Growing backlog in payments to independent producers a bottleneck in power sector

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Online Desk: The growing backlog in payment obligation is emerging as a major problem in Bangladesh's power sector that may impede the growth of the sector.

According to official sources, the payment mode in Bangladesh Government's power purchase agreement (PPA) with the private sector has mainly been made in foreign currency, specially, the US dollar.

As per the existing arrangement, as a single payer the state-owned Bangladesh Power Development Board (BPDB) pays to the private power producers in local currency against its purchase of electricity.

Under the PPA, the private power producers are allowed to convert the payments into US dollars to meet their different kinds of payment obligations like bank loan, fuel and machinery imports and also paying foreign staff salaries.

If the investors are foreign companies, they can repatriate their profits in US dollars, said the officials of the BPDB.

They also noted that the BPDB always remains in constant contact with power producers, their banks and the central bank to smooth the foreign currency repatriation.

But following the dollar crisis in the country, official sources said in recent months, both the BPDB and the private power producers have been experiencing severe problems in getting dollars from their banks and also from the Bangladesh Bank.

Official sources said the BPDB has been struggling to keep up with its payments owed to the private power producers for more than a year.

Officials at the Power Division and BPDB said currently the total owed to the Independent Power Producers (IPPs) is $3.5 billion (equivalent to over Tk 35,000 crore) as of September 2023.

As per contract with the government, the IPPs are facing dual problems with their bills. First, they are not getting bills on time and secondly, they are getting partial bills, but not being able to convert the payment into foreign exchange due to the dollar crisis.

A top BPDB official admitted the problem to, saying that they had reached an understanding with Bangladesh Bank under a mediation of the Finance Ministry that the central bank will provide on average $20 million every day to BPDB to cover its costs.

"But we're not getting more than $10-15 million a day," a top BPDB official told on condition of anonymity as the issue is very sensitive and he is not allowed to speak on the issue.

He also said that if measures are not taken to contain the growing dues in the power sector it will further aggravate the problem.

Admitting about the payment backlog, Imran Karim, former president of Bangladesh Independent Power Producers Association (BIPPA), said the government should take necessary measures to clear the dues in the power sector.

“Otherwise, it will accumulate the dues and create a major problem in the sector”, he told.

Energy experts said the country is heading for problems in the power sector and it would have a big impact on the overall economy pushing up inflation further.

Eminent energy expert and advisor to the Consumers Association of Bangladesh (CAB) Prof M Shamsul Alam said the government has been put in such a major problem because of its wrong planning in the power sector.

He said that as a result of the wrong planning, the country is witnessing 50 percent surplus power in summer and 70 percent in winter, for which it is heading towards a disastrous situation.

“There will be a big indiscipline in the power sector as pressure for private sector’s capacity payment will continue to go up while import of primary fuel will be increasing. Finally, it will lead to energy insecurity,” he told.