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Power packed

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UNKNOWN TO many, some 270km from Kuala Lumpur in Lumut, Perak, lies a sliver of land with clear blue waters, white sand and azure skies. Since 1994, this has been the site of Segari Energy Ventures Sdn Bhd (SEV), which has set up Malaysia's largest combined cycle power plant. It is also the largest in Southeast Asia and the third largest in the world. SEV is owned by Malakoff Bhd (75 per cent), a member of Malaysian Resources Corporation Bhd (MRCB), Tenaga Nasional Bhd (20 per cent) and the Employees Provident Fund (EPF) (five per cent).

With a total generating capacity of 1,303MW, the plant is providing 11 per cent additional power to the National Grid to cater to the country's increasing power requirements. A leading power generation company, ABB Power Generation Sdn Bhd, was contracted as the turnkey, engineering, procurement and construction contractor for the construction of the Lumut Power Plant.

The plant comprises two 651.5MW blocks, each equipped with three ABB13E2 gas turbines, three heat recovery steam generators, one steam turbine, four electrical generators, ancillary plants and equipment, interconnection facilities and common buildings.

On April 12, 1994, the financial close of the loan documentation for RM3 billion was secured. A day after, word was given to ABB to begin construction of the plant on an 80-acre former tin mining land next to the sea.

The ground-breaking ceremony was held in August the same year. Block One was opened by Deputy Prime Minister Datuk Seri Anwar Ibrahim on July 22, 1996. The plant was officially launched by Prime Minister Datuk Seri Dr Mahathir Mohamad on May 15, 1997.

'The plant is designed to produce power efficiently and cheaply,' says SEV's chief operating officer Azmi Abdullah. 'Even with the recent hike announced by Tenaga Nasional, our tariff is still one of the lowest in the region.'

'We are selling to TNB at 15.5 sen per kilowatt hour. But that rate is on a contract basis for 21 years and we can't change the tariff; it stays put until the end of the power-purchasing agreement (PPA). So if you talk in real terms, that 15.5 sen per kilowatt hour, 10 or 20 years from now is considered cheap, in terms of real value of money and when you factor in inflation. Other countries like Thailand and Indonesia are selling at 20 sen per kilowatt hour,' he says.

Azmi adds that SEV and the other IPPs in Malaysia can offer power at a cheaper rate because the cost of the equipment, the gas turbines, steam turbines, the power station and other associated machinery are at their lowest now. 'If we were to build another power plant now, we would be able to sell power cheaper.'

Another contributing factor was the company's decision to source for funds locally for the project. The RM4 billion Lumut Power Plant secured the largest non-recourse financing for an IPP to date, bringing together Malayan Banking Bhd, Bank Bumiputra Malaysia Bhd and the EPF.

EPF provided RM1.5 billion in fixed rate bonds while the consortium of financial institutions provided RM1.5 billion in floating rate loans. The remaining RM1 billion was generated from shareholders equity and SEV's internally-generated funds.

'Can you imagine how much it would have cost us if we hadn't financed

this project locally,' says an SEV executive who declines to be identified. The syndicated refinancing exercise of the RM1.5 billion floating rate term loans created local banking history of sorts when a mix of Islamic and conventional private debt securities (PDS) were used. It comprised RM521.5 million Sukuk Al-Ijara notes issuance facility (Sanif), RM337.5 million Sukuk Al-Ijara revolving underwriting facility (Saruf) and RM708 million conventional fixed rate bonds. The refinancing allows SEV access into the capital markets, a higher cost efficiency, direct benefits from potential savings while maintaining a competitive edge.

The good news is that SEV's final capital expenditure was RM3.7 billion, as compared to the original RM4 billion. So what does the future hold for SEV?

Says Azmi, 'Look at the growth in power alone. If you look at the current increase or growth in electricity annually, we are at about 1,000MW a year. Collectively, with Thailand, Malaysia and Singapore, we're at roughly 4,000MW a year.'

Why shouldn't Malaysia export electricity? 'If we can produce it cheaper than the other guy and if they are willing to buy from us, then why not?' Currently, the five local IPPs collectively produce over 4,000MW out of an installed capacity of 11,000MW. By the year 2005, the installed capacity is expected to reach 18,000MW.

And this is why Azmi and those at SEV are looking forward to the proposed Asean Grid. 'Personally, I believe there should be interconnection between the Asean countries. I would like to see the Lumut Power Plant supplying power all the way up to Cambodia or further west or east.

'We are contracted to sell 86 per cent of our capacity to TNB. The other 14 per cent is supposed to be on standby. But if we are allowed to sell it off, we would like to do so.'

While IPPs are clambering over each other in search of new opportunities and ways of maximising profits, certain quarters are determined to put an end to the contractual rate system, which they say, favours the IPPs and burdens the consumers.

The Federation of Malaysian Manufacturers for one, feels the government should review the current system of contractual rates and introduce the power-bidding system to bring down tariffs even further.

'The government is looking at the bidding or pooling system for Malaysia, which I believe will make for a very healthy market situation. We do not have any reservations on this. Actually, we welcome the bidding process because until that happens, we cannot be called independent power producers. Right now we are contracted power producers,' says Azmi, adding that the new system would open up the market for IPPs even further.

'While I cannot say exactly when this will happen, I do think it will be soon.' However, Azmi cautions that this big a step should be taken slowly and only after a detailed study had been carried out. 'We cannot follow the system used in other countries. It has to be tailored to our situation and conditions. We have to have our own system for it to work.'

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