

IESL - Power and Energy Committee seminar on 'Generation options for reliable and economical power supply in Sri Lanka'

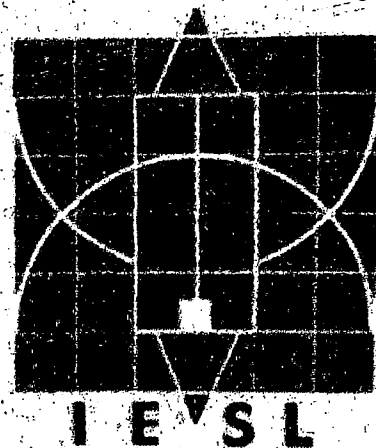
Engineers warn electricity costs to increase up to 50%, blackouts by 2018

Sampur coal power projects should proceed without delay, competitive bidding essential for wind and solar, and development of LNG, including the terminal requires careful study.

The Institution of Engineers Sri Lanka (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 organized 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.

It was highlighted that immediate action is 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 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 formulae, 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.

The above facts were

revealed from the presentations of expert engineers who are well experienced in planning and operation of power systems. These presentations and the

seminar proceedings can be watched at IESL YouTube channel named-iesl_media.

The Institution of Engineers, Sri Lanka

An overview of credit ratings

Contd. from Yesterday

Stable- consistent with the historical migration experience of ratings over a one- to two- year period

Evolving- indicating that ratings may be raised, lowered or affirmed

It is important to note that ratings are not moved up or down for reasons such as super gains or unusual losses. Rather an upgrade could be expected when there is a sustained performance of the company or a downgrade in the event of deterioration of performance over a longer period.

Rating committee: A rating

committee consists of analysts from the home country for knowledge on the local market and analysts from peer countries for knowledge on the international markets; this ensures a diverse range of opinions is brought into the rating committee and a comparative rating is issued. The balance is to ensure there is no bias and committee decisions should be unanimous.

Overview of the rating scale: Over time, the terms 'investment grade rating' and 'speculative grade rating' have been established to describe the categories of the rating scale. The rating

scale of 'AAA' to 'D' is categorized as investment grade if it is within the 'AAA' to 'BBB' scale and speculative grade if it is within the 'BB' to 'D' scale. These terms 'investment grade' and 'speculative grade' are simply market conventions and do not imply any recommendation or endorsement of a specific security for investment purposes.

'AAA' to 'BBB' scale ratings indicate relatively low to moderate credit risk, while 'BB' to 'D' scale ratings indicate a higher level of credit risk and / or a default which has already occurred.

Rating Symbol	Meaning
AAA(lka)	'AAA' National Ratings denote the highest rating assigned by the agency in its National Rating scale for that country. Has the lowest expectation of default risk relative to all other issuers or obligations in the same country.
AA(lka)	'AA' National Ratings denote expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.
A(lka)	'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. Changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than a higher rated category.
BBB(lka)	'BBB' National Ratings denote a moderate default risk relative to other issuers or obligations in the same country. Changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than a higher rated category.
BB(lka)	'BB' National Ratings denote an elevated default risk relative to other issuers or obligations in the same country. Within the context of the country, payment is uncertain to some degree and capacity for timely repayment remains more vulnerable to adverse economic change over time.
B(lka)	'B' National Ratings denote a significantly elevated default risk relative to other issuers or obligations in the same country. Financial commitments are currently being met but a limited margin of safety remains and capacity for continued timely payments is contingent upon a sustained, favorable business and economic environment. For individual obligations, this rating may indicate distressed or defaulted obligations with potential for extremely high recoveries.
CCC(lka)	'CCC' National Ratings denote that default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions.
CC(lka)	'CC' National Ratings denote that default of some kind appears probable.
C(lka)	'C' National Ratings denote that default is imminent.
D(lka)	'D' National Ratings denote an issuer or instrument that is currently in default.

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