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IPPs should share in maintaining power reserve: PM

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INDEPENDENT power producers (IPPs) have to recognise the cost borne by Tenaga Nasional Bhd to maintain a 30 per cent national reserve capacity, and price the power supplied to the national utility accordingly.

"I think the contracts to buy power from private companies must take into consideration the need to maintain the spare capacity (to allow for sudden surges in demand)," said Prime Minister Datuk Seri Dr Mahathir Mohamad.

"We have to do this... probably by reducing the price of power sold to Tenaga," he told reporters after delivering the keynote address at the Malaysian Electric Power Forum 2001 in Kuala Lumpur yesterday.

The Prime Minister's remarks seem to signal to the IPPs that they should not continue to expect the kind of returns on investment they saw in the last few years when the Government first opened up the power sector to more competition.

The Government had also issued a number of IPP licences in an effort to improve the security of power supply following the nationwide blackout in 1992.

These first IPP projects raked in returns in excess of 20 per cent due to the highly lucrative long-term power contracts signed with Tenaga which had to buy the electricity at a price higher than its own production cost.

"But that was merely a temporary measure that was necessary to break the barriers of entry. As the IPP industry matures, costs must come down, and this has been well demonstrated," Dr Mahathir said in his speech.

Fairer pricing for power would mean that the IPPs have to scale down their expectations while striving to be more efficient operationally.

The Government had hinted at this when the Energy Commission announced last month that IPPs would have to compete for new power plant projects from the year 2007 onwards.

As for Tenaga, the Prime Minister's reminder is timely as the company has seen costs growing at an alarming rate, and the situation is compounded by the fact that electricity demand has not expanded as fast as expected.

The purchase of power from IPPs is currently Tenaga's single largest cost item, accounting for about 60 per cent of its operating costs.

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