

Implement 'No Electricity, No Pay' Policy Instead of Capacity Charge

Prioritize the Development of Renewable Energy

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Over-capacity in the power sector, Idle resources, and Expansion of the predatory private sector pose severe threats to energy security

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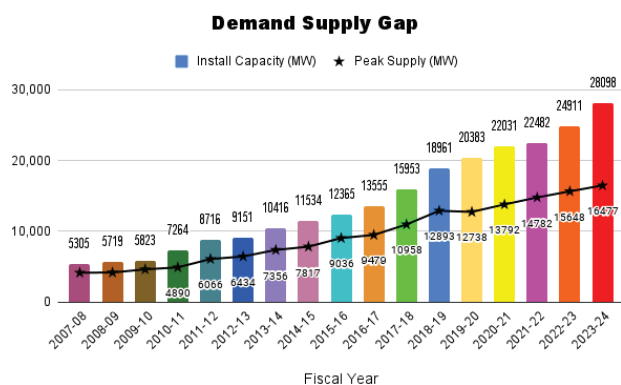
Key findings and recommendations

Bangladesh spends a huge amount of money every year on paying capacity charges in the power sector. A total of BDT 1,47,556 crore has been spent on capacity charges in the last 16 years, with which four Padma bridges or two metro lines can be constructed (Gabtoli to Narayanganj). Moreover, the energy sector has to pay about 17% more capacity charges in FY 2023-24, a huge expenditure that has put additional pressure on foreign exchange reserves. The key findings of this study are:

- Despite the overcapacity, the power sector of the country has become weaker and more fragile due to the purposeful extension of the rental power plants till 2026 at the latest.
- Because of inadequate funding, renewable energy has been consistently overlooked in spite of the nation's enormous potential. Positive policies like "No Electricity, No Pay" are in place in this sector and may have benefited the economy of the country.
- All diesel and furnace oil-based power plants that are at "break-even" or have made a profit should be retired early.
- Those power plants which generate power less than 40% of the time should be shut down.
- Investments in renewable energy, particularly rooftop solar and wind power, must rise while investments in fossil fuel-based power facilities must decrease.
- The 'No Electricity, No Pay' policy has to be implemented in the approval of any new power plant.

In Bangladesh, 87% of the electricity capacity (excluding 10% imported electricity) is solely dependent on fossil fuels, and the number is increasing. However, due to insufficient gas or fuel reserves, the power plants are not running at full capacity. As a result, import dependence is constantly increasing. Moreover, since the gap between the demand and production capacity of electricity is very high, the issue of capacity charge is putting the electricity sector as well as the economy at risk. Bangladesh currently has a power generation capacity of 27,515 MW, while the highest power generation recorded so far in 2024 is 16,477 MW (April 30, 2024). Currently, the country has a 70.5% electricity overcapacity (BPDB, 2024). As a result, idle power plants are taking advantage of capacity charges even without generating electricity.

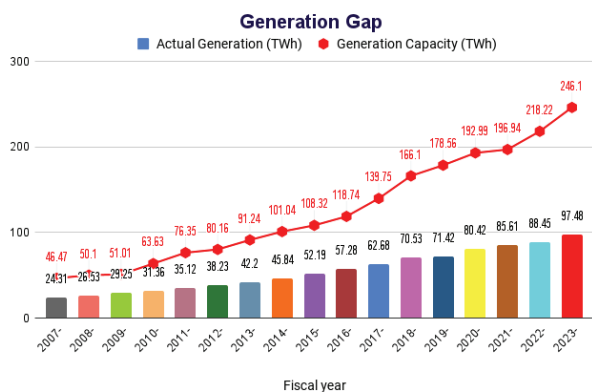
There are basically three types of costs involved in the power sector (fuel costs, maintenance and operation costs, and capacity charges). Capacity charge is determined on the basis of how long the power plant will be ready to generate electricity. However, power plants are often claiming to be ready for electricity production and are extracting a large amount of money in the name of capacity charges. While private-sector plants have been given opportunities and put into production, public-sector power plants have been left idle. As a result, there is now excess capacity and expenses.



Former Minister of State for Power, Energy and Mineral Resources Nasrul Hamid mentioned in a speech in the Parliament that in the last 16 years

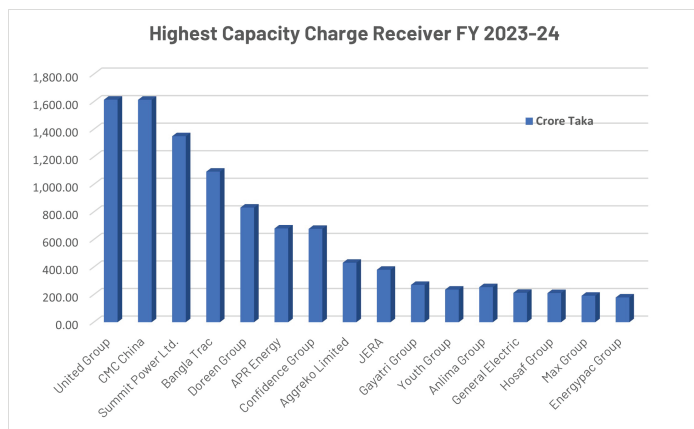
since 2009, the government has paid BDT 1,47,556 crore paid as capacity charge to 82 private and 32 rental power plants (TDS, 2023). Last year, six rental power plants were extended till 2026. Among the extended plants are Summit Narayanganj Power Limited's Madanganj 102 MW, Orion Power Meghnaghat Limited's Meghnaghat 100 MW, Dutch-Bangla Power & Associates Limited's Siddhirganj 100 MW, Khulna Power Company Limited's Noapara 40 MW and Khulna 115 MW and Acorn Infrastructural Services Limited's Julda 100 MW. In Bangladesh, the construction of the Padma bridge has cost BDT 30,193.39 crore (Rahman, 2022), and the total cost of the metro rail (Gabtoli to Narayanganj) project has been BDT 60,836 crore (Saif, 2024). That is, four more Padma bridges or two metro rail projects could have been implemented with the same amount of capacity charge.

Initially, these rental-based power plants were contracted for a limited period, but it has been extended in stages till 2026 when there is overcapacity in power generation in Bangladesh. Even private power plants, which operate for a very limited duration (30%-40%), are receiving capacity charges, despite the fact that, according to regulations, they are not supposed to be eligible for capacity charges if their operation is below 40% of the time. It is often argued that there will be no investment in the power sector if there is no capacity charge, which is completely baseless. There are also some power plants without capacity charge in the private sector, such as Sylhet United 25 MW power plant, United 72 MW power plant, United 82 MW power plant, and power plants covered by net metering. For example, It is possible to use electricity from captive power plants (20%) and from net metering (10%). If the capacity had been kept commensurate with the rate at which Bangladesh's electricity demand had increased, there would have been no charge for excess capacity. However, the opposite happened: Private sector power plants were brought into production by keeping government power plants idle. Now, they have created extra capacity and increased costs.



Over one-third of the total budgetary subsidy has been earmarked for the energy sector in the current financial year 2024-25, the bulk of which will be spent on payment of capacity charges (TDS, 2023). In last year's revised budget, 81% of the subsidy given to the power sector was spent on paying capacity charges alone (Kalerkantho, 2024). In the financial year 2023-24, the amount of capacity charge of BDT 28,489 crore, with the same amount of money, about 3561 MW solar power plants could have been built, from which about 1250 million units of electricity can be produced every year.

Even if the government approves no new power plants, capacity charges will still need to be paid for the next 22-25 years—for instance, for the Adani and Banshkhali 1320 MW power plants for the next 25 years, for LNG-based power plants like Reliance and Summit for 22 years, and for other ongoing power plants until 2047. The highest capacity charge has been given to Summit Group in the last 14 years.



The capacity charge has to be paid up too much, for example, if the Reliance 718 MW power plant is in operation 90% of the time, the capacity charge for this plant alone will be around BDT 29,085.50 crore over the next 22 years (at a dollar rate of BDT 117.40, as on 30 June 2024).

Power plants that have already crossed the 'break-even point' or made a profit must be retired as soon as possible. In 2024, six rental power plants were renewed again (Kalerkantho, 2024). All diesel and furnace oil-based power plants, including these 6 power plants, should be canceled. Also, the 'No Electricity, No Pay' policy should be implemented in the case of old private power plants. A huge amount of money is being spent every year on fossil fuel-based power plants whereas renewable energy such as solar power (only an average of BDT 8 crore is needed to make 1 megawatt power plant), wind power has created endless opportunities for us. With the geographical potential of solar power in Bangladesh, it is possible to meet the entire electricity demand of the country. The National Solar Energy Roadmap (SREDA) (Draft), has developed a roadmap for progressing towards clean energy, with plans to generate 30,000 MW of solar power by 2041 (SREDA, 2020). According to the 2018 research report of the US National Renewable Energy Laboratory, Bangladesh has the potential to install at least 30,000 MW of wind power (NREL, 2018).

New solar power plants developed in recent times are more economically viable. The most positive aspect of these power plant contracts is that 'No Electricity, No Pay' has been introduced. As a result, there is no opportunity to grab extra money if the power plant is not in production. Also this technology is environment friendly.

Therefore, our demand to the Interim Government of Bangladesh for economic prosperity, energy security, and preservation of a safe environment is to cancel high-cost and expensive rent-based power plants and increase investment in the renewable energy sector with the introduction of 'No Electricity, No Pay' policy instead of capacity charge.

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