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Economic benefits of coal power

BY AN INDUSTRY ANALYST

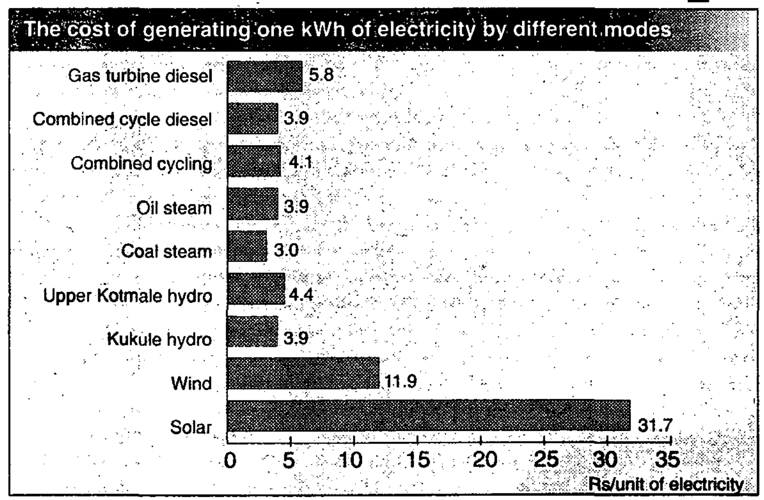
The planners at the Ceylon Electricity Board have been alerting the policy makers and the general public of the impending power cuts, should no action be taken to increase the power supply.

The consumers are provided electricity through thermal generators even at this present moment and as a result a surcharge of 20% is levied for all such consumption. Undoubtedly, this adds to our costs and erodes the competitiveness of our export industries that are already in poor competitive strength. Electricity planners have stated that power cuts in the order of 4 hours per day by 2001 and by as much as 8 hrs. per day by 2004 will be unavoidable if no additional power is added to the grid.

Sri Lanka has used most of the hydro-power generation options and there is limited potential to develop more hydro electricity in Sri Lanka. Coal power is one of the cheapest sources of power and it is prudent to pursue this option, to facilitate greater competitiveness of Sri Lankan industries. However, even after the lapse of over a year since all approvals for the project have been completed the construction work on the coal power project is yet to commence. It has been pushed back for sometime, mainly for environmental considerations.

The objective of this paper is not to delve into the environmental effects but to review the economic aspects of coal-generated power.

The key to improved competitiveness is through the use of inputs which cost less and through greater efficiency. Electricity is one of the main inputs in any industry. A comparison of the electricity tariffs in Sri Lanka with those of East Asian countries (the rates in South Asian countries are not available for comparison) indicates that Sri Lanka's industry electricity rates are higher than in most other countries.



The rates in Sri Lanka are even higher than the rates in some of the developed countries. The industry rate in France is US$c4.87, United States US$c4.07, Netherlands US$c6.23, New Zealand US$c3.8 and Sweden US$3.42.

The costing carried out by the Ceylon Electricity Board to generate one unit of electricity using different methods shows that coal power is the cheapest source of electricity generation in Sri Lanka.

The coal power project will increase the investments by Rs. 60 billion and will help stabilise the electricity price escalation. If the country is unable to increase its supply of electricity, during periods of shortages in electricity such as at present, we will have to pay exorbitant prices for power, as we resort to stopgap measures to fill in the shortfall in hydro electricity.

(Please note that the 1996 power crisis forced the Electricity Board to purchase power from the private sector at Rs. 6.25 per unit from Bulk Suppliers and at Rs. 12/- per unit from private generators and sell it for Rs. 4/- per unit).

The frequent power cuts will drive away the few foreign investors coming to Sri Lanka and according to estimates made by the CEB for each day of delay in setting up the coal power project it costs the economy Rs. 13 million by way of higher prices paid for purchase of oil.