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Powering down

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LOCAL INDEPENDENT power producers (IPPs) are taking a lot of heat of late, with allegations that they are taking Tenaga Nasional Bhd (TNB) for a ride and that the rates are too high.

'This is a subject that's been misunderstood for too long. Before us, there's never been a model the way YTLPI (YTL Power International Bhd) was as the first IPP in Asia. All the models followed a cookie-cutter financing model and that is why the rates are so high: about eight cents US (roughly 20 sen) per kilowatt hour. And all the PPAs (power-purchasing agreements) had fantastic terms. All had sovereign or country guarantees, and they are higher-priced,' says Datuk Francis Yeoh, the managing director of YTL Power International Bhd.

'Our PPA is 25 per cent cheaper; we only charge 15 sen per kilowatt hour. Secondly, our PPA has no sovereign guarantee which no other IPP dares do. Thirdly, I have no pass-through on operations and maintenance (O&M). That means energy rates should go lower and lower as time goes by.

'So if I don't have a pass-through on O&M it means that the price of my electricity would drop year by year.... That means, as a private sector (company), I have to make sure that my plant is manned by few people, so it forces you to be efficient.'

Yeoh says many people have this misconception that YTLPI is getting 'preferential' treatment because it was the first IPP in Malaysia or because of his ties with Prime Minister Datuk Seri Dr Mahathir Mohamad. But the question remains: how can YTLPI still remain profitable despite being 25 per cent cheaper than the other IPPs in the region? Says Yeoh, 'It's because the financing costs of the other IPPs are just too high. None of the other economies with IPPs could finance an IPP programme in its own currency except Malaysia. I had a British partner once and it withdrew after I told them that I wanted to finance it the ringgit way.

'To me it runs counter to logic. I'm buying gas from Petronas in ringgit and I want to sell to Tenaga in ringgit. Why should I have foreign financing? If we can finance it through the ringgit, all this money that's supposed to go to the foreign financiers can be kept by YTLPI. All we have to do is have the will, the discipline. Thank God EPF, Bank Negara and the Malaysian capital market came in and supported us,' says Yeoh.

'Just think about it. Four thousand megawatts (produced by the five IPPs) now financed the same way using the ringgit after YTLPI proved it could be done. Can you imagine how much borrowing we'd have - our foreign loan exposure, or yen exposure or US dollar exposure - if we hadn't found a solution? It was this that made it profitable. Now we didn't have to pay all this excessive financing costs. Of course, this is also another reason why YTLPI has got cash flow and profits today.'

There is also another advantage in this. Yeoh says that if Malaysian companies could prove that this new model is workable, then they could adapt it anywhere in the world. The advantages would be tremendous. 'If we hadn't done it the Malaysian way, what do you think would have been our advantage? What cards do I have to play with? Do you think I can borrow US dollars or sterling or the yen cheaper than foreign companies?'

The Malaysian capital market, says Yeoh, has emerged as the prime mover of privatisation, especially in power. Now there are local IPP companies that are going around Asia, edging out the competition. He adds that by bringing in the Malaysian capital market into play, YTLPI was able to get

a 51 per cent stake in China and Zimbabwe as part of the condition for the IPC listing. This makes it profitable from Day One since it will be taking over existing power plants.

Yeoh says it was precisely this model that made it profitable and would ultimately bring tariffs down over time. This is why he doesn't understand why some quarters are making a big deal about this issue. (The Federation of Malaysian Manufacturers recently issued a statement, saying that the current system of contractual rates should be reviewed because of the high tariffs which would ultimately jeopardise Malaysia's ability to compete in the global market.)

Says Yeoh, 'Our tariffs are still one of the lowest in the region. Think of India and Indonesia, paying that kind of price (20 sen per kilowatt hour). Their per capita income is lower than ours. Don't you think that they can hardly afford that kind of rate and they still have to pay? We're more developed than they are and we're paying lower tariffs.'

'Instead of generalising things, one has to be quite patient. Right now you have to "suffer", if you can call it that. But over the long run, our prices which are already low will go lower.'

Yeoh also brings up the fact that before the IPPs came into the picture, the government was seriously considering upping the tariffs to between 35 sen and 50 sen per kilowatt hour. 'Its reason was that the capital equipment, prices of turbines and generators were going up. Now because we're using this new formula, the prices of capital equipment has dropped by 40 per cent, ' he says.

'Good things come to those who are patient ...'

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