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Expressions of Interest in coal power plants

by Dr. Janaka Ratnasiri

In November 2002, the Chairman of the Energy Supply Committee in the Ministry of Finance called for Expressions of Interest for the selection of a developer for a 900 MW coal power plant project. The phased programme proposed setting up 3 power plants, each of 300 MW in 2008, 2010 and 2012 respectively.

The press notice also said "The location of the plant may be at Trincomalee or Hambantota. The scope of the project shall include, among other things, obtaining the necessary Environmental Clearances. The developer shall also be responsible for carrying out the Feasibility Studies. The developer may, if he so desires, propose alternative fuels in his proposal". The last date for submission of proposals was July 4, giving about 8 months to prepare the proposals.

In January 2003, the Energy Supply Committee inserted another press notice, amending the previous notice, in which the provision of an alternative fuel was withdrawn restricting the fuel to coal only. No reason or justification was given. It could therefore be presumed that the authorities would have been uncomfortable that someone would propose a better option than a coal fired plant and they would be compelled to accept it making the coal proponents unhappy. The authorities would have thought that rather than facing such an eventuality after receiving the proposals, a better strategy would be to deny such options at the beginning itself. There cannot be any other valid reason for this decision. Obviously the welfare of the public was of least concern to the authorities in making this decision.

Then, a third press notice appeared on July 14 i.e. 10 days after the closing date previously announced lapsed, extending the closing date up to September 30. Obviously, for the ESC to extend the closing date after the initial closing date lapsed, there would not have been any acceptable proposals receive. These may not have reached their targets either in terms of the technology or the total cost or the tariff or the party itself or other consideration. Since the amendment was announced after the closing date had lapsed, it is not an extension, even though the heading of the last press notice claimed it to be so. It is really a new call for proposals. This means that the outcome of the first evaluation could be made public.

Considering the events that had taken place in the recent past, it is not surprising if the ESC has not received any acceptable proposals. Readers may recall that in 2001 September, the Ministry of Finance called of BOIs for setting up of 3 of 350 MW, through press notices as well as through BOI web site. The phased programme proposed setting up of the plants in 2004, 2007 and 2011, respectively. The fuel option for the plants was left open to be any one of oil, gas or coal.

This announcement had a number of shortcomings, as pointed out by the writer in his article in *Daily News* of 05.10.01. Firstly, it gave only 37 days for interested parties to submit their proposals including not only technical information, but also financial considerations. This was an impossible target to achieve, unless a party has received prior information and was ready with a proposal.

Secondly, the time target of January 2004 given for the commissioning of the first 350 MW plant, was only 27 months from the date of announcement. In reality, the Ministry would not have been able to even complete the evaluation, select the supplier and award the contract during this period. Then, added to this, is the construction time of several years. Thus, the time targets given were totally unrealistic and the entire exercise appeared to be totally unprofessional, prepared by persons with no knowledge of building power plants.

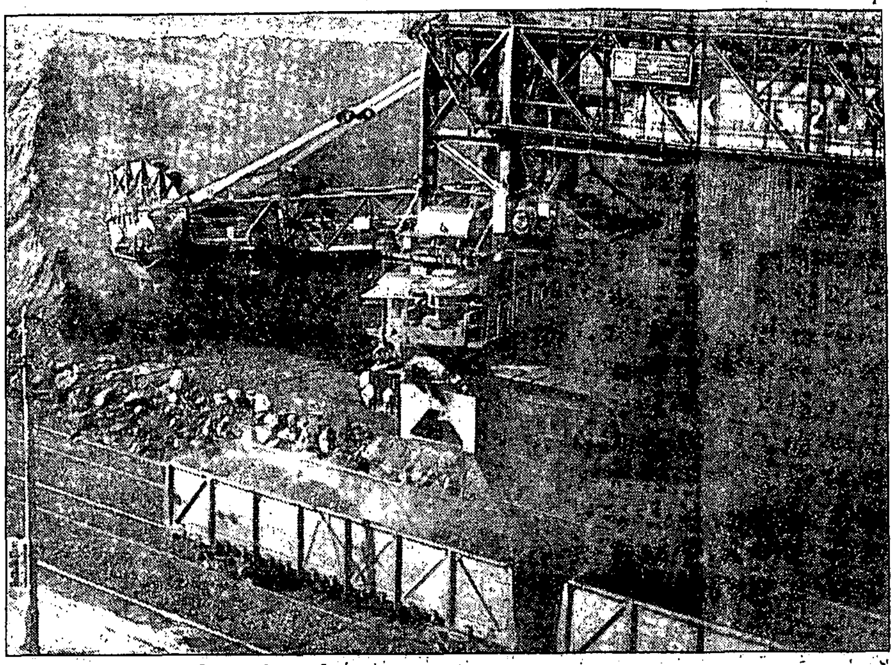
Subsequently, the Ministry extended the closing date by 3 weeks and the commissioning dates were made flexible, to be indicated by the proponents themselves. However, just before the second closing date the Ministry postponed the date for acceptance of proposals indefinitely; in other words, the project was abandoned. At this juncture, the writer published another article in *Daily News* of 16.01.2002 on "Revive call for thermal power proposals". It is pertinent to quote a few paragraphs from this article here.

"Just before this date (original closing date) the closing date was extended indefinitely. All the parties who collected the documents were duly informed, and they all must be now waiting for the Government to announce the new closing date for them to submit the proposals.

"Being on the BOI web site, the announcement would have been picked up by power sector news services on the web and given international publicity.

"The proposals need to be submitted along with a proposal of security amounting to US $ one million bank guarantee. These parties would have incurred much expenditure in preparing the proposals according to the Ministry of Finance Guidelines, including visits to Sri Lanka and arranging for the bank guarantee.

"Hence, abandoning the call for the BOIs at this stage for no valid reason, and deciding on the coal plant only will bound to bring discredit to the Government. The obligations is on the Government of Sri Lanka, irrespective of whether it is a PA Government or a UNF Government". It is now proven that discredit has indeed come our way.



At a coal power plant abroad

Naturally, the parties who spent much time, effort and money (which were all in vain) on preparing proposals in 2001, would not have taken the current call for BOI seriously. In addition, there is another reason why reputed power developers would not want to submit proposals accompanying bid-bonds to the value of US $ 2 million. That is the rampant corruption prevailing in the country.

People are aware of the massive scale corruption in the public sector, particularly associated with mega-projects involving billions of dollars. These have been given much publicity through media reports, which have not been contested or denied. Hence, I need not elaborate on them here. When the suppliers come to know that in Sri Lanka, it is the common practice to put aside the recommendations of technical evaluation committees and to award contracts on other considerations, no reputed supplier with self-respect would want to get involved in dealings here. This project will cost at least 1200 billion rupees and hence the same criteria will apply in this case too.

Then there is another factor. The Energy Supply (Temporary Provisions) Act of 2002 has suppressed the normal environmental laws in the country for a period of two years in respect of power projects. (See writer's article in *Daily News* of 18.05.2002 for its implications). This means that the usual Environmental Impact Assessment report on new large power projects is no longer required and only a report from the Central Environmental Authority (CEA) is called for without any obligation for the ESC to abide by their recommendations.

Today, every country, whether developed or developing respects the environment. When the principals come to know that authorities in Sri Lanka do not care for the environment and they are incapable of managing development and environment protection simultaneously they must be feeling that it would be better to leave them alone.

In the meantime one of the last July 27 papers, in its political commentary columns mentioned that the Minister of Power and Energy has submitted a Cabinet memorandum the previous week seeking approval of the Cabinet for building a coal power plant in Trincomalee and that the Cabinet has approved the project for implementation on BOO/BOT basis. If this news was true, it raises many questions:

* Since the initial press notice gave the option for the site to be either Trincomalee or Hambantota and that EOIs are to be accepted till next September, why seek Cabinet approval for a project in Trincomalee now, without waiting till all the EOIs are accepted and evaluated after September?

* Has the necessary environment clearance been obtained for the proposed project at Trincomalee has announced in the press notice before going to the Cabinet and whether this report would be made available to the public?

* What is the recommendation of the CEA on this report, who is required to report on the proposal according to the provisions in the new Energy Supply (Temporary Provisions) Act?

* Since the date of acceptance was extended after the initial date was passed, would the ESC announce the outcome of the initial evaluations giving the number of proposals received, and the cost of the first plant, the proposed tariff and the site in respect of each proposal?

* Is the Cabinet approval sought for a project selected after evaluating the proposals received by July 4th deadline and if so, what is the necessity to seek more proposals by announcing that proposals will be accepted till September 30th?

It would be in the public and national interest if the Chairman of the Energy Supply Committee would kindly clarify the above matters.

The entire exercise of calling proposals to build thermal power plants by the Ministry of Finance has demonstrated the lack of planning and indecision regarding what the ministry really wants. The first announcement in 2001 gives totally unrealistic dates for submitting proposals and commissioning time targets, with the fuel options left open. The second announcement extends the closing date and the commissioning dates are left to the proponents to decide. In the third announcement, the ministry postponed the project indefinitely through individual notices.

One year later the Ministry of Finance through its newly established ESC, makes a fourth announcement calling for proposals again with fuel options open. The fifth announcement restricts the fuel to coal. The sixth announcement extends the closing date by 12 weeks. While these proposals are pending, the Power Minister appears to decide on a project independently.

The above events clearly show the incapability of the Ministry of Finance to handle this job. After all, it is not their job, when there is a separate ministry to handle power projects. This is a clear case of the dog in the manger. People in the country expect the officials in the Ministry of Finance to be the best brains, even guiding the others. If this is the way they do things, what would the future hold for Sri Lanka?