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Cost-sharing of spare power capacity starts with new PPA

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TENAGA Nasional Bhd has signed a benchmark agreement that paves the way for the sharing of costs with independent power producers (IPPs) to maintain spare capacity.

This is expected to be a permanent feature in all of Tenaga's future contracts to buy electricity, better known as power purchase agreements (PPA). It allows Tenaga to save on power purchases and at the same time encourages IPPs to be more efficient.

The national utility company yesterday agreed to buy power from SKS Ventures Sdn Bhd's 2,100-megawatt (MW) coal-fired plant at a maximum 13.5 sen per kilowatt-hour (kWh) for 25 years, chairman Datuk Jamaludin Jarjis told Business Times.

The pact is the first to apply the principle of "demand risk sharing" under which Tenaga promises to buy a lower specific amount of power from the plant, with the remaining capacity to be tapped only when the need arises.

It is not immediately known exactly how much of the plant's capacity that Tenaga has committed to buy.

The company used to guarantee purchases of more than 85 per cent of a plant's capacity, a level which had often proved too high, resulting in it having to pay for electricity that it did not need.

The principle will also be adopted by Tenaga in its PPA with subsidiary TNB Janamanjung Sdn Bhd, which is developing a 2,100MW coal-powered plant, the company announced yesterday.

Shares of Tenaga gained 2 per cent or 20 sen to RM9.75.

SKS Ventures, a private company controlled by low-profile businessman Tan Sri Syed Mokhtar AlBukhary, will build the plant in Tanjung Bin, Johor, at a cost of RM7.5 billion. The project, scheduled for commercial production by August 31 2006, was originally meant to be located in Kedah.

Tenaga will be the exclusive coal supplier to the plant through wholly-owned TNB Fuel Services Sdn Bhd. It is the first coal-fired power station to be constructed by an IPP.

Another such plant, with a 1,400MW capacity, is to be built by Jimah Power Holdings Sdn Bhd, a 49 per cent unit of YTL Power International Bhd.

They are part of Malaysia's effort to diversify fuel sources for the power sector. Currently, about 80 per cent of electricity generated in Peninsular Malaysia is powered by gas.

SKS Ventures plant in Mukim Serkat, Pontian - together with Tenaga's Janamanjung and Kapar stations - will boost coal-fired electricity generation to 28 per cent of the sector's total installed capacity, Tenaga said.

Apart from the PPA and coal supply pacts, the two companies also signed a Transmission Works Agreement for grid system reinforcement works and power offtake.

Prime Minister Datuk Seri Dr Mahathir was on hand to witness the signing ceremony behind closed doors in Pasir Gudang.