

# SUBJECTIVE PART

## Question no.2:-

Increasing capacity payment to IPPs had made electricity hyper expensive. Critically evaluate the statement and give recommendation.

### → Introduction:-

Pakistan has been facing multiple and serious challenges like political instability, constitutional crisis, security threats, unprecedented economic crisis etc. One of severe crisis faced by the country is energy crisis where the state faces not only adequate amount of loadshedding but also mounting prices of electricity bills.

This energy crisis have far reached negative implications on industries, agriculture, markets, domestic life and public sector. There is a need of addressing



## → Expensive agreements with IPP :-

Independent power producers or the private sector producers produce electricity from HC. These IPPs were installed in 1994, 2005, 2011 and 2014.

The more the increase in demand, the more IPPs got installed. First and major reasons for expensive electricity is the capacity payments made to IPPs.

In Summers, the demand is on the peak as in July 2023, it was around 28000 MW.

In Winters, the demand reduces more than 50% as in January 2023, it was less than 14000 MW.

The agreement was signed with IPP on the basis of maximum demand. In Summers the state has to purchase the maximum demand while in winter it reduces (upto 40%). The state has to purchase this much electricity the minimum. But if the state does not purchase



this much electricity, the required volume of electricity, yet it has to pay the price.

Unprecedented increase in capacity payment which is currently more than **2.6 Trillion PKR**. All the IPPs payment are being paid in dollars. As far as the external IPPs are concerned, they must have to pay in dollars, but the locally owned IPPs has being paid in PKR.

### → Recommendations:-

- Renegotiate the agreements of IPPs.
- Install local and cheaper electricity projects
- Revamp/update transmission lines
- Improvement in writ of state
- Privatization

### ① Renegotiate the agreements of IPPs:-

The agreement signed in 1986, 1991, 1994, 2002, 2005 should have been negotiated long time ago but un-



fortunately. decades long delay was made by successive government. Until 2020, when these agreements were renegotiated no more capacity payments, local IPPs would pay off in pkr. It was a positive development but it has solved the problem upto 40%. As majority of IPPs being installed in 2011 and 2014, which cannot be renegotiated till 2028.

## ② Install local and cheaper electricity projects:-

Energy policy 2030, focuses on the indigenization of electricity generation. 15000 MW would be produced from hydel projects in which:-

- Diamer Basha Dam would add **4500 MW** by 2029
- Dasu would add **4300 MW** by 2027
- Momand Dam add **800 MW** by 2025
- Karot has already started



generation of **730 MW**  
→ Sulchi Kinasi would add **883 MW**.

Secondly, increasing focus on the electricity from local coal of Thar, as one project of 1320 MW and 4 projects of 320 MW are already completed.

### ③ Revamp transmission lines:-

Though it is an expensive phenomena but country is in direct need of changing the outdated transmission lines. The local transmission and broader network NTDC needs to be changed.

### ④ Improvement in writ of State:-

The writ of state must be improved in order to stop electricity theft, and to get bill in time. Furthermore, the state must ensure that no department will get free electricity.



### ⑤ Privitization:-

Privitization of electricity system, state should play the role of regulator.

### → Conclusion:-

All these steps will not only reduce loadshedding but also help to decrease overall price per unit.

### Question No. 5:-

US-China rivalry is shaping into increasing currency war where US wants the continuation of dollarization of international trade while China wants to de-dollarize it. Analyze.

### → Introduction:-

The relationship between People's Republic of China (PRC) and United States of America (USA) has been complex and at times tense since the establishment of PRC and



the retreat of government of the Republic of China to Taiwan in 1949.

The rivalry between US and China regarding dollar is a significant aspect of their broader economic and geopolitical competition. Here are some key points:-

### 1) Trade imbalance:-

The US has long accused China of keeping its currency, the renminbi, artificially low to make Chinese exports cheaper and U.S goods more expensive in China. This has contributed to a significant trade deficit of U.S.

### 2) Tariffs and trade barriers:-

The trade war was initiated by U.S in 2018, with tariffs and other trade barriers, aimed to address what U.S sees as unfair trade practices by China.



### 3) Investment and economic policies:-

Recently, China has been cracking down on American businesses operating within its borders, creating a challenge for foreign investors. This has led to a decrease in foreign capital entering China, which is problematic for its economy.

### 4) Currency reserves:-

China has accumulated large reserves of U.S. dollars, which has historically helped keep the renminbi's value low. This accumulation of dollars is a strategic move to maintain economic stability and influence.

### 5) Geopolitical tensions:-

The economic rivalry is also influenced



by broader geo-political issues, such as China's activities in South China sea and its stance on Taiwan.

## → Reasons why dollar can not be dethroned:-

There are three reasons possible for dollar not to be dethroned:-

① The Yuan isn't liquid enough to challenge the dollar:-  
China's yuan, which officials in Beijing have been trying to position as a challenger to the dollar on the world stage, isn't liquid enough to truly disrupt dominance of greenback. That's partly due to strict capital controls China has on its currency, which limit the amount of cash that can be taken in and out of the country.



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② Concerns over the US debt won't affect the dollar. Trust is waning in the greenback as concerns mount over the US's rising debt balance. Yet, that has little impact on trust in US dollar, given the currency's long-standing reputation as a highly liquid safe-heaven asset.

③ Crypto isn't a viable alternative. While cryptocurrencies like bitcoin are liquid, they're too volatile to be considered a true alternative to the dollar.

### → Conclusion:-

Dollar can't be dethroned as Chinese currency is not enough compatible. It is giving rise to US-China rivalry.