

10 Questions on EGAT Privatisation

Answered by Dr. Piyasvasti Amranand, Secretary General
National Energy Policy Council

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1. When did EGAT privatisation start?

The Privatisation Plan comprises two parts:

- privatisation of the electricity supply industry (ESI) of the country
- privatisation of the organizations concerned.

Privatisation of Thailand's ESI was first prescribed as government policy ten years ago by the government led by Prime Minister General Chatichai Choonhavan. During that time, the government promoted private sector power generation for sales to EGAT and nearby industrial factories. The power producers promoted under this program are known as Small Power Producers (SPPs), which are small power projects using cogeneration (electricity and heat) systems or renewable energy, such as paddy husk and bagasse, as fuel.

The privatisation of EGAT followed the SPP program through the establishment of the Electricity Generating Public Company Limited (EGCO) to buy Rayong Power Plant from EGAT. Initially, EGAT held a 100% shareholding in EGCO. An initial public offering (IPO) was then made in the Stock Exchange of Thailand (SET) resulting in EGAT's shareholding in EGCO being diluted to 48%. Subsequently, Khanom Power Plant was sold to EGCO with funds raised through a second public offering, further reducing EGAT's shareholding in the company to 40%.

The next step in the process was the implementation of power generation by Independent Power Producers (IPPs). EGAT issued the first round of IPP solicitation in December 1994, specifying the deadline for interested investors' proposal submissions by June 1995. Open bidding was used in selecting successful IPP projects, placing emphasis on the prices proposed by each company as a major determinant. Given clear selection criteria, the selection process was transparent and seven IPP projects have so far been selected, with a total capacity of 5,900 MW to be sold to EGAT.

Through the IPP program, EGAT can purchase power from IPPs at relatively lower prices, than the power generated solely by EGAT.

Due to financial difficulties faced by EGAT, their shareholding in EGCO was further reduced to less than 40%. Strategic investors were identified to hold 20% of shares in EGCO diluting EGAT's shareholding to 20%. It should be noted that 60% of shares of EGCO are held by the general public in the SET.

2. Given EGAT's profits, why must privatisation of the organisation be accelerated?

Firstly, although the current management of EGAT is efficient and can generate profits, efficiency can be greatly increased through privatisation by promoting more competition in the generation sector. Implementation of privatisation in the recent past has shown that power purchase solicitation from IPP's and the subsequent selection had created significant competition among investors. This resulted in EGAT's receiving competitive proposals with relatively low prices, compared to EGAT's own generation costs. Ultimately, the benefits from reduced electricity prices will go to the general public through smaller payments for their electricity bills.

Secondly, the normal growth rate of power demand of the country is greater than 10%. This requires an annual investment in the construction of power plants, and transmission and distribution systems to enable increased generation of more than 1,000 MW each year. This translates to approximately 50,000 million baht required in investment by EGAT, MEA and PEA. This requirement creates a burden for the public sector which has to guarantee loans solicited by the three utilities, and consequently increases the liability burden of the country and the public sector. Privatisation is therefore essential to raise funds through the private sector. Under the current economic downturn with Thailand seriously lacking foreign investment, privatisation that allows the private sector to share EGAT's burden is considered most crucial.

3. Is EGAT privatisation an IMF command?

The third Letter of Intent submitted by the Thai government to the IMF clearly outlines specific measures for the sale of the government's shares in Ratchaburi Power Plant and for the privatisation of EGAT by separating the generation business from transmission. It should be noted that privatisation of the power sector has been ongoing for more than 10 years, well before the current economic situation. Moreover, policy and the Energy Development Plan during the Eighth Plan (the Eighth National Economic and Social Development Plan) has prescribed fund raising through private sector participation for EGAT's thermal power plants, including the Ratchaburi Plant.

However, given the current severity of economic problems Thailand is facing, one measure to address them is the acceleration of state enterprise privatisation to raise funds through the private sector. The privatisation of Ratchaburi Power Plant and EGAT has, consequently, been specified in the third Letter of Intent.

4. What has been specified in the third Letter of Intent in relation to privatisation of the energy sector?

It has been specified in the Letter of Intent **to sell EGAT's shares in EGCO** in 1998; this is expected to be completed by the end of August 1998. As for **Ratchaburi Power Plant, the process of fund raising from the private sector is specified to commence in 1998**, without any commitment to complete the process within this year. However, it is expected to take approximately one year to complete the process, which includes:

- undertaking a detailed study
- identifying strategic investors
- carefully considering the selection

5. Why must Ratchaburi and Nam Phong Power Plants be privatised first?

Since Ratchaburi Power Plant is still under construction, **no EGAT employee is working there at the moment**. Only 200 EGAT construction workers are working on the site and, when the work is finished, they can move to work on other sites. Therefore, there will be almost no negative impact from the privatisation of Ratchaburi on EGAT employees. If privatisation of Mae Moh, Bang Pakong or other existing plants was implemented a number of EGAT employees would be affected by the process.

It should be noted that privatisation in 1998 will only involve Ratchaburi Power Plant, not the Nam Phong Plant. This has been stated in the revised privatisation plan as proposed by EGAT to the Sub-Committee on the Co-ordination of Future Structure of Electricity Supply Industry. This group includes representatives from NEPO, Ministry of Finance, the Office of the National Economic and Social Development Board, and the three utilities.

6. What is the process in the revised privatisation plan proposed by EGAT?

The revised privatisation plan proposed by EGAT has been mutually agreed upon by the EGAT management and the representatives of the EGAT Employee Association. At the meeting of 16 April 1998, the Sub-Committee consented to the proposal, which involves:

Step 1

- Transform EGAT into a public limited company (PLC), 100% owned by Ministry of Finance when the State Enterprise Capital Fund Act is enacted
- Corporatise Ratchaburi Combined Cycle Plants 1-3 as EGAT subsidiaries and raise funds through private participation to reduce EGAT's shareholding to no more than 49% each.

Step 2

- Place each subsequent new power plant into a new limited company
- Raise fund from the private sector, with EGAT PLC holding no more than 49% of shares in each new power plant company.

Step 3

- Transform Business Units into 100%-owned subsidiaries of EGAT PLC
- Privatisise subsidiaries as and when appropriate
- Establish more comprehensive regulatory framework for the power sector.

7. Will electricity prices become more expensive after privatisation?

Privatisation of the power sector will bring about increased competition and it is believed that electricity prices will be lowered, compared with a case of no privatisation. This is due to the fact that open bidding will be used to encourage private investors to compete in the power generation business. Investors will, therefore, have to submit their price proposals to compete with each other. EGAT will compare the investors' proposed prices with those which EGAT would have charged if it had to construct its own power plant instead of buying power from IPPs.

If the investors' bidding prices are higher than EGAT's, such proposals will be rejected. The outcome of the previous IPP solicitation has indicated that the electricity prices proposed and selected are lower than the prices resulting from EGAT's own generation.

It is expected that, after privatisation, electricity prices will be cheaper than those determined by the current natural monopoly.

8. Where will the proceeds from EGAT privatisation go? - to IMF or the Rehabilitation Fund?

When an EGAT power plant is privatised, **the proceeds obtained will go to the owner of the assets, i.e. EGAT.** EGAT can invest the proceeds in new projects or in other EGAT activities.

With the current sale of EGCO shares, the cabinet has passed a clear resolution that 90% of the proceeds from the sale will be retained for use in EGAT activities; the remaining 10% will form a fund for employees who voluntarily separate from the organisation.

Should the Ministry of Finance need more revenue, negotiations can occur with EGAT to increase the portion of proceeds to be submitted to the government.

In the case of the sale of the Ministry of Finance's shares, e.g. the Ministry's shares in EGAT PLC, proceeds from such a sale will go to the Ministry of Finance. The government can use the proceeds to retire debt as the Ministry may deem appropriate.

9. How will the benefits of privatisation to Thailand and its people be guaranteed?

If EGAT is transformed into a public limited company (PLC), with 100% shareholding by the Ministry of Finance, EGAT will still remain a state enterprise. In this case, **the National Energy Policy Council (NEPC) and NEPO will continue to perform regulatory functions, overseeing service quality and tariff rates.**

If, however, funds are raised from the private sector through private investors' shareholding in EGAT PLC, it will be necessary to enact a new law to empower the state to protect consumers in regard to electricity prices and service charges. Also, an independent regulatory body will have to be established to regulate the power sector in compliance with the law.

10. What will happen if EGAT is not privatised?

EGAT will face a financial crisis.

Under the current economic conditions, it is extremely difficult to solicit loans, especially from abroad. In addition, there are still insufficient loans for many projects to be accomplished. Consequently, privatisation

will help secure EGAT's financial status.

If no privatisation takes place, projected efficiency improvements resulting from competition in generation business will not occur. **People will have to pay for electricity at inappropriately high rates.** This will adversely affect the general public's living status, production costs in the industrial sector, costs of exports, and eventually the financial status of the country.



File posted 19 June 1998