

President's Report Year 2013

The removal of the greater part of the subsidy on the sale price of furnace oil in year 2012 has begun to show a spurt of interest in the fuel conversion process from oil to biomass in the industrial sector. While there is a degree of subsidy still prevailing, the current price of Rs 90.00 per liter for furnace oil is many times the equivalent cost for the same amount of thermal energy that can be provided by fuel wood. While, the numbers speak for themselves, the number of conversions is still less than desired for due to the lack of adequate supply chain mechanisms to provide the degree of confidence desired by the industries.

In this light the long awaited approval of the UNDP project on "Development of barrier removal on use of Gliricidia for thermal energy in industries" is most welcome. The success of this project which envisages the setting up of different supply chains and other activities will no doubt help in building up such confidence. More details of this project is given later on. Also the Lanka Carbon Fund has been active in trying to develop plantations and supply chains for the benefit of the industries.

The past year did not provide the much hoped for rapid growth of the Bio Energy in the electrical sector with the publication of the revised feed in tariff structure for the NCRE projects, by the PUCSL in October 2012. Although the process of tariff determination was very transparent and ample opportunities were given to all stake holders to submit their written proposals as well as make presentations in a public seminar, the Ceylon Electricity Board saw it fit to contest the tariff published by the PUCSL in court. The inordinate slow progress of this case in the courts has had great negative effect on the development of the NCRE industry. After nearly a year, the case not even being heard once, the matter has been referred to the Cabinet of Ministers for a ruling. This process also has taken many months and one can only hope that it would be resolved soon.

In addition to the uncertainty created by the lack of an approved project, the very process of the regulators decision being contested has created the most damaging impression on the prospective investors. The efforts made by us in the past many years to win the confidence of investors, mostly from abroad, of the advantages and the reliability of the SPPA process and to alleviate their reluctance of dealing with a single buyer owned by the state, has been shattered by the situation where the very utility is contesting the authority of the regulator. Even if the feed in tariff matter is resolved now, hopefully without a major deviation from the tariff levels announced by the PUCSL, a difficult task lies ahead of us to win back the confidence of the investors of the fact that the terms of the SPPA will not be violated within the period of the contract. We may need to seek official reassurance on this issue.

As a result of these short sighted and patently anti national stance taken by some individuals, the NCRE industry as a whole has stagnated at the level of 6.8 % of the total electrical energy achieved in the year 2011. The target of 10% contribution by the NCRE sector by year 2015, both in the National Energy Policy and the original Mahinda Chinthanaya is now a distant dream. If the enhanced target of 20 % contribution by year 2020 is to be even dreamt of , a major change of heart by the state agencies is essential.

In spite of the above draw backs we are encouraged by the fact that there has been an interest by the developers of Dendro energy, as evidenced by the number of applications and the Energy Permits issued by the Sustainable Energy Authority, which the investors have kept alive. An early resolution of the tariff issue will be most welcome so that these investors can implement their projects early, not only to inject the urgently needed energy input to the national grid, but also to boost the confidence of future investors.

The more than average rainfall during the year did offset to some extent the cost of power generation using fossil fuels, even though the Norochcholai coal power plant continued to fail time after time with the reported number of failures growing. The plant appears to be down even now with the second stage yet to be commissioned. No doubt the hydro reservoirs were used to the full to supplement this, such that the storage capacity was down to about 40%.

It had been the practice to ensure they are brim full by end of December so that the dry months of Jan to April can be managed without too much dependence on oil. The current generation calls for more than 50% from oil with the consequent losses to the CEB.

The much hoped for reduction of the consumer tariff, based on cheap electricity from coal power remain the dream that any discerning person would have predicted. What was predicted to cost Rs 3.50 per unit is now reported to cost Rs 13.50 by the CEB's calculations, even though there has never been an independent estimation of the true costs. It would indeed be interesting to know what the true cost of coal power is, as this is the lure which is used to block a reasonable FIT for renewable.

The many informative articles written by our members and other experts to try and highlight the reality do not seem to have made any impression on the authorities as the recently issued long term generation plan of the CEB proposes some 3500 MW of coal power plants to be installed by the year 2025. This is a complete about face of the policy promoted by the former Minister to limit the coal power generation to the 900 MW already under construction at Norochcholai and perhaps the Sampur plant on which Sri Lanka may be coerced to install due to pressure from India. It is also totally in defiance to the government's stated policy as described in the Mahinda Chinthanaya.

BEASL and several others have submitted detailed comments to the PUCSL in response to their call for submissions, on the fallacy of the arguments used by the CEB to justify this plan,. But nothing was heard from the PUCSL, since then.

The much hoped for rational intervention by the PUCSL as the regulator for the industry, and their authority seems to be waning, with the PUCSL being without a chairman for several months. It is learnt that someone from the Treasury has been appointed as an acting chairman. This is a sure way of subverting the independence of the PUCSL which is essential for it to perform as a true regulator.

I would like to take this opportunity to invite all our members to be most vigilant on these retrogressive plans which could result in grave consequences both on national energy security and the economy as well. We cannot stay idle but must make our voice heard by whatever means available to us. We must also highlight the fact that Sri Lanka does possess ample indigenous and renewable sources of energy to

be totally free of fossil fuels in the future. The canard that renewable energy is costlier than coal power has to be exposed as a myth and a tool used as the ruse to block the development of renewable energy. There are significant changes that are happening in the world around us where there are enough and more proven examples to show the technical and commercial viability of such renewable resources.

The world's economic and geopolitical realities have changed drastically in recent times and energy security for the country, both in way of affordability as well as availability of supplies, should receive the closest attention and highest priority. The dangerous over dependence on imported fossil fuels has already been felt with the impact of the massive oil bill, which will only be replaced by a coal bill if the current programs of the CEB are executed. Sri Lanka is fortunate that all indigenous sources of energy are renewable and of these Bio Energy is the most vital. Thereby BEASL has a central role to play in achieving this goal. However the greatest danger is that, if by the country's misfortune, even a few of the proposed coal plants are implemented, the argument will be brought forward that there is no need for any more power plants. The country will have to pay for the import of coal at whatever prices prevailing, simply because large capital has been committed to install such plants.

1.0 Highlights of the Year

As explained earlier, no new projects were commissioned during the year due to the impasse on the tariff. The 21 Energy Permits, with a total capacity of 116.75 MW, still remains in the side lines due to the current impasse in respect of the new tariff. The number of projects with Provisional Approval will also be watching the final outcome of this issue. While it is hoped that some reasonable solution will emerge soon and the early commissioning of these projects would result, Sri Lanka needs many more projects to ensure the energy security and the breaking of the stranglehold of the fossil fuels on the energy sector.

2.0 Other Issues

2.1 Non Conventional Renewable Energy Tariff Structure

After a delay of nearly two years the PUCSL announced the new tariff structure in November 2012 effective until 2013. Unfortunately the CEB saw it fit to ignore this declaration and has refused to sign the SPPAs for the developers who already have applied. They have been offered the previous tariff declared in 2010. It is imperative that this issue be resolved early.

2.2 Ministry of Renewable Energy

The allocation of the responsibility for Renewable Energy Development and transfer of the Sustainable Energy Authority under the Ministry of Environment and Renewable Energy augurs well for the development of the sector. The new minister has publicly declared his vision of a major contribution to the national energy from renewable sources. I have congratulated him on his vision, and at his invitation we had a useful one hour discussion on the challenges faced by the industry and offered our whole hearted support for any reforms that he intends to bring in to overcome the current barriers. One of these is the amendments to the SEA Act which is currently highly skewed and biased towards

electricity and mini hydro sector. We have also made a written submission with our proposals on the changes necessary to the ACT

2.3 Sustainable Energy Authority

The Sustainable Energy Authority is now functioning under the purview of the Ministry of Renewable Energy. This was expected to break the shackles of being under the Ministry of Power and Energy and thereby allow them to follow the true dictates of the SEA Act. However this change is slow to emerge with the bugbear of the tariff issue clouding all other initiatives.

I am repeating this section from my last two reports verbatim except to add one more year to the life of the SEA, as nothing has changed. BEASL and its members must do its best to encourage the SEA to be more positive and proactive if it is to serve the RE industry as stated in the SEA Act.

*The SEA has been in existence for over **five** years now. However, the view of the developers is that the SEA has not yet lived up to the promise of being a facilitator for project development and a one stop shop for the approval process. Of particular concern is the fact that the SEA is yet to perform an evaluation of the biomass resource which would lend a lot of credibility for the project proposals, particularly in the minds of the lending institutions. (I am happy to report that a study is presently under way which is expected to through valuable insights to the biomass availability and potential in the country)*

It is hoped that the rest of the State agencies from whom the developers have to obtain approvals recognize the fact that the development of renewable resources as a national imperative, rather than a mere business venture by some individuals. The SEA's task to simplify this process will be made that much easier if this paradigm shift can be achieved.

BEASL has provided whatever assistance and support possible for these developers who have approached us.

2.4 Sub Station Augmentation

The augmentation of the Grid Substations as well as the establishment of several new Grid Substations is continuing by the CEB. There has been considerable progress on several substations already. This is a most welcome development and will open the opportunities for new dendro power plants to be implemented in many parts of the country. With the removal of the stipulations on catchment areas by the SEA for approval of Dendro Projects, the primary consideration of site selection can now be by targeting the substations old and new which can absorb the energy generated.

2.5 Carbon Trading

I am repeating my comments on this as there have been no positive change which requires our attention. The status of the carbon trading opportunities is now nearly dead. The Conference of Parties of the UNFCCC over the last several years has not yielded any positive results. Therefore it is advisable to ignore any contribution that the CDM process would offer to project feasibility in the evaluation of the projects. However, it is advisable to keep the door open as it were in case there are some avenues

which may emerge, as Bio Energy is eminently qualified to be recognized under the CDM process. The opportunities for carbon trading outside the CDM process remain unclear. However the Japanese government is promoting an alternative Credit Mechanism termed the-Joint Credit Mechanism, which hope fully will provide an opening for the new dendro projects. Unfortunately the progress on this initiative too has been slow.

BEASL is actively collaborating with the EX Research Institute of Japan which is responsible for initiating this mechanism in Sri Lanka and will keep the members informed of the progress of events.

2.6 Bio Energy Web Page and News Letters

Our web page www.bioenergysrilanka.org evokes many visits, either directly or through referrals. We have taken some positive steps to upgrade the web page which is now more current. The service of an expert has been obtained to help in this matter. We are also discussing the possibility of redesigning the web page to be more attractive and user friendly. The two news letters published during the year has been uploaded to the web. I am repeating my earnest request of the members to visit the web site frequently and also provide information that can be added to keep it dynamic. I also believe that this is a gate way through which our objectives and strategies can be given wider publicity. It is the best way to reach a wider audience of interested parties who are able to help our cause.

3.0 BEASL Projects

While there has been no specific project undertaken by the BEASL this year, we are trying to expand the work done with MGC and SARD on integrated Gliricidia cultivation and sustainable agriculture. A project proposal has been forwarded to the National Research Council for funding. The proposal has been submitted via the SEA as the NRC requires the projects to be by state agencies.

Our member and former project manager Mr Piyasiri Gunsekera is conducting an interesting project where crops are being planted under the wind mills in Puttalam, using the sustainable agriculture methodology. The vegetables which are certified as organic are being marketed in Colombo. The concept needs our attention as there might be some synergy in wind power and dendro power to design a hybrid system where the dendro power plant acts as the buffer to even out the variability of the wind power plant. Members' comments on this concept are solicited.

We are making a concerted effort to introduce this theme to the villages under the Divi Neguma program. While our attempts for a direct contact with the Minister in charge is yet to materialize, the UNDP project on barrier removal includes the Divi Neguma Authority in the steering committee. We will use our own presence in the committee to solicit their active support for cultivation of Gliricidia and other SRC crops through the Divi Neguma program.

It is encouraging that the idea has been promoted in the coconut triangle now. A draft cabinet paper to expand on the cabinet decision on Gliricidia made in 2005 has been submitted to the Ministry of Coconut Development. It is hoped that this could pave the way for practical implementation of the several important steps outlined in the original cabinet paper.

4.0 Industry Thermal Energy Sector

The real or perceived doubt about the reliable supply of fuel wood is hindering the development of bio energy in the thermal energy sector, in spite of the obvious financial advantage.

This remains a ***major barrier due lack of visible efforts to develop the bio mass resource, and an element of doubt remained in the minds of the potential developers.***

In this light it is encouraging to note that the long awaited project by the UNDP on “ Barrier Removal for development of Bio Energy for Industrial Thermal Energy” has been approved and a public seminar and an inaugural meeting of the steering committee has been held. BEASL which has played an important role in the formulation of the project is a member of the steering committee.

The immense contribution that the Short Rotation Coppicing trees can provide for the Economy, Environment, Rural Development and Social Equity in Sri Lanka, has to be constantly espoused if we are to gain the attention of the state and the relevant authorities, without whose commitment we cannot hope to make any significant progress. In this regard the close synergy between agriculture and bio energy needs to be highlighted and propagated.

On the other hand, our effort in promoting the cultivation of Gliricidia in home gardens and small holder plots is continuing. A significant strategy adopted is to link the growing of Gliricidia, the leaves of which is a major ingredient in the manufacture of “ Jeewamurtha” by farmers, which can rescue them of the trap of inorganic fertilizer and pesticide inputs. We have joined hands with The SARD Centre (Sustainable Agriculture Research and Development Center) and the Mahathma Gandhi Centre for the awareness creation to promote the Sustainable Agricultural practices at village level. Using small source of funds from the IOM, six villages in the Vauvunia district has been brought in to this program.

A more ambitious program to target 30 villages in three districts has been mooted and a proposal submitted to the national Research Council for funding. The proposal made jointly with the Sustainable Energy Authority has been short listed and a detailed proposal is to be made by end March 2014

The ten industries which is the largest consumer of fuel wood for thermal energy is acutely conscious of the lack of reliable supplies. The present sources of supply most of which are from none recognized sources is suspected to come from none sustainable sources.

The feasibility of the tea estates to grow their own fuel wood using SRC species has been highlighted in presentations made by the BEASL and in written submissions. Although the adherence to this proposal is slow in an industry wide manner, several estates have taken significant steps to initiate plantation activities.

The greater challenge is for the bought leaf factories that do not have any estates under their management and are dependent entirely on outside suppliers for their fuel wood. The strategy offered to them has been to get their small holder leaf suppliers to become energy suppliers as well by growing Gliricidia in their own plots.

5.0 Promotional Activities

I am sorry to report that the promotional activities during the past year too has been limited to what the office bearers of the council could provide by participating in various committees and consultations. However we managed to participate in the Techno Exhibition in October with the assistance of several institutional members to fund the event. The council expresses their gratitude to these members for this valuable support. It is now even more important for promotional activities on the generation of the biomass resource in the light of the recent fuel price increase which can only move upwards in the future. In this regards BEASL should lobby intensively for the following activities

1. Establishment of a state agency to promote the energy plantations recognizing both the fuel value as well as many benefits from the foliage
2. A comprehensive and a reliable assessment of the biomass resource in the country , both current and potential
3. A time bound plan to replace the total use of fossil fuels for thermal energy needs in the country, which is both technically and commercially feasible as well as a boon to all industrialists.

Although the state intervention is a must BEASL and other organizations can also make a contribution towards these achieving these goals.

5.1 Demonstration Gassifier Plant at Gannorowua

The members would recall that we installed a 10 kW Gassifier driven generator set at the Agricultural Park at Gannoruwa to serve as a demonstration plant targeting the many farmers who visit this park. However the plan to have this connected to some of equipment and sign boards by the Dept Agriculture did not materialize. As such the useful of the unit was limited and to make the matters worse the department commenced on some construction work which would have completed blocked the access to the unit. As such we negotiated with the Dept to release the unit back to us and it was dismantled and brought to Colombo.

While there were several interested parties who discussed the possibility of taking this over including the Chilaw Plantations nothing materialized. During this time the Dean of the Faculty of Engineering of University fo Jaffna expressed interest in taking it over and installing at the faculty now under construction at Kilinnochchi. Accordingly we have agreed to release the unit to them with the consent of the Council. The unit will be released free of charge and the Faculty would have to bear the cost of transport and installation. One condition that we have imposed is that the curriculum of th4e faculty should include course units on bio energy.

6.0 Problems and Barriers

The delay in agreement on the feed in tariff has emerged as the most damaging problem during the past year. We can only hope that this matter would get resolved soon and would not reappear in the future years. We will lobby with the SEA and The Ministry of Renewable Energy transparent and reliable

methodology acceptable to all parties so that there would not be any uncertainty in the minds of the investors.

However, the most pressing need is the expansion of the fuel wood supply to overcome the diffidence of both investors and the lending institutions to enter into the dendro industry. It is unfortunate that this is a problem that should not exist at least now if the true value of the Gliricidia leaves is appreciated against the ever increasing cost of fossil fuels. However we are yet to gain a foot hold in this battle. A fresh meeting was held with the Institute of Policy Studies, requesting them to resubmit their presentation to the National Economic Council presided by His Excellency the President

With the enhanced tariff levels there is evidence of investor interest and openings for the sourcing of the necessary capital. In this light the major barrier for the development of the sector has emerged as the lack of confidence of the reliable fuel wood supplies. The issue of obtaining adequate lands for the developers to ensure at least part of the fuel wood supplies remains a major hurdle.

The efforts to review the National Energy Policy have come to a standstill after the promising start made on the pretext of the flimsiest of excuses. If it is to have any credibility there should be such measures instituted to ensure that the NCRE sector is supported at least to the same level as the fossil fuel based power generation. There has been some talk of developing a Renewable Energy Policy. We need to push the SEA and the Ministry of Renewable Energy to take leading role in developing such a policy in the absence of any efforts by the Ministry of Power and Energy to publish the national Energy Policy.

7.0 Staff Movements

We were fortunate to fill the vacuum by the resignation of Mr Poorna Senanayake soon after the last GM with Mr Ranga Fernando. He has attempted to perform well with the limited resources available. Greater involvement of the council members is solicited to ensure that his presence is better utilized.

In this regard the proposal by the Council to enter in to a suitable association with the Energy Forum is designed to achieve optimal utilization of manpower as well as financial resources.

8.0 Financial Status and Membership

The BEASL managed to survive on the interest received from the fixed deposits. The office rental has not been paid for many months and the generosity of Geotech Limited in this regard needs to be recorded. However this facility will no longer be available from March 2914 as the lease of the office premises of Geotech will be coming to an end. This situation has been more due to lack of any significant activities, which is not the objective of the BEASL. There is a grave need to expand a public awareness campaign, particularly in the rural sector as the time is ripe for our message to be appreciated by the general public. The membership has improved slightly and Mr. Fernando has been instrumental in collecting some of the past dues.

All members are requested to bring up to date their subscriptions as well as to bring in more members to the association. The impact we can make is bolstered by a large membership. Those who are engaged in projects for whom the BEASL has provided much help are solicited to become corporate members.

L P Jayasinghe

President

February 21st, 2013