Power sector restructuring on the cards

A major restructuring of the power sector is being planned with the aim of improving efficiency and service to consumers. The sector, now controlled by the Ceylon Electricity Board (CEB), the state-owned generation and transmission monopoly, and Lanka Electricity Company (LECO) which handles distribution, is to be divided into separate entities for generation, transmission and distribution - a process called "unbundling".

Power generation is to be further divided into hydro and thermal. Transmission will be done by a single autonomous body while distribution will be by several different entities. In addition, an independent regulatory commission is to be set up to ensure competition and maintain standards.

Under the restructuring project, a new Electricity Act is to be prepared creating the legislative framework to set up an independent, autonomous regulatory commission and form the separate, independent entities for generation, transmission and distribution.

Power generation by the private sector or Independent Power Producers (IPPs) was allowed in 1993. Subsequently, a World Bank funded study recommended that the sector needs to be restructured for effective private sector participation. The government then prepared a power sector policy direction document and signed a memorandum of understanding to get aid for power sector restructuring from international lending agencies.

The cost of electricity is critical in attracting foreign investment, according to the policy paper. It has a direct bearing on the competitiveness of local industry in international markets. Power prices therefore should be comparable and have a competitive edge in relation to prices in the region, it said.

"The government's vision is to have an efficient and dynamic power sector to facilitate economic growth," declared a senior government official, explaining the need for restructuring the sector. "While expanding power generation, there is a need to improve efficiency, eliminating power cuts and reducing losses, through which we can make a big saving."

Today, only 52 per cent of the people have electricity - a comparatively low figure. Furthermore, estimated losses from transmission and distribution in the island are around 18 per cent compared to only six per cent in Japan.

With more people using computers and television, consumer expectations are on the rise. "Consumers are demanding a better quality of supply and a more reliable service," the official pointed out adding that the best way to improve management efficiency was to introduce private sector attitudes and management. All over the world, existing state monopolies in utilities like power are being restructured and transformed into entities that are more consumer-oriented and market-oriented, with private sector involvement.

Under state ownership, with regulation and operation in one body, utilities do not function as efficiently as they should. Hence the need for "unbundling".

The CEB estimates the investment required to expand and improve power supply over the next 10 years is around \$2.5 billion - \$1.5 billion for generation and \$1 billion for transmission and distribution.

Demand for power is growing at 8-10 per cent a year or by 100MW a year. This alone will ensure that there will be no lay offs in the restructuring process. In the past, money for expansion came from multilateral sources like the Asian Development Bank or bilateral ones like the United Kingdom and Japan's OECF. Now, however, international lending agencies have adopted a policy of not lending money to sectors that have the potential to attract private capital such as telecommunications, ports and power. Government development aid, therefore, needs to be allocated for areas with no other funding like social infrastructure (E.g. education). "So there's a huge gap for financing investment needs of the power sector," the official said.

"One of the main reasons for restructuring is to ensure the sustainability of the power sector," he added. "Now there is very little subsidy for the sector itself, but there are cross subsidies with domestic consumers paying almost half the tariff of industrial users.

However, the government will continue to subsidise areas like rural electrification - as part of its social agenda." With restructuring, the tariff structure will also become more transparent, as it has in the telecommunications sector. The independent regulator will impose service standards and ensure a fair deal for consumers.

Power generation today is by the CEB and two IPPs. The CEB has signed an agreement for one more IPP.

Under the restructuring project, the plan is to have two or more entities in generation, one for thermal generation and the other for hydropower generation. Transmission will be by an autonomous government authority - what's called a natural monopoly as it is more advantageous to have a monopoly in an area that is technology-driven.

Distribution will be by several entities like LECO. The transmission authority will buy electricity from power generation entities (these could possibly be based on power generation plants like the Laxapana complex or the Kelanitissa complex) and IPPs and sell it to the distribution organisation - in the form of bulk sales - which in turn will supply electricity to consumers. "We're going to buy power by competitive bidding," explained the official. "The only guarantee of efficiency is competition."