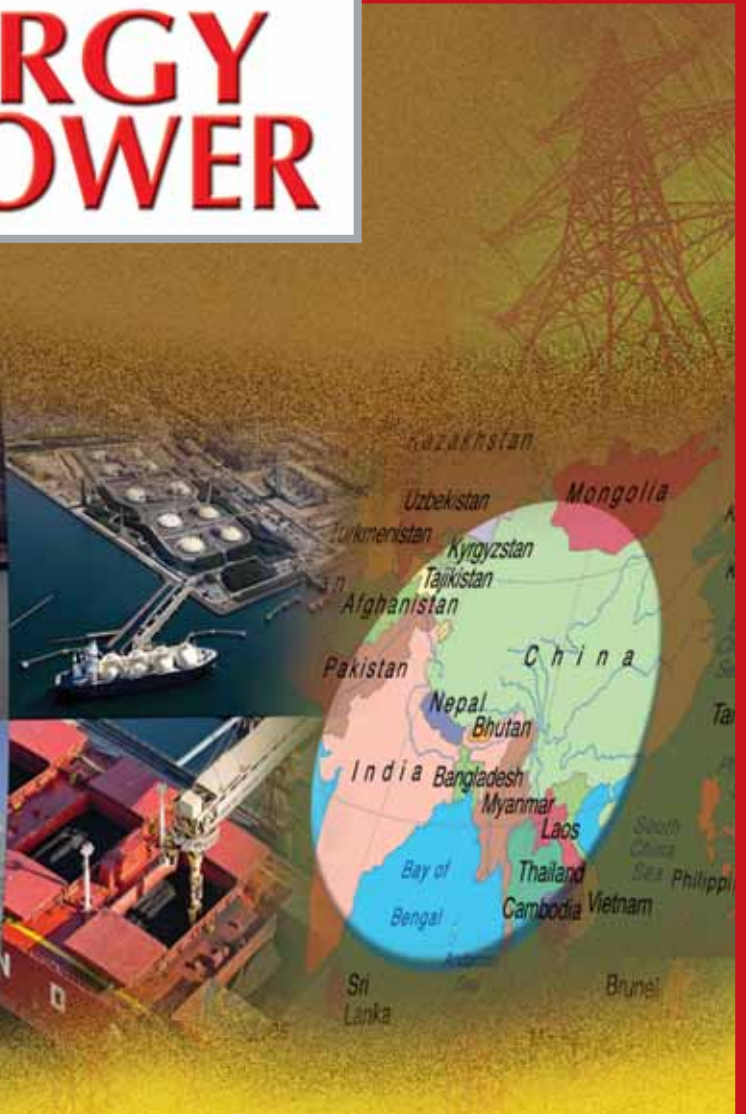
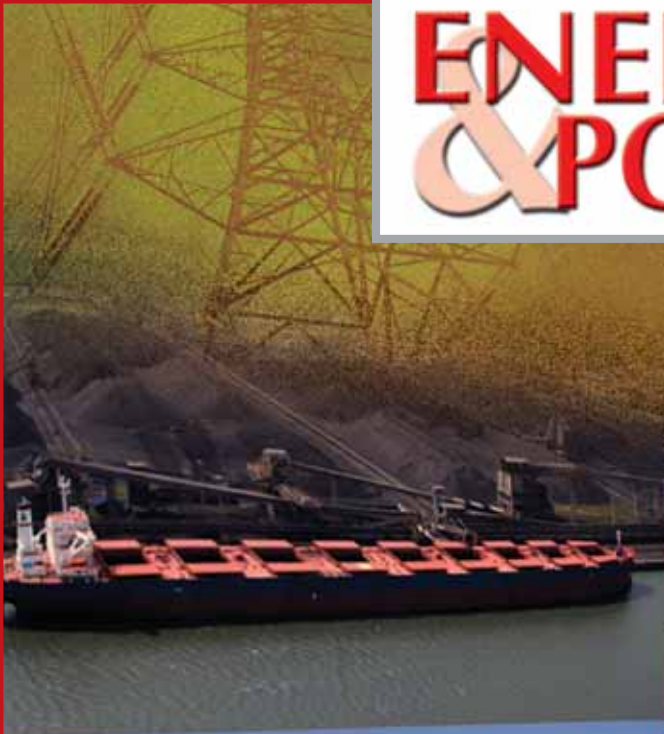


ENERGY & POWER



Border Falls



‘Development Ambitions to Remain Unattained in Absence of Appropriate Energy Alternatives’

Access to energy ought to be seen as a right of the citizens. This right should be integral to a Bangladesh that has set its ambition to be a middle income country by 2021, and a high income country by 2041. However, it is also important that the energy is available at affordable prices. From this vantage point, the issue of cost-effective power generation is critically important to unburden the exchequer from the significant subsidy on account of energy which is the reality on the ground at present. Environmentally sustainable use of domestic energy resources, attracting investment in energy development and promotion of smart mix of primary energy sources will be needed to address the attendant challenges in a strategic way.

Executive Director of Centre for Policy Dialogue (CPD), Dr Mustafizur Rahman, made these observations in an exclusive interview with Energy & Power Editor **Mollah Amzad Hossain**. Following are the excerpts:

EP: How do you evaluate the present energy situation of Bangladesh?

MR: Bangladesh faced a crisis-like situation in the areas of power and energy a few years back. However, the situation took a positive turn, thanks to a number of immediate and also mid-term initiatives which the present government has

taken over the past six years.

As is known, the Power Sector Master Plan (PSMP) envisages to raise the country's power generation capacity to 40 thousand MW by the year 2030. This will necessitate pursuance of an appropriate strategy to reach the goals of the PSMP. And this in turn will call for design of well-craft policies and initiatives with commensurate investment plans. Regional collaboration in areas of generation, as also import, of energy-power will play an important role in addressing this challenge as well. A core consideration that should inform implementation of PSMP is ensuring that energy and power are generated, imported and made available in a cost-effective manner. In absence of this, whilst power/energy may be available, these will not be affordable for a large segment of the people or the burden of subsidy could become unsustainable. Appropriate mix of primary energy, use of domestic resources, exploration of regional opportunities, conservation, transmission, distribution, maintenance, environmental sustainability – all these factors will need to be taken into cognizance for implementation of medium to long term energy strategies. Implementation of PSMP will require formidable investment in the development and transmission of power and energy. Our own institutions such as BAPEX and PDB will



Prof. Mustafizur Rahman

Energy sector development will have to necessarily involve a multi-pronged strategy. Our own national institutions such as BAPEX must be supported to develop the necessary capacities.

need to be further strengthened to have the capacity to play the lead role in this regard. It is good to see that bilateral and multilateral development partners are showing keen interest in the development of the country's energy sector. Some movement is taking place in developing regional hydro resources through joint ventures. Collaboration with India in energy related areas, and extending such cooperation with Myanmar will need to be considered with due importance. Availability of primary energy such as gas is emerging as a

binding constraint impeding Bangladesh's industrialization. Special effort will need to be put on collaboration with India and Myanmar along with speedy implementation of plans to build LNG terminals.

Environmental activists have raised questions about setting up of imported coal-based power plants at Rampal and Cox's Bazaar. Their concerns must be addressed and steps should be taken to mitigate the possible adverse effects. Bangladesh will also need to develop the required human resources to run the nuclear energy generation project particularly. All these will call for Bangladesh's medium term (7th Five Year Plan) and annual plans (ADPs) to be aligned with the needed initiatives. Appropriate budgetary allocations should be there to underwrite the required initiatives.

EP: The power generation capacity has been increased to 12 thousand MW in last seven years from 7 thousand MW. We could generate up to 7.5 thousand MW over the past few years. How do you see the achievement?

MR: The initiatives to increase power generation deserve high appreciation, no doubt. However, at the early stage, Bangladesh had to go for high cost (quick rental) solution to address the emergent crisis. The exit from this option is now long overdue. The task at present is to ensure low cost sustainable development of the sector. The significant fall in global fuel prices has given us some respite, but we ought to think about medium to long term solutions. Regrettably, implementation of many of the Independent Power Producers (IPPs) have fallen behind schedule. The construction of Liquefied Natural Gas (LNG) terminals need to be accelerated. Power generation cost will remain at high levels unless dependence on imported fuel is drastically reduced through adoption of alternative, cost-effective options. Developing Bangladesh's energy sector in an environment-friendly way is the next big challenge facing the country.

EP: The government is trying to set up imported coal-based power plants.

What do you think?

MR: This would require significant investment in infrastructure development. The generation cost will depend on the coal price in the international market. We should not depend only on one source considering the pace of rising demand for power. Medium term plan should be designed to include exploration of local coal as well. We should keep in mind that exploration of our coal resources will call for serious attention in areas of water, environment and pollution management. The human angle is of critical importance here particularly if this is done through open-pit mining. The support of local people in this case will be crucial and this is not easy to ensure under the current situation. However, I think in the backdrop of technological development and growing capacity in areas of environmental management, as seen from some of the best global practices, the situation may change in near-term future.

EP: Do you think the present pace of implementation of the Power Sector Master Plan enough to achieve the power generation capacity of 39 thousand MW by the year 2030?

MR: This plan sets highly challenging and ambitious targets. However, to develop at an accelerated pace of 8-10 per cent GDP growth per annum, Bangladesh will need to develop this generation capacity by 2030.

The problem is that, we are somewhat lagging behind in implementing the plan we have designed. We are having to re-strategize as regards fuel-mix, import, and development of domestic capacities. The tasks are quite formidable; the resource needs are quite significant. A multi-pronged strategy will need to be pursued to be on course to attain the targets. PPPs, and funds from the World Bank and the ADB (and perhaps also from the newly proposed Asian Infrastructure Investment Bank-AIIB) will need to be deployed. It will be important to keep in mind that while generation of the required energy and power is important, of no less importance is the issue of generating this in a cost-effective way. Otherwise, either the con-

sumers will have to pay more, or the government will have to underwrite the costs with high subsidy, or both. Of critical importance here will be exploration of all avenues of regional cooperation. A SAARC regional energy grid has also been proposed and Bangladesh should promote and support this idea.

EP: What the government should do in developing transmission and distribution network, including the financing requirement, to be suitable for the 39 thousand MW electricity?

MR: Yes, it is just not an issue of generation. Transmission, distribution and maintenance are integral to implementation of the energy plan. The 7FYP and the ADPs will need to have adequate resource allocation for this. Coordination and sequencing are important issues here. I have no doubt the experts are aware about these aspects of the energy plan.

EP: As per the PSMP, half the power generation would come from coal-based plants. Would it be possible to finance huge import bill for coal?

MR: You have pointed out rightly that significant resources will be required to import coal. But imported coal will be cheaper compared to imported fuel-based power generation. Competitive pricing, building the infrastructure in cost-effective way, factoring-in environmental consideration etc. will be important. In view of Bangladesh's current balance of payment situation, the import bill, I guess, will be manageable.

EP: According to the plan, 75 per cent of the country's power generation in 2030 would be import dependent. Will we be economically capable to meet the liability then?

MR: True, it will be a formidable fiscal challenge. However, if we are able to generate in a cost effective way, use energy economically, stimulate private investment, flow of FDI and joint ventures and build the special economic zones then significant resource flows should be generated through industrialization, employment generation and income augmentation. Good governance in the management of the energy and power

sector will play a critically important role in this regard. In absence of transparency and accountability in the management of energy sector, the price of energy and power will be high. This will then put pressure on the purchasing power of common people and undermine competitiveness of our industries.

EP: Will the consumers be able to pay the high price for LNG? It could also push up the subsidy as the domestic price of gas has not been rationalized.

MR: I guess there is a consensus that there is a need for rationalization of gas price. Evidently, the price of imported LNG will be high, but as I have pointed out already, gas has emerged as a binding constraint. The subsidy on fuel, gas and electricity will need to be considered as part of an interconnected package. The relatively lower price of fuel (and consequently LNG) should give some respite although building LNG stations is highly capital intensive. A combination of price rationalization and efficient subsidy allocation, along with cost effective implementation of the projects should be helpful in this regard.

EP: Do you think the International Oil Companies (IOCs) should be allowed also in the onshore areas, now exclusively kept for BAPEX?

MR: BAPEX has been able to demonstrate its strengths and capacity in onshore drilling but it has obvious limitations too. The offshore exploration will need to be carried out by the IOCs. Here good governance in tendering, bidding, contracting etc. along with competitive pricing must be ensured. At the same time, all efforts should be directed towards capacity building of BAPEX through human resource development and allocation of the needed resources.

EP: The gas crisis in Chittagong is more acute than other parts of the country. BAPEX has invited proposals from IOCs to explore hydrocarbon in CHT in joint venture. How do you see the initiative?

MR: If BAPEX has invited proposals from IOC, I see no problem in this. This should rather be encouraged.

EP: As you know the government has

taken an initiative to review the Power Sector Master Plan under which the scope of using local coal would be reduced and initiatives would be taken to increase power import target to 10 thousand MW from 3.5 thousand MW. What do you think?

MR: This has been done in the backdrop of the change in government's strategy which was earlier focused on development of domestic coal resources. Perhaps the criticism directed against the proposed coal-based power generation

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units was a concern on the part of the policymakers, I guess. In view of this, there was no alternative to raising the projections for power import to meet the growing demand and lower the projections of use of coal as primary energy for power generation. To address the emergent situation, Bangladesh should energetically explore opportunities of joint venture with India, Nepal, Bhutan and Myanmar in areas of hydropower generation, gas exploration and energy import. In view of the progress in

technology, the prospects of environment-friendly exploration of domestic coal resources should not be lost sight of, perhaps in medium-term future.

EP: Recently, stress is being given on regional cooperation (SAARC, Central Asia, Myanmar, China and Middle East) in getting primary energy and power supply. Discussion is already there on SAARC, SAARC-Myanmar power and gas grid. How do you see the initiative?

MR: The regional route, as I have already mentioned, ought to be an important strategic component for Bangladesh, as far as both generation of primary energy, access to power and power sector development were concerned. Some good initiatives are already in the offing. The decision to import power from India and the proposed setting up of SAARC power grid are welcome initiatives. The ones that you have mentioned are all important. A forward looking strategy will need to be pursued in this context. Indeed, all routes should matter for Bangladesh.

EP: There is a discussion to develop transmission line from Assam to Bihar of India through Bangladesh, giving highest importance on getting power supply from Arunachal – there is a political dispute between India and China over the area. Do you think it would be a problem for Bangladesh in importing power?

MR: Arunachal, as is known, has significantly high potential for hydro-power. Yes, the region is politically sensitive. Bangladesh friendly to both India and China. So the sensitivities will need to be taken into cognizance. But I don't see any problem with import although the issue of joint venture production in Arunachal may be rather sensitive.

EP: The world energy politics is a highly discussed issue and we are gradually making the country's energy sector import dependent. What could be the impact of the world energy politics on our country?

MR: Bangladesh's energy demand will be increasing at an accelerated pace. Ensuring energy supply will be one of our major challenges to moving forward in the coming days. Bangladesh has

already gained some experience, through its treaties and agreements, concerning the energy sector, with India, Japan, Russia and others. Building on this experience, we should pursue our discussions intelligently and strategically. We will need to develop necessary expertise to pursue the complex negotiations, both in the power sector and in the Ministry of Foreign Affairs. Energy issues are here to stay. The smart thing will be to prepare for the long haul.

EP: Civil societies and left-leaning political parties are against the recognized financing source of FDI in the energy sector. Do you think it is possible to meet the investment needs of the sector without FDI? As you were involved in the coal policy committee and had a deeper look at the sector. Why we cannot take a decision on mining own coal? What we should do to mine own coal and ensure its utilization?

MR: Energy sector development will have to necessarily involve a multi-pronged strategy. Our own national institutions such as BAPEX must be supported to develop the necessary capacities. However, this will take time. Also development of the country's energy sector and implementation of PSMS will call for huge investible resources. Without foreign aid and FDI in the energy sector – in exploration, production, transmission, distribution – it will not be possible to do the needful just by depending on our own resources. The National Coal Committee, of which I was a member, had prepared a Coal Policy which I feel caters to both our needs and addresses our concerns. Setting up of national coal entity, taking good care of environmental concerns, participation at local stakeholders in decision making, no export provision etc. were some of the key features of this policy. If not now, at some future point in time, I reckon, we will need to revisit the situation as regards the best ways to take advantage of our formidable coal resources.

EP: The power generation cost with imported primary energy would gradually increase and the consumers will have to

buy the power at higher price. What would be the impact on the productivity and economy?

MR: Power price will depend on many factors including international fuel and gas price, cost-effectiveness, cost of production, subsidy given etc. Factors such as choice of primary energy, opportunities of import, participation in regional joint ventures and power grid etc. will play a role. Without energy Bangladesh cannot develop. Viability of industries, enterprises and entrepreneurs will depend on economy-wide policies, productivity of labor and capital, good governance and a host of other factors, not only energy price. Energy, made available in a cost-effective manner, will incentivise production and stimulate production and growth.

EP: The government wishes to make the country a middle-income one, but struggling to provide new investors with primary energy. Do you think it would be possible to achieve the target without ensuring energy supply to the new industries?

MR: It will not be possible for Bangladesh to graduate into middle-income country status and then to emerge as a developed country without ensuring energy supply. If we have to achieve the ambition, we will have to ensure supply of energy and power at affordable prices. If our industries are to remain competitive, if Bangladesh is to be integrated with regional and global value and supply chains, energy will need to play a key role. Adequate generation, necessary import, availability, access, affordability, competitive pricing – all these will count. Citizens of a middle income Bangladesh ought to have access to affordably priced energy and power as a matter of right.

EP: What do you think about alleged corruption in the energy and power sector?

MR: Energy sector is by its very nature investment and resource intensive. This has great attraction for corrupt people. All allegations of corruption should be dealt with according to relevant laws of the land and without political interfer-

ence and favor. Indeed, in the long run, good governance in the energy and power sector is not only good economics, it is also good politics. Good governance in energy sector management is crucial to success of the implementation of the Power Sector Master Plan.

EP: Local entrepreneurs have proved their capability in power generation. But they are not allowed in exploring coal and gas. Do you think they should be allowed?

MR: These are unchartered territories for local companies. However, if they can demonstrate the needed capacity, or are able to implement projects in collaboration with foreign companies, then such proposals should merit consideration. However, with regard to coal, any decision as regards exploration should be based on consultation with local people and by ensuring environmental sustainability, as I have noted earlier.

EP: What do you think about energy subsidy?

MR: Subsidy will need to be calibrated according to the needs of industrialization, taking into cognizance purchasing power of the common people, by considering equity aspects and giving due importance to competitiveness of enterprises. Differentiated power and energy pricing will need to be pursued. However, it is important to ensure that subsidy needs are kept to a minimum through cost-effective production and import and by calibrating price of energy in accordance with developmental needs of the hour. Otherwise the burden of subsidy, often on account of failure to pursue intelligent strategies and lack of good governance, could be unsustainable.

EP: Thank you so much for your time.

MR: My sincere appreciation for your interest in having my opinion on these critically important issues. I wish your journal all the best. It is doing an excellent job in keeping the stakeholders informed and in providing a platform for debate and discussion on the critical issues of power and energy.

EP