

# ENERGY & CLIMATE CHANGE

## Intelligence Bulletin

### **New Financing Strategy for New Power Plants**

Under the severe power crisis situation in Bangladesh in recent months, the Government is exploring different possibilities for new power generation. There are some significant improvements in the last month due to adequate maintenance of existing power plants. The country saw a landmark electricity production of 4,100 MW last month, but it could not be sustained due to short supply of gas and technical faults in old machines. The experts say the present situation is unlikely to improve before April next when about 300 MW of new electricity is expected to be added to the national grid. However, this 300 MW addition will not change the scenario dramatically. Now, the country badly needs new generation before next summer season starts.

The government has been considering a plan to introduce new probation in its financing strategies in the power sector, especially in generation, for smooth implementation of big power projects that failed to attract foreign or multilateral funding agencies. Under the plan, the government is willing to cover the risk of the investment and to give assurance for continuous power purchase by taking an equity ratio. The government will go for a 30:70 partnerships with the private entities for financing Sirajganj, Meghanaghat or Bheramara like big power projects. Under this strategy, the government will introduce public-private joint venture including the existing two options, public financing and IPPs. The strategy will also allow the government to lease out the work of operation and maintenance (O&M) work of the public plants to private company for keeping up the efficiency level of the plant.

The strategy is based on the study conducted by NexKnt, a USA-based consultant firm on "Generation Support Framework and Financing Strategies". This firm was also engaged in 90s in preparing the Power Sector Master Plan. The study is still in draft phase and is expected to be completed by November 2007.

Estimation shows that the country requires at least 6000 MW new generation to feed the country's industries, commercial and residential consumers within the next five years. It will need an investment of \$US 3 billion dollar. The government is looking for financiers of its 450 MW plants across the country from the Multi-lateral. However, as the responses are slow, the government is exploring the different options of financing and the study shows some innovative ideas.

Although there is a Private Sector Generation Policy under which government can allow the private players in the sector but now it is felt that for smooth financing and minimizing the cost it should changes some clauses and add update in the financing strategies to attract from private sector financing.

It is expected by experts the joint financing strategy will help in building trust among the private sector and more financing will be available to address the acute power crisis through new power generation plants.

### **Proposal for Setting up Power Plants under Palli Biddyt Samities (PBSs)**

A two day workshop was held at Comilla during 1-2 October 2007 on strengthening the Palli Biddyt Samities (PBSs), the cooperatives under the Rural Electrification Board (REB). The major problems identified for PBSs are unlimited interruptions of power supply and high system loss.

Generally, REB procures electricity from Bangladesh Power Development Board (BPDB) and sells to the PBSs. When the severe electricity crisis hits the country, the urban areas were given priority and the PBSs suffer electricity significantly. The crisis of power also turns some profitable PBSs into losing concern. It was observed that due to load shedding, the income of PBSs came down from US \$ 70 million in 2004 to US \$ 20 million in 2007.

In the workshop, the expert recommended that the PBS should be allowed to set up its own power plant in partnership with private sector. This will help to boost up the financial health of the PBSs. For the first case, it was suggested to set up two power plants at Comilla and Noakhali districts to feed consumers with its own generation. This will help to regain the faith of the consumers to the PBSs.

According to the suggestion, Comilla-1 and Comilla-2 PBSs and Chandpur PBSs will form a partnership with private entrepreneurs or procure loan from local commercial banks. In a same way Feni, Noakhali and Laxmipur PBSs would form a separate company in collaboration with private entrepreneurs and local banks for installation of 100 MW capacity power plants at the PBSs.

The discussion session observed that through introducing total quality management (TQM) and performance target agreement (PTA) including key performance areas, these six PBSs could be brought under a model programme. It was revealed in the discussion said the existing PTA system is a faulty one as it does not help the PBSs learn about how to develop themselves to attain sustainability and technical, financial growth mechanisms.

The expert suggested the REB to install software from the US-based National Rural Electric Cooperative Association (NRECA), which may help the PBSs reduce their systems loss.

It may be mentioned here that in cooperation with the US-based National Rural Electric Cooperative Association (NRECA), the government formed REB in 1978 through an Act, but it lost its image that it had achieved since 1978 due to political influence and inefficient management.

Earlier, NRECA suggested a 10-point recommendation to the government including decentralization of power and authority exercised on the PBSs, introducing e-governance and transparency, proper procurement policy, rationalization of tariff structures and uninterrupted electricity. The workshop recommendations will be soon sent to the REB and higher authorities for their approval.

## Decentralization Initiative in Power Sector Companies

Under the reform initiatives in power sectors in last decade, several power companies have been established under Power Division. One of the objectives of the reform was to making these companies independent and self-sustaining. However, these companies could not function independently due to several reasons. One of the barriers was the position of the Secretary of the Power Division as the Chairman of the Board of Director. It gives more centralized control of the ministry in the companies. The experts mentioned that this created the opportunity of corruption at his level, and broke the chain of command in the companies. Further to that, as the Chair of the Board of Directors, the Secretary used to get the privilege of having additional vehicle from each company and remuneration of chairing the board meeting.

Though originally the power secretary was not supposed to head the companies, there are lots of criticisms that the bureaucrats in the recent years increasingly took control of affairs of all the power service bodies for petty personal gains. Due to this to excessive centralization of power in the power ministry, the power sector has been almost crippled.

The ministry has recently taken a move by curbing its control over seven power companies including the Dhaka Electricity Supply Company Ltd (DESCO) to make these more dynamic and efficient. This will mean the Secretary of Power will no longer chair the boards of these companies. Besides, the ministry is working on some other changes to decentralize its power to make the companies more functional and responsible. The proposal initiated in July 2007 will result that the power secretary will no longer chair the boards of Power Grid Company of Bangladesh (PGCB), Ashuganj Power Company, Dhaka Electric Supply Authority (DESA), Dhaka Electric Supply Company (DESCO), West Zone Power Distribution Company (WZPDCO), South Zone Power Distribution Company (SZPDC) and Electricity Generation Company of Bangladesh (EGCB). The ministry recommended that a secretary from any other ministry or a retired secretary or an eminent citizen could represent the government in the boards of these organizations.

The proposal further said that from now on, the power division would not be a party to decisions of each of these companies. Representatives of shareholders of the companies will take decisions. A power ministry official cannot represent the ministry in more than two of these companies at other levels.

According to the proposal, only the managing director will have the authority to represent a company in the executive body level. The company boards will have representatives from the consumers, businessmen and other groups concerned for the first time. The inclusion of financial expert is also recommended.

On the other hand, the companies, which now do not have specific financial or performance targets, will have to set their annual targets. The new proposal is expected to be take place by December 2007. In principle, the Government has approved the proposal and reviewing the legal aspects of the new structure.



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