

Power Price Should Be Rationally Adjusted Once A Year

The present critical situation in the power sector has been created for not walking along the path of austerity during the critical situation that emerged during the Russia-Ukraine war following the COVID-19 pandemic. The payment obligations created due to the unnecessary huge reserve margin, adding to the crisis. To salvage the troubled energy and power sector from the tight corner, subsidies must be withdrawn through a well-crafted 5-10-year plan. But we must bear in mind that the price of power and gas should be adjusted once a year through regulatory auditing after eliminating the costs for inefficiency and wastage. The limit of subsidy for each unit of electricity must also be determined during the determination of bulk and retail tariffs of electricity. The total subsidy of the power and energy sector should be determined based on the above. Transferring the cost of inefficiency and waste to the consumers is not acceptable at all.

Engr. Mizanur Rahman, General Secretary of the Bangladesh Energy Society and former member of BERC, said this in an exclusive interview with **Mollah Amzad Hossain**, Editor of Energy & Power Magazine.

How do you evaluate the present state of the power and energy sector? The outstanding payment of the two sectors is now US\$5 billion. The sector is under severe stress because of this. What additional stress may be created for exchange rate adjustment in the above situation?

Relevant experts including me in anticipation of a possible crisis suggested the government introduce

austerity measures in the use of electricity and energy in 2022 during the outbreak of the Russia-Ukraine war informing the people of the uncomfortable situation. Suggestions were given for keeping the situation under control by introducing planned load-shedding. The government did not pay heed to that. The crisis started from that point. Again, from that time it was not possible to adopt an affordable fuel mix in a planned manner. The price of coal, gas, and liquid fuel in the global fuel market is now at a remarkably low level. Yet because of the dollar crisis and the absence of required infrastructure, efficient fuel-using coal and gas power plants cannot be operated at full capacity. The cost of generation has increased for enhanced use of expensive liquid fuel-based plants. The outstanding payments also kept growing.

Oil prices usually remain the most volatile in the global fuel market. But this time the suspension of the Russian pipeline gas supply to European countries, the prices of oil and gas remarkably went up at the same time. Our failure to contain the impacts on time led to the expenses in the power and energy sector almost going out of control. In 2015 Bangladesh used to import liquid fuel only. The volume of imports was less than 25% only. But now due to the significant increase in the use of liquid fuel for power generation, the import of coal, LNG, and electricity together have grown to over 50%. Considering the present price according to heating value, the price of diesel is US\$30/MMBTU, furnace oil US\$23-24/MMBTU, LNG US\$12-13/MMBTU, and coal US\$7-8/MMBTU. Talks on the 3rd and 4th



Engr. Mizanur Rahman

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FSRU are being heard for a while. But the contracts have only recently been signed. These may come into commercial operation towards the end of 2026. It was possible to utilize the maximum capacity of gas-based power generation limiting liquid fuel use to a bare minimum if Bangladesh had required infrastructure. That could have reduced the cost of generation significantly. Coal is the cheapest fuel for power. But because of the dollar supply crisis, the full capacity for coal power generation cannot be utilized. But we must utilize the full capacity to reduce the cost of generation. Coal power remains the least cost option.

Alongside ensuring a planned fuel mix for power generation, we must enhance efficiency and adopt austerity to reduce

the cost. If necessary, planned load-shedding should also be done. Due to devaluation of the Taka, the cost and expenses in the power and the energy sector will increase significantly. We must confront the situation through price adjustment and providing reasonable subsidies. We must bear in mind that there exists no quick fix for remedying the situation.

The debate on capacity charges continues. It is an integral part of private sector investment globally. It is a popular observation that the crisis has been created for an unplanned increase in generation capacity. What are your views?

Please note that capacity charge is not an issue. We need a dwelling house to reside in. You have rented two. You can leave the one unused, but still, you need to pay the rent. The capacity charge is like this. The debate has been created for unplanned, excessive growth of generation capacity. Now, we are paying through the nose the capacity charge keeping many generation plants idle. This is increasing the cost of generation. What a colossal waste.

When the plans were made in 2009, the liquid fuel option was adopted as a priority contingency measure for confronting the crisis. The cost of generation using furnace oil was about half of that using diesel. But in 2018 when no such additional plants were required, 2,000MW new generation capacity was added including 800MW-capacity diesel-based plants. The supply chain entered the phase of huge capacity charge payment. The crisis was triggered from there.

In my opinion, all furnace oil-based power plants in the public sector must be taken out of operation straightaway now. These may be sold out. We must not extend the tenure of the contract of any liquid fuel-based plants in any case once these expire. All fuel-inefficient power plants should be phased out. These will gradually assist Bangladesh in getting out from the curse of capacity charges for unplanned growth of generation capacity.

Do you think that no electricity no payment basis contract is delivering any benefit at all?

No electricity no payment basis contract is a non-transparent process. Provision for high O&M charges (4-5 cents) has been included in a clandestine manner instead of a capacity charge. This is not a transparent process. Corruption is being encouraged. So many liquid fuel-based power plants are no longer required. Some HFO-based power plants are being used at less than 10% of their capacity. Yet we are using those plants only to increase the financial liabilities and serve vested interests.

Fossil fuel subsidy worldwide is US\$1 trillion. In Bangladesh, it is Tk 41,500 crore. The initiative has been taken to increase it to Tk 47,000 crore in the upcoming annual budget. What do you think?

The decision for the provision of the subsidy must be taken transparently. The subsidy is determined based on demand placed by the energy and power sector. But how does the ministry calculate the subsidy? We believe that the ministry before calculating the required subsidy gathered information from concerned energy and power enterprises. When the power purchase from IPPs started BPDB used to get subsidies based on the difference of power price of IPP plants and their own. BPDB has moved away from there. But now the present cost of generation and bulk tariff are considered. Subsidy may be calculated from the difference of the above. In my opinion, this is not appropriate.

When I used to work in the Bangladesh Energy Regulatory Commission (BERC), we used to determine the cost of generation by reviewing all cost elements fairly of the proposals submitted by the power sector utilities. During the last such tariff determination of our term, we proposed fixing the bulk tariff per unit at Tk 0.60 less than the cost of generation considering the BPDB's proposal. We suggested getting

this amount as a subsidy. BERC issued that ruling, but the BPDB did not follow the instruction.

BPDB itself is now calculating the deficit after determining the cost of generation. There are genuine questions about the accuracy. To dispel the doubts and confusion, the cost of generation must be determined through scrutinizing the audit reports by a third-party regulator. Business as usual will encourage the continuation of misuse of people's money in paying subsidies arising from the consequential impacts of inefficiency and irregularities of government agencies and enterprises.

The government envisions withdrawing subsidies completely from the power and the energy sector in three years. What are your observations?

I have no issues with government plans for withdrawing subsidies completely from the energy and power sector. The costs of the power and energy sector must be calculated fairly and transparently. In the power sector, BPDB claims that the cost of generation including tax is Tk 12.13/unit. The bulk tariff is Tk 7.04. This means that the operating loss of BPDB per unit is now Tk 5.09 per unit. A section of civil society and environmentalists claim that a power tariff increase may not be required if corruption and poor governance can be eliminated from the power sector. Rather the tariff can be reduced. I differ from both: the method of calculations of BPDB and the claim of civil society. The expenses for power and energy of all enterprises must be calculated transparently by a third party. This work must be done after one review by BERC. BERC started it. But that process has stalled now. This must be resumed again and the price should be adjusted once a year after reviewing and examining all the pros and cons of the costs of power and energy supply chain transparently. If there is any impact on the cost due to fuel cost during mid-year that must be accounted for in the subsequent determination of tariff and price.

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