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Power generation untouched by strengthening of the US dollar

WHAT is the most significant event for Malaysia's power generation industry this year?

The fact that it is not even slightly affected by the strengthening US dollar.

The power generation industry has managed to shield itself from the assault of the depreciation of the ringgit by solely relying on a ringgit financing scheme pioneered by YTL Power International Bhd, Malaysia's first independent power producer.

Slated to be the first of its kind, the ringgit financing scheme did not require a sovereign guarantee.

As such, the scheme not only saved the IPPs from an increase in foreign exchange losses but it also saved the local banks and Tenaga Nasional Bhd the trouble of paying higher loans and interest rates - thus ensuring electricity tariffs remain the same for the time being.

Genting Sanyen Power Sdn Bhd executive vice-president Dr Philip Tan said although the depreciation of the ringgit did not affect the current power generation plants, the cost of constructing new plants had increased.

"Prices of power generation equipment have increased by 30 to 40 per cent. Which means the IPPs will have to increase their investments to establish new plants to meet future demand."

Demand for electricity in Malaysia is expected to increase from 8,000MW to 13,000MW by the year 2000. The demand is expected to surge to 35,000MW by the year 2020.

To generate 1MW, the country has to invest RM2 million. Malaysia will have to increase its power supply by at least 1,000MW per annum.

As such, the country will need more than RM100 billion to build power plants and increase its electricity supply and distribution system's efficiency.

YTL Power International managing director Tan Sri Francis Yeoh Sock Ping said the increase in investments would eventually be passed on to consumers.

Based on the present foreign exchange scenario, Malaysia should consider implementing the "pooling and settlement" system, also known as the Merchant Power system, whereby electricity prices would be determined by competitive bids in a pool.

The customer will buy electricity from the lowest bidder. It has been implemented in a number of countries and has helped reduce electricity prices.

For example, by implementing the system, Argentina managed to reduce its tariff by 36.8 per cent, Australia (Victoria) by 33.1 per cent, western United States by 29.4 per cent and Colombia by 24.1 per cent.

Asked to comment on the system, Yeoh said it was a fact that the system had benefited other countries.

"After all, two Asean countries namely Singapore and the Philippines are going that way. Malaysia has always been ahead of the others, so why not implement the system and enjoy its benefits," he said.

"By pooling electricity, IPPs will have to be very efficient in generating power in order to bid at competitive prices. Tenaga, our national electricity distributor, will be able to purchase power from the lowest bidder.

"However, in order to make this a reality, players should be allowed to

re-invest in their power generation plants and expand based on their own electricity demand forecast, thus enabling electricity to become a commodity which can be traded," he added.

It will allow liberalisation of the power generation sector, which has never been experienced in Malaysia due to the current restrictions on IPPs.

Yeoh said in the long run when the Asean grid became a reality, Malaysia would be able to export electricity to neighbouring countries such as Thailand and Indonesia and generate foreign income.

"Malaysia has been blessed with gas, why not capitalise on it?"

Yeoh said Malaysia would have no problem financing future power generation projects in ringgit and without sovereign guarantee.

"We have already conquered the financing aspect of the industry. The next step will be to conquer the whole industry and become a major player in the region. Prime Minister Datuk Seri Dr Mahathir Mohamad has repeatedly said buy Asean. This is the time to think about the region's future needs and work on meeting the needs," he added.

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