

Power Sector Reforms

Recommended reforms in the report entitled "Power Sector Reforms in Bangladesh" approved by the Cabinet on 12 September 1994	Progress of reforms initiatives agreed with development partners	Assessment
<ul style="list-style-type: none"> • Restructuring of DESA into a corporate body with an independent Board of Directors 	<ul style="list-style-type: none"> • DESA Act amended in 1998 rationalizing its boundary with Rural Electrification Board. Transfer of all outlying areas outside metropolitan Dhaka with 4,100 km of 33.0/11.0/0.415 kV lines, all substations and immovable assets completed. This transfer has increased demand in 8 PBSs around Dhaka from 110 MW in FY1997 to 575 MW in FY2003. REB's market share is now about 35%. System loss reduced substantially in areas taken over by REB/PBSs. • Dhaka Electric Supply Company Limited (DESCO) was incorporated in November 1996 with ultimate objective of taking over all assets from DESA. DESCO commenced commercial operation from 1 September 1998 by taking over Mirpur area from DESA. DESCO has a fully independent board and introduced commercially oriented business culture with new service rule and separate pay structure. DESCO has succeeded in reducing system loss from 43% at the time of taking over to 19.0% in June 2003. Billing and collections have substantially improved. Quality of consumer service has improved. • Legal transfer of Gulshan Circle of DESA to DESCO completed on 9 January 2003. Physical transfer effected on 9 April 2003. • The Government has agreed to corporatize remaining part of DESA. ADB approved TA grant of \$900,000 to support the Government to complete the process of corporatization. 	<ul style="list-style-type: none"> • Major achievement. • These 8 PBSs control over 50% of REB's market share. • Less than expected but steady progress. The highest court upheld independence of the Board of Directors of DESCO in the case of terminating first management for non-performance. • Improved performance in implementing projects. • Recent recruitment of a successful General Manager of a PBS as Managing Director has brought qualitative change in management culture of DESCO. DESCO reached break even in FY2003. • Major achievement. DESCO's market share increased to about 10%. • Move in right direction. Will enable the Government to address surplus employee issue, who are reluctant to join REB and/or DESCO under new service conditions.

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<ul style="list-style-type: none"> • Restructuring of BPDB along functional lines with separate generation, transmission and distribution entities 	<ul style="list-style-type: none"> • Power Grid Company Limited of Bangladesh (PGCB) was incorporated on 21 November 1996 to take over entire transmission assets of BPDB and DESA by December 2002. PGCB has already taken over 100 percent of transmission assets from BPDB. Transmission assets of DESA (other than those that form integral part of DESA operation) also handed over to PGCB in December 2002. • PGCB is now responsible for construction of all new transmission assets and getting support from ADB, KfW, NDF and Denmark. • The Government has approved compensation package for BPDB staff joining PGCB, and amended BPDB's service and pension rules to facilitate payment. ADB funding is expected. • Ashuganj Power Company was incorporated in August 2001 to take entire generation assets of Ashuganj Power Station. ADB and KfW are supporting the new company with technical assistance to operationalize APS. Management has been recruited. Transfer of all assets and manpower will take place soon. • BPDB has converted Haripur power station into a strategic business unit (SBU). JBIC is providing technical assistance to the SBU. • BPDB has corporatized its West Zone Distribution. Recruitment of management ongoing. ADB TA grant for \$900,000.00 is in place to support the management of new company. Management has already taken up O&M responsibility and project implementation activities. Rationalization of network with REB underway. • North-West Distribution Zone and Siddhirganj Power Station being corporatized. • BPDB is being corporatized as a holding company. • BPDB has also initiated steps to create strategic business units in other generation plants and distribution areas. 	<ul style="list-style-type: none"> • Major achievement. Total hand over of transmission assets essentially segregated BPDB's generation and distribution functions. • Substantial progress • Major achievement • A positive step towards further corporatization.

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<ul style="list-style-type: none"> Increasing private sector participation in generation and distribution activities 	<ul style="list-style-type: none"> Rural Power Company Limited (RPCL), a public-private partnership venture, was incorporated on 31 December 1994 as an independent power producer (IPP) to construct a power plant at Mymensingh. ADB supported RPCL in constructing a 70 MW power plant in Phase 1. RPCL successfully implemented Phase 1 and Phase 2 of the project increasing capacity to 140 MW and is selling power to BPDB grid under duly executed Power Purchase Agreement. RPCL implemented Phase 2 of Mymensingh power plant by mobilizing domestic resources without any support from development partners. KfW is providing part fund to RPCL for Phase 3 construction to convert the plant to a 210 MW combined cycle project. RPCL will mobilize remaining fund from domestic sources. BPDB incorporated Meghnaghat Power Company Limited (MPCL) on 23 November 1996 to implement 450-MW Meghnaghat Power Station through private sector. MPCL initiated solicitation process that led to award the contract to AES Corporation, USA to supply power at a very competitive tariff to BPDB. ADB supported MPCL for engineering of the project and solicitation. The plant has been commissioned in December 2002. Power Cell initiated the process for implementation of Haripur 360 MW power plant through private sector in 1997 in an unsolicited manner but later switched to solicited process. The power plant is in operation and the tariff is very competitive. WB supported Power Cell to process the project. Power plant was commissioned in May 2001. 	<ul style="list-style-type: none"> Major achievement. This was a step towards breaking BPDB's monopoly in generation. Substantial progress towards commercialization of funding sources. Major achievement. The Government has successfully implemented private generation program. Adoption of solicitation process helped Bangladesh in attracting IPPs at a highly competitive price. Commissioning of Haripur and Meghnaghat Power Stations reduced cost of private power from Tk.3.85/kWh in FY2000 to Tk.2.87/kWh in FY2002 and Tk.2.12/kWh in FY2003. In FY2001/02, share of IPP generation was 22% percent of net generation that has increased to 35% in FY2003. Average cost of BPDB generation (including IPP power) was Tk.1.84/kWh in FY2002 that has decreased further in FY2003 (yet to be worked out).
		<ul style="list-style-type: none"> Completion of corporatization process of existing

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	<ul style="list-style-type: none"> Rationalization of boundary between REB and BPDB. Under World Bank RE project over 5,900-km line transferred from BPDB to REB/PBSs. Target is about 9,700-km. 	<p>power plants and distribution zones of BPDB will create enabling environment for private sector participation in existing plants and distribution.</p> <ul style="list-style-type: none"> Major achievement. Rationalization of boundary between DESA and REB has already increased PBSs (considered to be private operation) distribution market share from 14 to 25%. Rationalization of boundary between BPDB and REB will further increase PBSs' market share.
<ul style="list-style-type: none"> Developing a regulatory framework to support the new structure of the sector 	<ul style="list-style-type: none"> Power Cell drafted Electricity Reform Bill with assistance from both WB and ADB. The Cabinet approved draft of the bill in 2000, and again in 2002. Of late, the Government has decided to enact a single bill entitled "Energy Regulatory Commission Bill" to cover electricity, gas and oil sectors. Integrated bill has already been drafted. Introduced in the Parliament on 5 March 2003 and the Parliament passed the bill on 10 March 2003. Consultants under two ADB TAs were supporting the proposed Energy Regulatory Commission (ERC). A committee is formed to select Chairman and two members of ERC. Applications received up to 10 January 2004 are being scrutinized. Power Cell is assisting the Ministry in regularly implementing semi-annual tariff adjustment formula since 1997 and worked out rationalized tariff structure. The adjustment formula was designed based on FY1994 accounts of BPDB and DESA to compensate sector entities for loss due to enhancement of gas price and exchange rate fluctuation. The Government also reduced first slab of domestic tariff from 300 to 100 units as a step towards introducing lifeline tariff slab. Effective 1 August 2002, the Government raised power tariff by 5 percent and first time raised irrigation tariff since 1992. The Government approved a power pricing policy in May 2003. 	<ul style="list-style-type: none"> Slow progress, but is not affecting power sector reform. Power Cell is acting as a quasi-regulator for the time being. Power Cell is assisting the ministry in formulating reform actions, tariff setting and resolution of dispute among sector entities. Following an understanding with USAID, ADB cancelled its two TAs and USAID has extended its long-term support towards operationalizing the ERC. Major achievement. Positive move towards depoliticizing tariff setting, and creating ground for tariff setting by the proposed regulatory body in future. Rationalization of tariff slabs has reduced inequity in tariff setting. Substantial progress. Emphasis on the cost recovery principle and tariff structure rationalization.