

GOVT STARTS RAISING ENERGY PRICES IN ITS SUBSIDY-CUT MOVE

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The government has launched its move to mitigate the stress of subsidies on the economy by increasing the prices of energy and power. The policy decision has been to relieve the energy and power sector completely free from subsidy in three years. To begin with, the government announced an increase in the gas prices of grid-connected power generation and captive power by Tk 0.75 per unit on 27 February 2024. The present tariff for grid-connected power generation is Tk 14.75 per unit and that of captive power is Tk 30.75 per unit. It is being said that this will increase Petrobangla's earnings by Tk 300 crore. A gazette notification has been published giving the increase effective from 1 February 2024. According to EMRD, considering 23% of the gas supply based on imported LNG the loss of Petrobangla may grow to Tk 6,500 crore in the current financial year.

Meanwhile, on 29 February 2024, a gazette notification was published raising the bulk and retail electricity tariffs. The bulk price has been increased from Tk 6.70 to Tk 7.04 per unit and the retail from Tk 8.25 to Tk 8.95 per unit. The increased tariff will

come into effect from the billing month of February 2024. It is being said that the generation cost per unit now is Tk 11.53. This is 29% higher than that of the previous year. Last year it was Tk 8.96 per unit. The finance ministry has allocated Tk 39,535 crore as a subsidy to BPDB considering its loss of Tk 43,539 crore this year. BPDB in its proposal of adjusting subsidy mentioned increasing bulk tariff from Tk 6.70 to Tk 12.11 and that at consumer level from Tk 8.25 to Tk 14.68. BPDB requested to make the entire adjustment within 2024. However, the power division decided to adjust prices in phases over three years to ease stress on the consumers. The just-announced tariff hike is the first of that.

Explaining the reason for the hike in tariffs, State Minister for Power, Energy and Mineral Resources Nasrul Hamid said that there is no alternative to getting rid of subsidies for the power and energy sector. However, the tariff increase will be done in phases to mitigate stress on the consumers. Adjusting the price of gas for grid and captive power will continue. Considering the 23% contribution of imported LNG to the grid, the

weighted average price of gas is more than Tk 24 per cubic meter. It is now being sold at Tk 22. This will lead to Tk 6500 crore loss in this financial year. The State Minister announced that the price of liquid fuel will be adjusted per international market price from March 2024. According to official sources, a circular would be issued soon by finalizing a policy in this regard. The policy would have a mechanism that the prices of octane and petrol would remain less than that of diesel. Following this policy, the Bangladesh Petroleum Corporation will announce the domestic prices of fuel oils based on international prices. The price adjustment of the fuel oils is expected to be made in the first week of March 2024, sources said.

Talking to the EP, Mr. Nasrul Hamid said the power tariff will be adjusted with generation cost in phases over 3 years in 12 installments. He claimed that the generation cost has increased significantly because of the Taka-US dollar exchange rate fluctuation in the recent past. It is anticipated that such fluctuation will continue. This may take the power tariff to Tk 20 per unit after three years.

In 2023, the power price was increased at the rate of 5% each month over three months from January to March last year. During this period, a huge increase in gas prices was made for all categories of users. The price of gas for power generation was increased by 178%.

Over the last 15 years, the bulk and retail power tariffs have been increased 12 and 14 times respectively. Still, people had immense miseries from diabolic load-shedding during this time. The reason was that the generation capacity could not be utilized for fuel supply shortages. According to BPDB, the cost of energy for power generation per unit using gas is Tk 4.0, coal Tk 6.0, and furnace oil Tk 17. BPDB needs 2200 MMCFD gas to keep all its gas-based power plants in operation. But Petrobangla cannot supply more than 1200 MMCFD. Even if the dollar for coal import is made available, it will not be possible to get more than 4500 MW of 6000 MW capacity including imports. The plants at Matarbari and Bashkhalī can generate 2400 MW. But for the constraints of power transmission, more than 1500 MW cannot be evacuated. Around 1000 MW can be imported from India. Hence for meeting summer peak demand of 16500 MW, about 5000 MW generation from liquid fuel will be required. However, the private sector power producers are talking about capital shortage for purchasing fuels. Banks are reluctant to lend them. Consequently, it will not be possible for them to commit to supply unless they are paid unrealized dues of power supplied for three months from October to December 2023. All these indicate that there will be load-shedding in the ensuing summer.

Announcing the power tariff increase on 29 February 2024, it has been mentioned that the average bulk price increase is 5%. That is the bulk increase is from Tk 6.75 to Tk 7.04 per unit and the retail is from Tk 8.25 to Tk 8.95 per unit. The increase is 8.5%. The tariff in the domestic sector has been increased by Tk 0.28 to



Tk 1.35 in 7 slabs. For up to 50 units, the price increased from Tk 4.35 to Tk 4.63 per unit. Users using above 600 units will have to pay Tk 14.61 per unit, an increase of Tk 1.35. This is Tk 3.08 more than the average present cost of generation.

The government is claiming that there exists no alternative now to increasing power tariffs and the prices of gas and oil to get rid of subsidies. Dean of BUET Prof Dr. M Tamim, however, said there should be soul searching about the massive increase in the cost of generation. Wastage, pilferage, and inefficiency have also caused an increase in the cost of generation. Actions must also be taken to eliminate these alongside reducing subsidies through price increases. It must be ascertained how much money has been wasted through projects for generation capacity increase.

Dr. Khondaker Golam Moazzem, Research Director of the Centre for Policy Dialogue (CPD) has serious reservations about the power tariff increase with the excuse of reducing subsidy. According to him, leaving a considerable capacity of power generation unutilized and paying them capacity charge is among the main reasons for the generation cost increase. According to him, not extending contracts of contingency power plants at the expiry of contracts, no power - no payment type of contract,

amendment of contracts of all power generation plants accordingly, and increasing contribution of renewable energy can effectively reduce the cost of generation.

Dr. Jamaluddin Ahmed, a leader of the Bangladesh Economic Association (BEA), said neglecting exploration and development of own primary energy resources are the major reasons for the higher cost of generation and huge subsidy. On the other hand, in the present situation, there is no other option but to get rid of a huge subsidy. However, the government should adopt a clear plan and strategy to not repeat the mistakes done in the past.

State Minister Nasrul Hamid assured that the price hikes of electricity and fuels would not have any impact on the prices of essentials. But all concerned have rejected his claim, saying that the price increase of electricity and fuel will have a domino effect on every aspect of living. It is unavoidable that subsidy requires reduction. According to them, getting rid of expensive liquid fuel-based generation, increasing investment in own coal and gas exploration, and minimizing peak load by demand side management is the way forward now.



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