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# Cost efficient power sector by next year

## ADB grants its biggest loan of $ 130 m for key restructuring; Treasury Secy. terms it as a milestone

By Nisthar Cassim

The country's efforts towards a sound, stable and cost efficient power sector reached a milestone yesterday when the Government signed agreements on the ADB funded US $ 130 million (nearly Rs. 13 billion) critical Power Sector Development program.

Two agreements were signed separately by the Government and the ADB and the Ceylon Electricity Board (CEB) and the ADB.

ADB Country Director John Cooney told the media yesterday that the project was by far the single largest funded by the ADB for Sri Lanka.

The Power Sector Development Program will support the Government's efforts to restructure the power sector and improve the quality and quantity of electricity supply.

The project will address both policy and investment, as without policy changes investment alone will not yield the desired results. The program loan of US$60 million will support: the establishment of an independent regulatory and tariff setting mechanism; enhance sector efficiency by introducing competition and commercialization, and encourage private sector participation.

It will also support the financial restructuring of the sector and the unbundling of the generation, transmission and distribution functions of CEB and Lanka Electricity Company.

A Treasury official helps as Secretary to the Treasury Charitha Ratwatte (left) and Asian Development Bank Country Director John Cooney sign the US$ 130 million Power Sector Development Project yesterday in Colombo. External Resources Director Ms. Sujatha Cooray, Power and Energy Ministry Secretary Prof. K.K.Y.W. Perera, CEB Acting Chairman M. Zuabri, General Manager D.C. Wijeratne and ADB economist Zveglich Jr., Joseph Ernest look on. Pic by Daminda Harsha Perera.

The investment loan of US$70 million will assist in expanding, modernizing and rehabilitating the transmission and distribution systems, and expanding the rural network. This will include:

financing 600 rural electrification subprojects allover the country that will provide or expand power supply in more than villages, directly benefitting about 112,500 consumers; strengthening CEB's existing distribution networks and reducing related line losses and providing transmission lines and substations to transport electricity from the generation stations to the rural areas.

Mr. Cooney said that it took nearly five years for the ADB to come to this stage (finalising the project and signing of the agreement) and stressed the need for greater commitment from the Government and the CEB to make the project a success as it through cost efficient and reliable electricity would have a tremendous beneficial impact on Sri Lanka's efforts to achieve sustainable socio-economic prosperity.

Secretary to the Treasury Charitha Ratwatte said that the signing and the commencement of the project was a substantial step forward and described it as a "milestone."

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Secretary to the Ministry of Power and Energy Prof. K.K.Y.W. Perera said that by mid-2003 the independent regulator would be established and by October 2003 the unbundling of the sector would be completed with generators, one transmission company and a few distributing company. He expects the transfer of assets to these companies to take place before end of 2003. The ADB funded project is due for completion by December 2006.

He confirmed that restructuring (using single buyer model) would not lead to retrenchment of employees in the sector but the Project would improve efficiency and cost competitiveness whilst being able to meet the growing demand for electricity.

Mr. Ratwatte said that the consumer would be the ultimate beneficiary with reliable and cost effective supplies while a restructured environment would open new opportunities for private sector growth and employment generation.

The power sector, which is dependent on hydro generation has been plagued by several crises in addition to drought. CEB General Manager D.C. Wijeratne confirmed that the country has faced three consecutive years of hydro power crisis which has forced reliance on the more costly fuel powered sources for generation.

As per analysts the sector has also been hit by high load growth leading to deterioration in the sub transmission and distribution networks. System losses at the Ceylon Electricity Board (CEB) have mounted in recent years, despite substantial investments. Losses reached 22% recently, after hovering between 17% and 19% during the 1990s. The causes include delays in fixing breakdowns, and the lack of electricity meters.

ADB said that the Power Sector Development Program will also help mobilize more resources for the sector and fund new distribution lines and connections in rural areas, as well as improve the existing network.

The Government seeks to provide electricity for 80% of the population by 2010 but, to achieve this, it needs to better manage the power utility and reduce inefficiencies in power delivery.

The program loan will come from ADB's ordinary capital resources with a term of 15 years, including a grace period of three years. Interest is determined in accordance with its London interbank offered rate LIBOR-based lending facility. The project loan will be from ADB's concessional Asian Development Fund, with interest set at 1% per annum during the grace period and 1.5% per annum subsequently. The term is for 32 years, including a grace period of eight years.

The loans follow an ADB technical assistance grant of US$800,000 approved earlier this year to help "unbundle" CEB into generation, transmission, and distribution companies.

CEB services 2.69 million customers and is responsible for more than 90% of the country's power generation, all of the transmission, and 85% of distribution.