

Expect power cuts, 50% hike in cost of electricity – Engineers

The Institution of Engineers, Sri Lanka (IESL) has warned of dire consequences unless the construction of the Indian funded Sampur coal-fired power project is commenced immediately.

The IESL says that unless tangible measures are taken to enhance power generation capacity and procurement of power from private wind and solar developers was carried out strictly on a competitive basis, the cost of electricity production will increase by about 50%.

The IESL has warned of blackouts by 2018 for want of accelerated power generation projects.

IESL CEO/Executive Secretary Dr. Jagath Peiris has sent *The Island* the following statement based on prognostica-

tions made at a recent seminar on power generation options and a reliable and an economical power supply: "The IESL is the premier engineering institution in the country involved in promoting and advancing the science and practice of engineering. The Power and Energy committee of IESL recently organised a seminar on "Generation Options - Sri Lanka for a Reliable and an Economical Power Supply" at the Wimalasurendra Auditorium of the Institution.

"A large number of eminent engineers who are well experienced in planning and operation of power systems made several presentations at this well attended seminar.

Expect...

It highlighted the fact that immediate action was necessary to expedite the implementation of the Coal Power project in Sampur. The country is in danger of going back to the era of power cuts coupled with higher prices of electricity. The growth in electricity sales has recovered from the low 1% in 2013 to reach 7% in 2015; growth indications for 2016 are even higher. In this backdrop, it is concerned that currently there are no major power plants being built, to meet the growing demand. It was revealed that the 500 MW Sampur coal power plant, which is vital to meet the growing demand has been suspended. This project should have been completed in 2016, but has already been delayed for various reasons and then targeted for completion in 2020.

The summary decision by the Government to change its fuel to LNG, can cause inevitable delays. This change would result in the carrying out of fresh feasibility studies, preparation of bankable project documents, obtaining necessary approval and re-negotiating agreements. Change of fuel to LNG would cause electricity production costs to increase by 40-50%. This is the reality. The delay of the Sampur coal power plant is already dragging the country to a power crisis, possible blackouts and heavy costs of electricity to follow. This would result in the loss of confidence among investors leading to economic paralysis of the country.

It was also observed that the competitive bidding round for two wind power plants, scheduled to close in April 2016, has been repeatedly extended and now effectively suspended owing to the Government intervention, with no plausible reason given. With the investor confidence shattered, that move undermines the competitive processes to purchase electricity, established by the Electricity Act. Sri Lanka reportedly pays a very high price for electricity produced from wind power plants developed by the private sector. For solar power too, Sri Lanka pays a very high price of Rs.23.00 per unit. Recent reductions in prices of both wind and solar equipment internationally, availability of sites with better wind regimes, and the favourable terms of investment, would

enable wind and solar power to be produced up to 50% below the prices paid at present. Price discovery can only be achieved through competitive bidding.

Liquefied Natural Gas (LNG) prices have recently declined, owing to a surplus in production and the depressed oil prices, to which most LNG contracts are linked. Recent contracts to supply LNG have been reported to be as low as 8.5 USD/million BTU. This is considered to be a temporary phenomenon. The Power sector Engineers call upon the Government to carefully scrutinize historic prices and pricing formula, and forecast quantities required, through expert studies, before rushing into conclusions to build large LNG terminals. Such terminals require significant investments exceeding USD 500 million. In any case, they should be located where prospective customers for gas are already present. Such large investments cannot be made in haste, and will require 5-8 years to study, design, secure approvals, finance and build. In any case, it would not relieve Sri Lanka from the grave power crisis expected by 2018.

The process of making decisions on power plants, and the responsibility to build such capacity on time, legally remains with the CEB, the Transmission Licensee under the Act, subject to approval by the Public Utilities Commission of Sri Lanka (PUCSL). PUCSL is responsible to ensure that the Transmission Licensee adheres to least cost principles and competitive bidding requirements stipulated in the Electricity Act.

The Engineers call upon the Government to follow the procedures laid down in the Electricity Act and reiterate the need to commence the construction of the Sampur coal power plant without further delay. Procurement of power from private wind and solar developers should be carried out strictly on a competitive basis. It is predicted that the cost of electricity production would otherwise increase by about 50%. With Sri Lanka's electricity prices being already high compared with other countries in the region, any further price increases resulting from higher production costs, will have a crippling effect on the economy and the people."

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