

# HFO-Based IPPs Cannot Operate Unless Dues Are Paid

Investment in power generation is not an offense. We, the private sector entrepreneurs investing in power generation under government policies, generate and supply power alongside other businesses. We supply power at comparatively lower prices than foreign companies. Hence it is not fair to blame us as partners of money plundering of the immediate past government. However, if any entrepreneurs have unfairly exploited the provisions of the government policy, they may be taken to task by fairly establishing their faults. On the other hand, local private sector entrepreneurs are on the verge of turning bankrupt from not getting paid for the power supplies for a long time. Furnace oil-based power plants cannot continue to operate during the ensuing summer unless the entrepreneurs are paid at least 50% of the outstanding bills within 10 days.

David Hasanat, President of Bangladesh Independent Power Producers Association (BIPPA) and Chairman of Midland Power, said this in an exclusive interview with Mollah Amzad Hossain, Editor of Energy & Power magazine.

***Irrigation, Ramadan, and summer are forthcoming. IPPs have a significant role during this period. How prepared are you for this?***

Entrepreneurs have their back to the wall now. But summer is knocking at the door, power demand will significantly increase for irrigation and Ramadan. There is no alternative but to keep the private sector furnace oil-based power plants in operation. However, IPPs cannot keep plants in operation as they have not been paid for the power supplied over the past several months. We have been asking for the bills since November 2024.

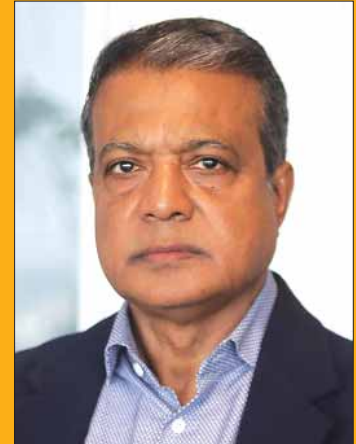
BIPPA had several rounds of meetings with the officials of the Power Division and the Bangladesh Power Development Board (BPDB). They are sincere about making payments but cannot pay until they get funds from the Ministry of Finance. Please note that it usually takes about 45 days to import furnace oil after opening the letter of credit from the time of getting the due payments. IPPs have about Tk5,000 crore overdue payments. The power plants cannot run at full capacity unless at least Tk2,500 crore is paid immediately.

***It learned that BPDB started imposing Liquidated Damage (LD) for not supplying power as per demand. BPDB could not pay for the power. Still, they imposed LD. Why?***

You have been rightly informed. Yes, LD has been imposed and adjusted with the bills of some companies. Such actions are in the process for other companies too. IPPs supply power and get paid under a Power Purchase Agreement (PPA). Due to the financial crisis, many IPPs cannot operate at capacity now. As per PPA, IPPs are due to be paid for the power they supply within 45 days of submission of the bill. But BPDB has failed to do that. Still, BPDB is imposing LD. Under these circumstances, taking the opinion of legal advisors, we have submitted it to BPDB. We requested BPDB to take the opinion of their legal counsel. But they did not do it. Rather they have continued imposing LD.

We are partners of BPDB. We have no intention of going for a legal tussle. BPDB must also understand our position that we cannot continue our business if we are not paid according to the PPA provision.

***In the recent past, BIPPA had a few rounds of meetings and discussions***



David Hasanat

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***with the Power Division and BPDB regarding payment issues. What kind of assurances did you get for the payments?***

The outstanding payments of IPPs are about Tk19,000 crore. Of this, furnace oil-based IPPs get Tk5,000 crore. We requested a payment of at least Tk2,500 crore as soon as possible. The Power Division Secretary and BPDB Chairman are sincere about the payment. We learned that they are in constant parleys with the Ministry of Finance for the allocation. However, the allocations have not been made yet. As such we have not received any assurance from the BPDB when the payments will be made.

***Will the BIPPA members be able to continue operating furnace oil-based power plants during summer***

**unless BPDB pays the outstanding bills?**

Please note that nonpayment of bills is a long-standing issue. We operate the plants by importing furnace oil on our own. IPPs accounted for Tk8,500-9,000 crore losses for not making payments against LCs on time as we also did not get payments from BPDB as per PPA. As such the financial capability of almost all IPPs has depleted to zero. Unless we get paid, maybe a few IPPs can continue operation marginally. But most will have to close the business. The system has a 5,500MW furnace oil-based generation capacity, including 4,500MW in the private sector.

**People have various complaints about private sector entrepreneurs in the power sector. Many allege that they are the plundering partners of the previous government. Why such perceptions have been created?**

Great that you raised this matter. Let me respond. As a president of BIPPA, I can't know all the details of all PPAs the private sector companies have with the BPDB. I am the Chairman of Midland Power. We have three power plants. We won contracts for the two through a competitive bidding process. The third one was negotiated based on an unsolicited offer. But the tariff was one of the lowest. I can challenge that nothing unfair was done at all in our case.

It is not fair to blame private sector entrepreneurs indiscriminately as the partners of money plundering by the former government. No investor is above the law. If there is any genuine complaint against any or many investors, those must be established through an authentic probe. Only after that, punitive actions can be taken as per the law of the land. Otherwise, blame games will create a lack of confidence among the investor community.

**There is another perception that in the name of capacity charge huge money is being plundered. Is there any way other than a capacity charge for getting private sector investment in the power sector?**

Private sector entrepreneurs have invested in the power sector under the

IPP policy that requires a Power Purchase Agreement (PPA). Capacity charge is an integral part of the PPA. It is guaranteed against the rate of Return on Investment (ROI). Guaranteed offtake can be an option. Under this, a 65% minimum offtake can be ensured. Otherwise, a take or pay system may be introduced. But in that case, the tariff may be higher.

Capacity charge is an instrument for attracting private sector investment. There is no justification for tagging it as a tool for plundering. BIPPA is ready for an informed debate about it.

**The White Paper report stated Tk 40,000 crore in capacity charges against the unnecessary over-capacity power generation plants over the past 15 years. What are your views?**

Please note that the White Paper only gave a preliminary perception. To establish this perception, authentic works should be done to identify which power plants and how much capacity development was unnecessary. It will also establish how much capacity charges were given for these. There is ample scope for disagreement with the perceptions provided in the White Paper. BIPPA has surveyed the actual power generation capacity and reserve margins of Bangladesh, India, Pakistan, Sri Lanka, and Vietnam. Grid-connected power generation capacity of Bangladesh now is 27,734MW and the highest generation was 16,447MW. The reserve margin is 63%. The generation capacity of Vietnam is 80,555MW and the actual generation is 46,348MW. The reserve margin is 73.80%. The generation capacity of India is 441,970MW, and the highest generation was 243,271MW. The reserve margin is 81.70%. Pakistan has a generation capacity of 42,131MW and the highest generation was 22,000MW. The reserve margin is 91%. However, Pakistan has issues with power transmission and distribution. Sri Lanka has a generation capacity of 4,381MW and the highest generation was 2,708MW. The reserve margin is 61.80%. This study is based on figures from 2023-24.

The above information evidences that other than Sri Lanka, all other regional

countries have higher reserve margins than Bangladesh. Hence there is a genuine reason for disputing the perception of unnecessary power generation capacity development.

**The White Paper report also alleged that there was a scope for renegotiating the rental charges while extending the tenure of the rental power plants. By not doing that waste of government money has been done. What is your observation?**

My response here also will have two dimensions. The contract of one of my 15-year rental IPPs has been extended on a no power, no payment basis. There is no capacity charge. The tariff has also been reduced by 20%. I am not supposed to know how the contract with the plants of the other members of BIPPA has been extended. It is our humble request to the interim government to establish if any irregularities have been committed while extending the tenures of rental plants through authentic probes. It is unfair to raise allegations of irregularities by BIPPA members and pass indecorous opinions indiscriminately without proof.

**An environment of lack of confidence has been created among the investor community of the power sector. What initiative BIPPA is going to take to change this perception?**

Please note that any investor in any business in any country takes the investment risk to make a profit. This profit must be higher than what they can achieve leaving the money idle in the banks. We must bear in mind that the local private sector has taken the lead in increasing the power generation capacity. If this had to be done by foreign investors, tariffs would have been much higher. However, a lack of confidence among investors has been created for not letting out correct data and information. In the past, BIPPA also did not make public appropriate information about local investment, expenditure, and comparative statements of local and foreign investment in the power sector. BIPPA will ensure doing that now. 