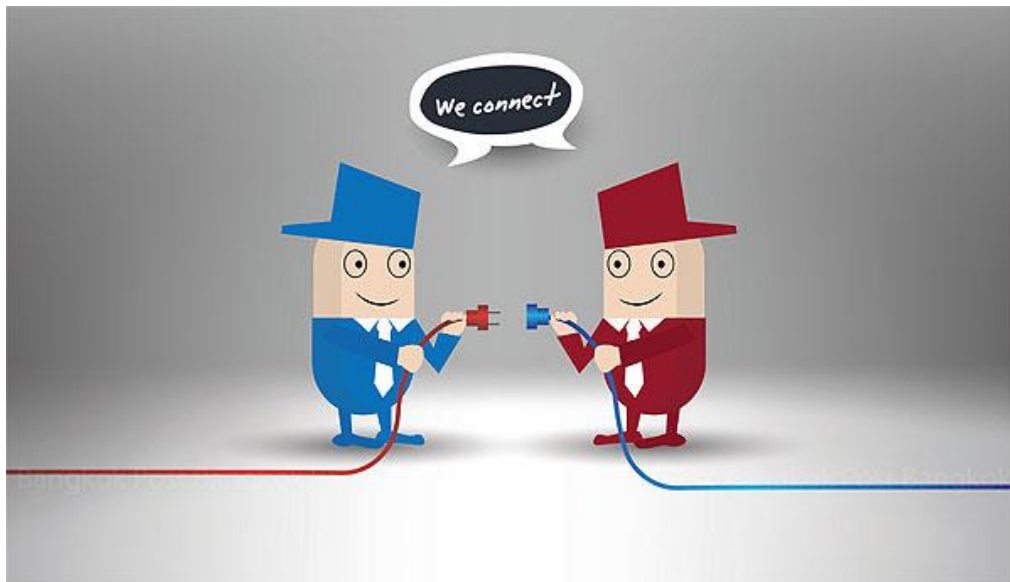


Tapping a Neighbor's Energy

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As the ASEAN nations continue to grow, they are becoming more integrated by relying upon other ASEAN members to help fuel and sustain that growth. Previously we examined Thailand's energy relationship with Lao PDR, and outlined the way in which Thailand is investing in Laos to help satisfy its own energy needs. This week we turn our focus from the northern border to the west, and take a look at the energy relationship between Thailand and its rapidly evolving neighbor, Myanmar.



Myanmar harbors vast amounts of natural resources, including an estimated 40,000 megawatts (MW) of proven hydropower potential across its numerous rivers, and more than 17 trillion cubic feet of proven natural gas reserves both on and offshore. Yet few of these resources have been exploited, and Myanmar's power sector is woefully underdeveloped. Rolling brownouts plague consumers that do have access to electricity, and for more than 75% of the population access to electricity is but a dream. In response, Myanmar has announced plans to increase its electricity generating capacity five-fold within the next 15-20 years. Private sector participation and finance will be essential in this effort. Thailand is hoping to play a role in this process, tapping into Myanmar's major sources of energy to address its own power demands, while at the same time providing Myanmar with the means to develop its own resources and infrastructure.

As we explored in previous articles, primary reason for the success of the hydropower industry in Laos is the credit-worthiness of the Electricity Generating Authority of Thailand (EGAT). EGAT's promise to pay for power on a long term basis provides the financial underpinning for these enormously expensive power projects. If instead the power purchaser was the national electricity corporation of Laos, EDL,

financing would be more difficult to secure without a sovereign guarantee of repayment from the government of Laos itself.

In Myanmar, the state-owned Myanma Electric Power Enterprise (MEPE) is the designated purchaser under power purchase agreements. However, the MEPE lacks the track record and credit-worthiness of EGAT. So, the question for investors remains, without a well-known and creditworthy foreign entity such as EGAT as the power purchaser for a given project, how can project financing be secured? Multilateral institutions such as the Asian Development Bank and the International Finance Corporation will play a role in the development of Myanmar's power sector, as may sovereign guarantees from the government of Myanmar, but there will also be a place for entities such as EGAT.

Unlike the formal Memorandum of Understanding (MOU) signed between Thailand and Laos that stipulates a specific amount of power to be traded by a specific date, Myanmar and Thailand currently have no such agreement. A previous MOU was signed in 1997 for an agreed 1,500 MW, but expired in 2010. Thailand is currently reported to be seeking to import 10,000MW electricity from Myanmar. Yet cooperation may prove challenging to achieve. Another important difference between Laos and Myanmar is that Myanmar's huge domestic electricity deficit may make it politically difficult to support the use of Myanmar's natural resources to generate electricity for export to a neighbor. Can Myanmar citizens be kept in the dark to sate an increasing Thai demand for air conditioners and Xboxes?

Myanmar's concerns about exporting electricity are now being echoed in relation to natural gas and oil exports. Thailand currently relies on Myanmar for a substantial portion of its natural gas supply, and natural gas is the primary source of electricity throughout the Kingdom. With the exception of disruptions resulting from maintenance shutdowns, this supply of natural gas from Myanmar has continued unabated since 1989. Thailand's PTTEP International is a participant in the two projects (Yadana and Yetagun) that currently export natural gas to Thailand, and is the operator of a third (Zawtika) that is scheduled to begin exporting natural gas to Thailand soon. Yet the Myanmar government has signaled that in future it would like oil and gas projects to supply oil and gas for domestic purposes in preference to exporting it.

So what does the future hold for Myanmar–Thailand energy cooperation? Clearly Thailand's expectations are high. Thailand has a policy of limiting power imports to no more than 15% of total annual capacity, but Thailand's power imports in 2012 were 2,411 MW and are set to increase to 3,352MW annually from now until 2020 according to EGAT. Beyond that, Thailand's expectations of electricity imports from Myanmar are, as noted above, considerably higher. Furthermore, Thailand is scheduled to add an additional 29 natural gas-fired power plants from 2012-2030, with an estimated generating capacity of 25,451 MW. The demand for Myanmar's natural gas will increase accordingly. EGAT and other power developers are pursuing numerous opportunities in Myanmar, and PTTEP has bid for additional oil and gas properties and announced sizeable expenditures plans.

As Thailand and Myanmar celebrate 65 years of diplomatic relations, their partnership has continued to expand beyond socio-political issues to those of energy relations. Myanmar requires foreign investment and credit worthy off-takers to ensure that it can continue expanding its energy infrastructure. Thailand must look to its neighbors in order to address its expanding energy needs. The potential for a symbiotic relationship akin to that between Thailand and Laos exists, and with the right blend of political will, good faith and international assistance this potential will be realized.

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