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Tenaga to seek redress outside purchase pacts

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TENAGA Nasional Bhd (Tenaga) is expected to seek a redress outside the power purchase agreements (PPAs) it had signed with independent power producers (IPPs) following recent developments in the electricity industry.

The national utility is said to be looking for "favourable terms" outside the PPAs and is likely to approach the IPPs for another round of negotiations.

Tenaga's executive chairman Datuk Dr Ahmad Tajuddin Ali said the company is likely to use "historical circumstances and the lack of sufficient data" in its argument for what has been described as a "supplementary document" to the existing PPAs.

"When the respective agreements were negotiated, the parties involved made certain assumptions as there were inadequate data for reference.

"These assumptions may no longer hold at this time," Tajuddin told Business Times in Kuala Lumpur.

The PPA is based on an 8 per cent gross domestic product growth and estimated double-digit growth annually for the country.

Electricity demand, however, has shrunk 12 per cent and Tenaga feels that its proposal for talks with the IPPs on the matter is reasonable.

Tenaga's proposal has been further strengthened by Prime Minister Datuk Seri Dr Mahathir Mohamad who had a week ago indicated that a re-negotiation of the PPAs is possible if they are unfair to one party.

Tenaga currently spends close to RM10 billion a year for its entire operations - generation, transmission and distribution, rural electricity needs, research and development, training and education, including operating a university.

Of this amount, RM3.5 billion goes to the purchase of 30 per cent of electricity generated by IPPs.

"Surely, there is something amiss here ... either Tenaga is able to keep its operational cost extremely low or we are paying too much for the purchase of power from the IPPs," Tajuddin said.

Due to the complexity of the issue, Tenaga may approach the issue outside the provisions of the agreement and instead propose a supplementary agreement.

Like the PPAs which are specific to the IPPs, a supplementary agreement will take into consideration the individual IPP's financial position.

Sources said Tenaga and the IPPs are in a difficult position. "Changes are bound to happen, sooner or later ... in the PPAs or in the supplementary agreement. Tenaga had not been pleased with the PPAs since they were first signed.

"It is better and beneficial for the industry if this issue is settle once and for all.

"The electricity industry is a growing sector and there are bound to be more businesses coming if a solution is found quickly," the source added.

Tajuddin said negotiations are under way on a one-on-one basis with IPPs that are willing to talk on its proposals to ease its short-term cash flow problems.

Tenaga had submitted several proposals, including deferred payment, easing billing cycle and discounts which vary between one IPP to another.

Tenaga has also engaged lawyers to look into the legal implications of a supplement document to the PPA.

Tajuddin said that Tenaga wants a fair solution which will not adversely affect the country's credibility.

It is looking at ways to ease its financial problems without jeopardising investments made by the IPPs.

The already weak market took a bigger dip since the Tenaga voiced its complaint on August 10.

Malakoff Bhd's share price fell 46 per cent from RM6.10 to RM3.30 on Friday. Malakoff holds equity in two power stations - 75 per cent in Segari and 20 per cent in Port Dickson Power.

Prices of YTL's shares dropped by 22 per cent to RM1.69 from RM2.18, while Powertek was down 24 per cent from RM4.32 to RM3.28. The Tanjong group, which recently bought over shares in Powertek, also dipped more than 20 per cent in two weeks.

Tenaga shares also suffered similar fate. The blue-chip share is now down to RM2.18, less than half of its initial public offering value of RM4.50.

Sources said until the two parties reached an amicable solution, the share prices of the IPPs and Tenaga will suffer the same fate - downwards.

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