumers. They operate independently and usually are responsible for:

objectives of IPP:-

- i) Generating electricity by using various fuels such as (natural gas, coal, renewable sources)
- ii) Selling electricity to the grid
- iii) maintaining and upgrading their own facilities.

### IPP and Pakistan:-

Pakistan has been facing multiple and serious challenges and one is the severe energy crises. As to address those challenges, certain organizations or institutions have been working such as WAPDA, NESCO, PESCO, NEPRA, WAPDA, IPPs, etc. But even so the energy crises is not over. Rather, electricity is becoming more expensive day by day.

Reasons for hyper expensive electricity:-

Pakistan is not being able to fulfill this energy crises due to several reasons.

(A) Pakistan generate more than 60% electricity through hydrocarbons. i.e. diesel, LNG, coal.

(B) Prices of hydrocarbon jumped on International market. All hydrocarbons have been purchased in dollars while Rupee has been devalued against dollar.

(C) The third most important reason of expensive electricity is sanction on Russia and Iran, who are the main source of gas.

(d) The other most important reason is expensive agreement with independent power producers.

### Pakistan agreement with IPPs :-

As Pakistan has made agreements with IPPs under power purchase agreements on certain terms and conditions to generate electricity.

#### (i) Power purchase Agreement (PPA) :-

PPA is a long-term contract between power generator and power purchaser to buy and sell electricity. In Pakistan, PPAs are typically signed between independent power producers and National Transmission and despatch Company (NTDC).

(ii) → NTDC is obligated to pay for agreed capacity

(iii) → NTDC pays IPPs for their available capacity, regardless of actual generation.

(iv) → IPPs receive fixed tariff per unit of electricity.

(v) → Tariffs in US dollars

(vi) → IPPs have no penalties for failing to deliver electricity

(vii) Adjustment to tariffs based on changes in fuel prices

## Capacity payment to IPPs:-

Capacity payment to IPPs are a significant contributors to expensive electricity in Pakistan. It is basically the payment made to power generation companies for being available to generate electricity, regardless of whether they actually produce any electricity or not. It is a payment for the capacity to generate electricity, rather than the actual electricity generated.

### Example:

If a power plant has an installed capacity of 100 MW and it may receive a capacity payment for being available to generate 100 MW, even if it only actually generates 50 MW of electricity.

In Summers, the demand is on peak about 28,000 MW while in winters, it's reduced by more than 50% (about 14,000 MW). So in this case, state has to purchase the rest of power and has to pay the price. The capacity payment is currently more than 2.3 Trillion PKR. On the other hand cap electricity consumers are set to pay capacity payment amounting to 2.8 trillion during the upcoming financial year 2024-2025.

## Recommendations:-

As capacity payment to IPPs is making electricity more expensive, so there is a need to renegotiate and review the IPPs contract to

ensure reasonable payments.

Secondly, by encouraging more IPPs to enter the market, we promote competition and can reduce prices.

Thirdly, by investing and promoting renewable energy sources, we can help us to reduce the expensive electricity and our dependence on IPPs.

Fourthly, Dams are the most effective way to generate electricity through hydroelectric power plants. As there are no fuel cost and maintenance is minimal.

Lastly, solar plants can help to generate less expensive electricity.

A complex political situation has emerged in Pakistan where opposition, coalition government

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### Complex Political Situation:-

Pakistan had been facing a complex political situation since independence due to several reasons:

- P (1) civil-military imbalance
- (2) ethnic and regional division
- (3) leadership failure
- (4) Economic challenges
- (5) weak institutions
- (6) Corruptions
- (7) Ideological debates
- (8) polarization

These were some of the major reasons of political instability in Pakistan. Pakistan is still confronting such challenges due to which have been making Pakistan political situation more complex. Pakistan's military, Judiciary, Government and opposition are increasingly confronting each other. They all are intervening in one another's affairs or clamour for several reasons.

### **Institutional Weakness:-**

It is one of the contributors to complex political situations. The lack of effective governance and corruption have eroded trust in institutions. Institutions may fail to deliver public services effectively which led others to intervene in one another's.

### **political polarization:-**

The extreme division between political parties and groups has led to policy paralysis, making it impossible for government to make decisions due to disagreements. Personal attacks and character assassination have become common in politics, which led to social fragmentation, weakening social cohesion.

### **Self interest over national interest:-**

It can be a factor of complex political situation in Pakistan in which everyone is accusing one another. Some people in the institutions only work for their interest not for the country which may lead to tension, toxic environment.

For example:

political parties often prioritize their own interests

when they are in power. For such as panama paper scandal in 2016, which revealed money laundering, Tasha Khana case, General Faiz Hameed case etc.

## **lack of Accountability :-**

without proper check and balance, those in power can use power in wrong way. lack of accountability in government institution contributed to military intervention, political instability, policy paralysis.

## **Solutions :-**

### **0- Military - Judiciary separation:-**

Establish a clear boundaries between the institution can prevent interference and help the country to paved the way towards progress.

### **0- Inclusive Dialogue:-**

Inclusive dialogue between opposition, military and Judiciary can prevent complex political situation. Because it would help to build trust among institutions, prevent polarization, preventing escalation.

### **0- Independent Media:-**

By making media independent and free from any pressure can help to prevent any complex situation. it will help to prevent any propaganda and give information to the people accurately, without manipulation.