

# The state of power sector

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Electricity sector is such a sector where, if the company is well managed, there is little reason for bankruptcy or default. Therefore the government of Bangladesh can say that the single limit of 15 per cent bank loan will be extended up to 50 per cent for the borrower. This will help form capital three times over. We have seen wonderful response in Dhaka Stock Exchange of Summit Power Ltd as well as of DESCO and Power Grid Corporation of Bangladesh. So let us try to encourage the stock market. Also if we can provide 20 per cent equity then the whole world is waiting to be the rest. So, in my opinion I do not see any challenge as far as funding is concerned.

Then comes the question of technology through which we can have a cost effective solution to the problem. The most cost effective solution at this point is combined cycle power plants and larger power plants. Currently we have a concept of 450 mw power plants in major demand areas like Dhaka. These should be converted to 700 mw. Otherwise we shall not be able to complete the concept of 5000 mw in 2011.

Regarding distributed power, Rural Electrification Board (REB) has achieved wonderful results. We have power plants in Narshingdi, Comilla and Savar. Each station produces stable power of 33 KVA. I would suggest REB and PDE to find out where they have 33 KVA grids that are capable of accepting 20, 30 or 40 MW and allow that to the international community. In the past, the government had said that foreigners were not allowed or payment will not be made in dollars. This may be a government prerogative but when they say foreigners are not allowed to bid it creates an unfortunate situation with the World Bank and Asian Development Bank. Because of the restrictions these banks are saying that you have not done the reforms properly and so on.

So, basically my opinion is I do not see we have any major challenge we accept what we have already provided through the private sector power generation policy and if we implement what is given in the master plan.

## NM Rezwan

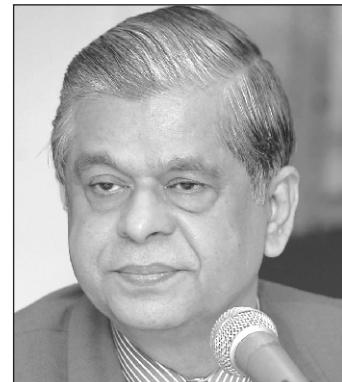
In my opinion, there are six problems in the power sector. There was lack of investment in bringing new generation for the last six to seven years. We should have added 500 mw every year to meet the demand but against that we have added very little. That again is not running properly. Then, cost effective tariff has not been introduced. This is a very important point. It is important to make PDB commercially viable to run on its own. Tariff should be based on commercial principles. If this organisation is forced to sell at a price lower than its manufacturing cost then it shall not be able to operate normally. Because of present PDB tariff structure it has to incur a loss of Tk. 73 crore every month. It is selling per unit of electricity at a price, which is lower than the manufacturing cost. If the organisation is allowed a profit like 10% or 15% then PDB will be able to add new power generation units every year from its own earning.

## Alamgir Kabir

Our cost of supply at present is about Tk 4.50 but we are selling at Tk. 3.00.

## Aziz Khan

Bangladesh government through provision in parliament has created Bangladesh Energy Regulatory Commission (BERC), which is supposed to decide what is the cost of generation of electricity as well as tariff of electricity. But this commission also needs reforms. One of the areas this government should look into is how to bring about reform so that BERC can become fully workable. They are the ones who are mandated to listen to the producers as well as customers, and find a middle path for both.



**NM Rezwan**

Assuming that system loss in PDB has come down to 5%, there is 100% billing and there is no corruption, even then the PDB will incur a net loss of Tk. 73 crore every month. So, PDB cannot be viable unless a commercial tariff is set. Therefore BERC should listen to our grievances. PDB is not getting the government subsidy. Another point is lack of efficient managerial capacity and lack of technical know how. There is political interference. Whenever we go for a big tender or evaluation we face various pressures. As a result it becomes difficult to take a decision. But at the moment there is no such thing, therefore this is the time to take bold decisions. If tender for four or five 450 mw power plants are processed now then we may go for long-term solution. Small power plants like 20 mw or 30 mw will be drops of water in the sea.

Another problem is long bureaucratic decision making process. If the organisation is given full autonomy then this may improve. At the moment it takes 3 to 4 years to place a work order. This is too long a time. In other countries it takes 3 to 6 months to issue the work order because they need not send it to the ministry.

## Mahfuz Anam

If you are given ideal autonomy then how soon can you do it?

## NM Rezwan

We are enjoying ideal autonomy in some of our companies like Power Grid Company of Bangladesh, DESCO etc. There we are doing a project even in six months time. Till now all the projects have been completed in time and decisions have been taken in most transparent way. But that has not been possible in PDB. Why? Because of interference from the government, ministry, secretary, minister, state minister, PMO office etc.

## Mahfuz Anam

So, you want to say that if you are given autonomy you can do a project in six months.

## NM Rezwan

Yes. There is another important reason why we are not being able to work. This is due to politicised workers' union activity and in some cases service associations'. Every government has patronised them. They interfere in postings, transfers and promotions. Because of workers' union we cannot always take bold decisions.

Regarding rental power I can say that electricity crisis will deepen in the coming summer. As an emergency measure the past government had thought about rental power. There was a tender. The quoted rates suggested that we would incur huge loss. I had told the state minister that unless you increased our tariff then PDB would simply collapse. But at the same time there is government's political commitment to provide electricity. So what to do? Some of the quoted rates are lesser than some of our power plants. Therefore, for immediate relief to people, though it is not the ideal problem solving method, I think there is no better alternative to rental power. It is a bitter pill to swallow. Since PDB will face huge loss, the government should arrange for subsidy.

As for captive power, we had floated an open tender inviting everyone who is willing to sell to us. Government had fixed the price at Tk. 1.90 per unit. But there were only two bidders. We shall get 5 MW from then. We are going to draft a contract. I have suggested that very few would be interested to sell at this rate. There is possibility that the present caretaker government will increase it to Tk. 2.10. Then we may expect 200 mw from that source. That is also a solution for the time being.

## Mahfuz Anam

What was the logic behind going for rental power for 15 years?

## NM Rezwan

There will be marked difference in price if contract is given for 15 years instead of 5 years. For 15 years contract price has been quoted at Tk. 2.66 but for 5 years price it would be somewhere around Tk. 4.50.

## Alamgir Kabir

Bidding concept for rental power is different in other countries. Nowhere the contract is given for 15 years. Here it is IPP in the guise of rental. Professional rental service providers come for a maximum of one to two years, in some cases even for less than one year. Even in Germany during the last world cup they had taken rental power. For rental tender conditions are given that equipment have to be brand new. But in Bangladesh they may bring junk.

## Mahfuz Anam

Mr. Aziz Khan what is the life span of a new power plant?

## Aziz Khan

For combined cycle it is 30 years and for small projects it is 20 years. The concept of solution in six months is flawed. So all the solutions coming

out of the flawed thought will be flawed. It is also important wherein in Bangladesh you want to set up a power plant. We have limited space in this country where you have natural gas supply and evacuation possibilities.

## NM Rezwan

I want to recommend one thing. The government should take immediate decisions as to what should be the public - private generation ratio. Otherwise no coordinated decisions are being taken. The government should go for some big power plants.

## Mahfuz Anam

Just for our information, what is the policy in India? What is the government and private sector involvement?

## NM Rezwan

In India they have opened up the sector. It is going towards total privatisation. In the power sector master plan there is a World Bank prescription that recommends about 33 percent IPP. And we have achieved that. They were worried that too many IPP would cause foreign exchange drainage.

## Noor udin Kamal

According to the decision taken in 1996-97, recommendation was for 25 IPP and 75 percent government sector. My personal view is it should not exceed 30 percent.

## Aziz Khan

The challenge is, the public sector has failed. In the last five years the government has added only 80 MW. So would you only allow 20 MW to the private sector now?

## Mahfuz Anam

But we cannot take the 80 MW as a benchmark.

## Munir Khasru

Any policy, private or public, is irrelevant so long there is a flawed, non-transparent, non-workable and corruption-driven procurement policy. Our procurement policy breeds corruption. I had the opportunity to look at all sorts of procurement guidelines. The existing policy allows theft. If you follow the World Bank and ADB procurement guidelines then you can always say that you have done it according to the book. There are hundreds of ways you can bypass and cheat and get away with the technical matters. Let me give two small examples in plain language. We talk about lowest bidder. When we are investing 200, 400, 1000 crore taka why would lowest cost be the only criterion? After you have qualified technically then comes the price quotation. There is a large mafia network here. The people in the design section of PDB are thieves. The rule says that no one should stay in one place for more than two years but in reality people are working for 5 to 6 years. They have connection with all the private companies. You cannot catch them because they have read these guidelines for years together. They know each and every clause and how to bypass them.

Mr Aziz has talked about bringing about a change in the philosophical aspect. You have talked about empowerment of the private sector. I think the private sector will have to change its philosophical approach. You will not indulge in corruption. Private sector is equally culpable as the public sector in the corruption process. When the last government announced captive power policy and small power generation policy, some local entrepreneurs approached us to prepare the technical proposal. As an added request they told us that we shall have to go and meet some people in some special places.

We were the appointed consultants of ADB. There is one technical evaluation and one financial. Regarding two tenders I want to say that when we came the technical evaluation had been done already. We were told to look at the financial part and give our opinion that it was OK. I said how could I give the comment unless I know about the whole thing. You are asking me to certify something without letting me see it. Interestingly, ADB, PDB and others were also pressuring us to expedite the matter. I then put down my feet and said we cannot hurry like this because at the end of the day if something goes wrong you will come and tell us that you had certified it. In the technical proposal against many items were written, 'to be explained later'. And it was approved by ADB. I asked them how could you approve it? There were no answers because it had come from Manila. Our problem is if Washington or Manila says something then we have nothing to say. So, we have to have our own procurement guidelines. I would recommend to the present government to have a separate set of guidelines for heavy investment projects to make sure you cannot utilise the loopholes and make the country bleed.

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