

19/10/2001

Gas, power prices expected to be maintained: Analysts

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THE Government is likely to decide that Petroliam Nasional Bhd (Petronas) continues subsidising gas prices to Tenaga Nasional Bhd in an effort to keep the cost of business dealings low by maintaining the current electricity charges.

Investment analysts contacted by Business Times agree that the status quo would probably remain as the Government attempts to stimulate the economy that is being threatened by a slowdown in the world's biggest economy.

"There is much less reason for a gas price increase now that this has happened," says Jamaludin Bujang, an analyst who tracks the power sector at CIMB Securities Sdn Bhd.

He was referring to events on September 11 that had hit the US economy hard and led to cuts in economic growth forecasts.

The Government has already slashed its forecast for this year's gross domestic product growth to about 2 per cent from 5 to 6 per cent previously.

Today, Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad will unveil the nation's Budget for 2002.

As a country that is highly dependent on trade and foreign direct investment, the Government has to continue attracting investments and at the same time ensuring existing investors stay in the country.

One way to do this is to maintain electricity prices that are one of the lowest in the region.

The average tariff for industrial users currently is about 21.9 sen per kilowatt-hour.

"I don't think the Government will touch this (gas price) for the time being, and it will probably be revisited when things get better," says a foreign analyst.

The price of electricity has been inextricably linked to the price of gas as Tenaga feels that any increase in gas prices should be accompanied by an increase in tariffs.

An increase in gas prices will raise Tenaga's production costs significantly as about 80 per cent of power produced by Tenaga is generated using gas.

A previous estimate done by Morgan Stanley Dean Witter predicts that for every RM1 increase in per unit of gas, Tenaga's fuel bill would balloon by RM600 million.

Petronas has already asked for a 20 per cent increase in gas prices while Tenaga has also submitted a study detailing the effect of a rise on its bottom line.

Under an agreement signed between the companies four years ago, Petronas sells gas to Tenaga at a fixed price of RM6.40 per million metric British thermal unit which is about half the prevailing market price.

The agreement expired at the end of last year but Tenaga still pays the same price this year. The Government, which owns more than 70 per cent of Tenaga and all of Petronas', is expected to decide on the issue at the end of this year.

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