CEB's 1992 shock, beginning of today's reforms

In Parliament on Thursday

- Deputy Minister Sagala Ratnayaka

by Jayantha Sri Nissanka and Bharatha Malawaraarachchi

Speaker Joseph Michael Perera presided when Parliament met at 10 a.m. yesterday.

Following announcements, presentation of petitions and oral questions, the House took up the adjourned debate on the Electricity Reform Bill.

PA MP Ronnie de Mel speaking at the outset said:

This Bill aims to regulate three main features of the power sector; generation, transmission and distribution. Minister stated that this Bill was not brought for the privatisation of the CEB. We accept his assurance. It may not be privatised today but this is the first step for the eventual privatisation of the CEB. It was I who moved the Privatisation Bill and established the PERC.

But I was very cautious of privatisation of public ventures. Privatisation failed in many countries. Privatisation is the most fruitful source of corruption in many countries. Therefore, you have to be very careful of privatising important public ventures. Most of the British public ventures which were privatised failed. For example British Railway, Royal Mail, British Energy etc. As I repeated in this House the magic of success is not the ownership of establishments (government or private) but it is the management.

Our postal service was a very efficient service in the world but it has become inefficient today due to political interferences. Our railway was a very efficient service as well. We travelled in trains those days. We never asked vehicles. Don't think that the private sector is less corrupt and efficient. Billions of dollars were swindled by Directors of Fortune 500 companies.

My friend ex-Foreign Minister of France Roland Dumas was sent to jail for involvement in corruption. The downfall of the CEB is due to wrong appointments and promotions. We have neglected to start many scheduled power projects. Both the UNP and the PA should share responsibility for it. For example when I was the Finance Minister the upper Kothmale power project proposal was originated. Hon. Dinesh Gunawardana proposed that the whole privatisation scheme should be brought to Parliament.

In principle we are not against this Bill if the Government is ready to accept over amendments. Lenin said electricity is power. We have to be very careful of privatising public ventures. Let us do not privatise public ventures like the AirLanka, Shell, etc.

Deputy Minister of Power and Energy Sagala Ratnayaka:

The first ever reforms in Sri Lanka's electricity sector took place in 1969, when the then Department of Government Electrical Undertakings also known as the DGE was converted to become the Ceylon Electricity Board. The DGE had been set-up under the Electricity Act of 1951, to carry our Generation, Transmission, and much of the Distribution of electricity, whilst some Municipal and Local Authorities also distributed electricity in their franchised areas.

The reforms to form the CEB took place to allow the power sector of the country to be run as a commercial entity, providing an efficient and reliable supply of electricity at a low cost. The Unions and Politicians of that period had their concerns about these reforms. They felt insecure to venture into something new, even if it was designed for the better of employees, consumers, and country.

It is a similar exercise that we are all going through again. It is this CEB, which was created amidst a lot of worry, that its very employees and well-wishers are now well settled into, and worried to reform again. They are well settled in because the reforms had achieved its goals, at least for some time.

CEB's first shock

From the late 1970s to the late 1980s the CEB enjoyed a good run. With the development of the Mahaweli Project an abundance of Hydro Generated Power was available. A good economy and substantial sums of aid helped develop the Transmission and Distribution network.

The CEB started becoming one of Sri Lanka's largest establishments. With this started CEB's problems. CEB had its first shock in 1992. The rains failed, the reservoirs ran dry, and the hydro dependent CEB had to resort to power cuts. It created a huge setback for the Government and the country.

I would put it to this shock, the beginning of the reforms we are debating today in Parliament.

The Government awakened from the shock, appointed a firm of consultants, London Economics, to study and report on how to improve the performance of CEB as a efficiently run utility that provides reliable and low cost electricity to an ever increasing percentage of the country's population. Cheap and abundant power is one of the basic ingredients for the economic and social progress of a village, a city, a province or a country. Cheap and abundant power would then be the vision of any government.

In 1996, CEB had its second shock. The political consequences for the Government were immense. The economic consequences for the country were phenomenal. The losses to the economy analysts said were estimated at over Rs. 16 billion. The Government wanted urgent action to avoid such a crisis again. Therefore, the CEB appointed a firm of consultants to develop a suitable reform program, which included a legal and regulatory framework for the Power Sector. They started their work in 1997. Based on these studies, the Government published in 1998, its policy for the Power Sector, in a document titled, 'Power Sector Policy Directions.

This policy attracted enthusiastic support from the World Bank and the Asian Development Bank. In 1998, the ADB also conducted a study, "Power Sector Strategy Study" which recommended the implementation of the above policy. It was as a consequence of this that the Government, with the support of the World Bank and the ADB, commenced the Power Sector Reforms Project. Cabinet granted approval for the implementation of the Project at its meeting held on 23 December, 1998.

The discussed reforms were to mainly create competition, efficiency and accountability by unbundling of the sector into Generation, Transmission, and Distribution to enact Electricity Reforms Legislation, and to create an independent regulatory commission.

The required legislation for all of this was ready for presentation in Parliament by mid 2001, but due to various reasons didn't proceed any further. This delay may even have cost the then Government its administration. The Power Sector went into crisis again, and this amongst many other crisis that existed led to the fall of that Government by end 2001.

The UNF Government by presenting this legislation in Parliament yesterday and today has then carried forward from where the previous Government stopped. The power and financial crises that existed in the sector when we took over certainly spurred us on to expedite the reforms. The only significant change to the legislation we have presented is to separate the Regulatory Commission and the Reform Regulation into two separate components of legislation.

The Public Utilities Commission Bill, which we approved in this House on Tuesday will create the regulatory framework, not only for the Power Sector, but also for Water Supply. It may extend to other utilities, and services later. The Public Utilities Commission shall have the power to regulate the industry through licensing, make regulations, resolve disputes, obtain information relevant to the industry from any person, exercise licensing activities and approve tariffs. A significant measure of public accountability will be met by the establishment of a Consumer Consultative Committee.

Why I went into this long history is to show to all of you that this is not something that has happened at the snap of someone's fingers to meet someone's whims and fancies. This bill is essentially non partisan. Like the reforms that were deemed required in 1969, and when implemented really helped in the advancement of the sector, this is a requirement that has built up over time.

Not just this Government, but two Governments before it deemed these reforms as necessary. The reforms have been discussed over a period of time. Various factors have been considered: the employees, the unions, the consumers, the industry, the economy, and the country.

Other factors such as ever-developing technology, and the need for a good legal framework to accommodate all this was considered. Various people were involved in, and contributed to the process: Professionals, Politicians, Unions, Employees, Consumers, amongst others.

The employees, represented through the unions, and also directly had the constant opportunity to be involved with the reform process by liaising with the Reform Office. The management of the CEB, the Ministry officials, the honourable Minister and myself had discussions with the unions to discuss their concerns.

The honourable members of Parliament were given opportunity to discuss their concerns at the Consultative Committee, and in fact a special meeting was also held this week to discuss any final issues. The unions and the honourable MPs raised an array of issues, and we were encouraged that they were mostly objective, and had the interest of not just one segment, but all stakeholders.

Basic Principle

We followed a basic principle that employee concerns would be considered objectively. As such, the following principles were adopted for the reform process: all employees will be offered jobs, they will have equal or better terms and conditions, they will not lose their period of service, and employees will become shareholders. CEB Employees had worries regarding their Provident Fund and Pension Fund.

Quite rightly so. We agreed to safeguard through legislation the existing Provident Fund and Pension Fund, the CEB employees enjoyed, which had come into existence prior to the EPF Act coming into legislation. This was addressed and is being brought as an amendment at Committee Stage.

* Under the reformed power sector, the new distribution company areas were alienated and defined systematically considering criteria such as, electrification ratio, category of consumers: domestic vs industry (in essence revenue), load density (in kw/sq. km.) and value of assets. Within this framework, the East is already incorporated into one of these successor Distribution companies. The North will also be incorporated no sooner we connect it to the grid.
* The Monitoring and Advisory Committee or the MAC is not a regulatory authority, but purely an advisory body to advise the honourable Minister. Its functions are clearly defined in section 50 sub section 4. In summary, its main function will be reviewing the performance of the companies.
* The CEB transmission and distribution network due to its age and lack of rehabilitation work will encounter transmission and distribution losses. The successor companies will not be able to avoid rehabilitating these, because the regulator will insist on minimum standards.
* The regulator provides (in the Public Utilities Commission Act clause 91) to allow Mini Hydro developers to connect to the distribution network direct, where transmission lines are not available or it is more economical to take the former option.
* Although unseen to the consumer, even currently, the CEB's tariff includes the various components, i.e. generation + transmission + distribution + overheads. Under the reformed sector, these components will be well defined and competition will prevail.

In conclusion, I say if we don't do this now, the CEB will sink deeper. The consequences I don't need to explain the consequences to this esteemed house. The model we have chosen, and the process we are following is something that has been worked on for almost a decade, by 3 different administrations. I will show by example the case of a section of the CEB which when transformed into a fully government owned company, accountable to its stakeholder, performed so well, that it is something to be proud of. That is LECO 54.8% owned by the CEB. 43.6% by the treasury. The balance by the UDA and 4 local authorities. It offers good customer service standards vital to a service industry. It offers quality power, or standard voltage. It has reduced distribution loss from 30% to 5.5% over an 8 year period. It has paid income tax to the government. And whilst achieving all this, it has paid dividends to shareholders ranging from 5% eight years ago to 20% last year.

This is a genuine effort. Be hold enough to say what your conscience says, that is "that you agree". Naturally, the transformation process will have issues which need resolving every now and then, but with the dedication and proper application we have seen from all stakehodlers, an acceptable solution can be found for all issues.

Before I conclude, I must thank all those who toiled countless hours to make this a good and refined product.

R. Sampanthan (TULF):

Power and energy is the most important sector in any country. No country can achieve development without the availability of sufficient power.

Electricity is necessary for the development in the North-East area which had been devastated by the prolonged war.

I request the Minister to allocate sufficient money for the regions in the North-East.

Jayasundara Wijekoon (UNP):

While the demand for electricity was increasing rapidly over the years, the electricity change too went up.

Therefore, legislation of this kind is necessary to ensure a efficient and satisfactory service to the public.

These legislations have not been brought in a hurry. The previous PA regime was also studying these reforms. I request the Minister to pay special attention to provide electricity for more rural areas.

Chandrasean Wijesinghe (JVP):

This particular electricity reform Bill would have a sever impact on the day to day affairs of the general public and also the country's economy.

We fear that the Bill would lead to the privatisation of the CEB. We urge the Government not to privatise this kind of service oriented institutions.

We request the government to ensure the job security of the employees of the CEB.

V. Puthrasigamani (PA):

What is the future of the CEB going to be once this Bill is put into implementation. At the outset, I wish to point out that although a large segment of the country's total electricity is generated in the Nuwara Eliya district, many houses in that area especially in plantations have not been provided electricity facility.

I request the Minister to pay attention to those and take appropriate action. As a solution to the ever increasing demand for electricity, I propose that the Ministry should pay more attention to mini hydro power projects.

Ven. Baddegama Samitha Thera (PA):

It is a well-known fact that electricity is a prerequisite for the development of a country.

But in our country due to political interferences and poor policies, the power generation sector has failed to achieve much success.

We urge the government to ensure the rights of both the employees of the CEB and its consumers.

Mahinda Yapa Abeywardena takes the Chair.

Lucky Jayawardane (UNP):

Most of the members are of the opinion that the CEB has to be reorganised in order to improve its efficiency to cater for future developments. The Minister was able to end the era where our people were in darkness. The CEB was ruined by the PA leaders.

I believe the Minister will take action to improve rural electrification. Corrupted officials should be punished. According to the information available a trade union is behind the sabotage work in the CEB. According to the new plans the Minister believes that 80 per cent households can be given electricity in the future.

S. Sathasivam (PA):

The Government has drawn plans to privatise many public ventures on the directives of the World Bank and the ADB. After the privatisation of tea estates, managing companies misuses resources of tea estates. Telephone rates have gone up after privatisation, we doubt whether same thing will happen to electricity as well.

Anura Gopollawa (UNP):

Once the late Gamini Dissanayake told me that he had drawn plans to improve the country's power sector. He said that if these plans were implemented to the letter he will be able to provide electricity to even India. However, the present minister has done a great service to the power sector during the few months. I believe he will end the power crisis in the country with his new plans.

This Bill will greatly help to achieve his goals. This Bill does not aim to privatise the CEB. I request the minister to arrange a loan scheme with a bank for rural masses to get electricity. The CEB is experiencing a financial crisis today due to mismanagement by the PA leaders.

Jayaratne Herath (PA):

The CEB has a direct involvement with the country's development process. Therefore, we urge the Government not to allow a few businessmen to control this important institution.

The Government should not privatise the State run and service oriented institutions. Instead, such institutions should be further strengthened in order to ensure a satisfactory service to the public.

W. B. Ekanayake (UNP):

The UNP regime before the 1994 took several meaningful steps to improve the electricity sector and provide electricity facility to the remote areas. The CEB which was recording profits before 1994, is now running at a loss and is heavily indebted.

On the other hand, the CEB has failed to provide a satisfactory service to the public. Therefore, State institutions which are running at a loss like the CEB should be restructured or privatised in order to ensure a satisfactory and efficient service.

Piyasena Gamage (PA):

I also admit that CEB should be restructured to meet the emerging needs to ensure a satisfactory service. During our regime too, we attempted to introduce reform measures to the CEB.

But service oriented institutions such as the CEB should not be privatised. Instead steps should be taken to improve the efficiency and minimise malpractices and corruptions.

Opposition Leader Mahinda Rajapakse:

We are against the privatisation of service oriented State institutions such as the CEB. We have seen the consequences and ill-effects of the country's privatisation process.

Therefore, State institutions which are engaged in providing basic amenities such as water, transport etc should not be privatised. Privatisation is not the panacea for all ill. We have seen the destiny of privatised institutions in Sri Lanka.

On the other hand, a number of countries which had privatised the power sector has failed to achieve the expected result. In many countries, it had become a total failure.

Minister of Power and Energy Karu Jayasuriya winding up the debate said:

I am thankful to the members who participated at this debate and presented valuable suggestion. We will take into consideration the views and criticism made by them. At the outset, I would like to reiterate that this Government has no intention to privatise the CEB.

We consider the CEB as a national treasure and we will protect it.

The Bill only seeks to improve the efficiency of the administration and the services of the CEB. This system has become a success in many countries.

We will ensure transparency and accountability during the whole process. Due to the lack of decision making power, the CEB has suffered severe losses and from this Bill, we are planning to rectify that situation.

We try our best to provide electricity for a cheap rate. We plan to improve the efficiency of the CEB and investigate corruption committed. The CEB experienced a Rs.17 billion loss and very soon we will convert it to a profit making institute.

Minister of Samurdhi R.A.D. Sirisena:

Most of the rural houses do not have electricity. The Broad lens power project should commence. Official bureaucracy in the CEB should be eliminated. We must improve the competition in the power sector. Today anyone can purchase mobile phones for a cheaper rate. That is due to the competition. Who we improve the competition in the power sector consumers can enjoy electricity at a cheaper rate. When the Agrico company sold a unit of electricity at Rs. 12.75 our Minister is buying a unit for a cheaper rate. We must thank the late President J.R. Jayewardene and late Minister Gamini Dissanayake for improving the power sector in the country. I like to note that rural industrialisation can be started if rural electrification is improved.

The Bill was passed with amendments.

Thereafter, the Petroleum Products (Special Provisions) Bill was taken up for debate.

Minister of Power and Energy Karu Jayasuriya moving the bill said:

This Bill seeks to create competitiveness in the distribution of petroleum products. At the moment, the Ceylon Petroleum Corporation (CPC) is enjoying a monopoly in this sector.

In this content, this Bill seeks to provide for an alternative procedure for the import, export, sale, supply and distribution of petroleum. It is not appropriate to maintain both State and private sector monopoly. In the world, State sector monopolies are being dismantled. This is what happening in countries like Russia and China.

This Bill will allow other private companies to enter the petroleum market and it would create a competition which would benefit consumers.

Initially, this will be confined only to three companies and the Petroleum Corporation will be one of them.

Indian Oil Corporation will also be permitted to enter this market while another international company will be selected later. Our firm objective is to bring down the price of petroleum products and thereby benefit the consumer. Later, more companies will also be permitted to enter the market. If it is really going to benefit the consumer.

At the outset, I must reiterate that this is not an effort made to privatise the Petroleum Corporation. The corporation will remain as a State institution. The Petroleum Corporation is today facing a huge financial crisis. When we took over the government at the end of last year, the corporation's debt was around Rs. 30 billion. This financial crisis was mainly due to the poor economic policies followed by the last PA regime.

As I said earlier, we will not privatise the Petroleum Corporation but we will take every possible steps to prevent political interferences and to make it a viable commercial venture once again.

Nimal Siripala de Silva (PA):

From this Bill, you are allowing multinational companies to enter into the local petroleum market and this will drastically affect the Ceylon Petroleum Corporation. This will not benefit the consumers in any way.

We in the PA are not against the privatisation as a whole. But we are against the privatisation of service sectors such as water, education, health, electricity and petroleum products. The privatisation will not bring much benefits to the consumer. Through this Bill, you are trying to create a private sector monopoly in the country.

Minister of Industrial Development Rohitha Bogollagama:

The Bill is all about a management having to be expanded in the well-being of the public, in the distribution of the petroleum products. We inherited the CPC with a Rs 22 billion outstanding debt. We are looking at broadbasing the distribution of petroleum products through a licence system. Already, we were able to reduce the prices of petroleum products due to techniques we introduced. We don't want to pass the debt burden of the CPC to the people. We are now trying to minimise the ill-effects of the previous PA Government. We must have institutional structures for this. This is an administration which is following good governance. Within a short period of nine months, our Government has turned around the country's economy and it has now achieved a positive growth. In this Bill, all safeguards are found to protect the interest of the CPC and consumers.

Reggie Ranatunga (PA):

I wonder about this Bill. Though the oil prices went up we did not increase prices to heap the burden on people. Why are you giving licence to only three companies? I never thought that this government will increase prices of oil heaping more burden on people. We will form a government in a short period of time.

Edward Gunasekara (UNP):

When the world is moving for globalisation we cannot escape from it. When the world oil prices declined the PA did not pass that benefit to the consumers. But we have introduced a formula which will reduce oil prices when the world oil prices decline. Don't make fuss about three new licences. We are planning to increase the competition in the oil sector. We must attract as many investors as possible to the country.

Jinadasa Kithulegoda (JVP):

Most of the profit making public ventures were converted to loss making in order to pave the way for privertisation. We have no doubt that this Government will privatise the remaining public ventures. There is an international conspiracy to privatise existing profitable public ventures.

M. L. Maharoof (UNP):

During the last 50 years oil tanks in Trincomalee were not used. When the PA decided to build oil tanks in Muthurajawela I asked as to why they cannot use oil tanks in Chinnakuda in Trinco. PA MP Reggie Ranatunga said that oil prices were not increased during their rule. It is a misleading statement. Don't try to mislead people. No government in the past took any initiative to develop Trincomalee.

The Prime Minister is trying his best to develop the Trincomalee district. I believe that the minister will take steps to use oil tanks in Trincomalee which will lead to reduce unemployment in our district. We thank the Prime Minister for his effort to build the Keniya bridge.

C. B. Ratnayake (PA):

Why does the government want to sell profit making public ventures to their own people violating tender procedures? Many privertised public ventures became bankrupt. Thousands of employees who worked in these ventures lost their jobs. I believe the oil prices will further increase soon. The government should immediately stop selling public ventures to their own people.

The debate was adjourned for today.