Press Release

The All Pakistan Textile Mills Association (APTMA) issued the following Press Release

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RENEGOTIATION OF IPP AGREEMENTS IMPERATIVE FOR ECONOMIC STABILITY

Islamabad, July 3, 2024 — Chairman APTMA has called on the federal government to renegotiate existing agreements with Independent Power Producers (IPPs) and shift towards more economical electricity sources free of capacity charges. He emphasized that the prevailing exorbitant electricity tariffs have severely impacted industrial operations, resulting in numerous closures and widespread job losses, thus hampering economic growth.

Chairman APTMA highlighted that Pakistan's installed generation capacity exceeds 40,000 MW, while the peak demand and transmission capacity stands at only 25,000 MW. He stated that this discrepancy has led to significant excess and underutilized generation capacity. Despite this, the government is obligated to make Rs. 2 trillion in capacity payments to 40 IPP companies annually, a burden that stifles economic activities as these payments are made even when no electricity is generated or supplied.

He expressed that it is evident that capacity charges constitute two-thirds of the total cost, with the remaining one-third attributed to fuel costs. Investigations have shown that IPPs have been enjoying returns exceeding 73% in dollar terms, a figure unusually high compared to international standards. These problematic contractual arrangements, stemming from the 1994 Power Policy, have led to an escalating circular debt, which reached Rs. 2.64 trillion in February 2024.

Furthermore, he pointed out that guarantees indexed to the US dollar mean that any depreciation of the Pakistani rupee increases returns for IPPs, adding further financial strain on the government and public. He noted that the initial return on equity for IPPs was set at 18% and later reduced to 12% in the 2002 Power Policy, which remains high compared to global norms. Comparisons with similar projects in other countries suggest that many IPPs were funded through inflated invoicing on capital goods, leading to perpetual returns on ghost equity.

He remarked that the tariff for coal-based plants in Pakistan is 9 cents, significantly higher than the 5.6 cents for similar plants in Bangladesh. In the FY25 power purchase price, imported coal-based plants have the highest capacity charge of Rs. 60.48/kWh compared to Rs. 26.01/kWh for the second-highest capacity charge among all thermal generation.

Chairman APTMA also mentioned that misreporting and overbilling by IPPs are common as tariffs are guaranteed under take-or-pay contracts protected by international law. He asserted that actual oil consumption of several oil-based plants is less than billed and attempts to audit discrepancies are often obstructed through legal means. Operation and maintenance costs are also overstated, with actual expenses billed at significantly higher rates.

He warned that the recent surge in electricity rates threatens to trigger civil unrest and discontent among the business community and a comprehensive review of IPP agreements, price re-evaluation within legal bounds, and improved oversight to prevent over-invoicing are essential to prevent complete economic collapse and social chaos and anarchy. Examining the energy infrastructure for clauses related to misinformation and fraud is crucial. The federal government must devise a strategy to address IPP issues and ensure affordable electricity prices for the industry in the national interest.

Forwarded for favor of publication in your esteemed newspaper/transmission.

Asif Inam
Chairman APTMA