

CHAPTER 5

Conclusion

The objective of this study is to determine whether deregulation of the power generation sector increases the operating efficiency of the power plant. This was achieved by comparing two existing power plants, one under TNB (a utility company) and the other being a subsidiary of the Sime Darby group of companies (private sector), in terms of:

- generating cost, and,
- Net Present Value per installed capacity.

The Profit and Loss Statements, Cashflow Statements and Free Cashflow Statements had been prepared for both Serdang Power Station and PD Power based on the information provided by the two Operating Managers of both power plants.

The following conclusions have been drawn from the financial analysis:

- i. Deregulation of power generation reduces the cost of generating electricity. The generating cost per kWh for PD Power (which represents the private sector) is 4.30 percent or 0.51 sen/kWh lower than Serdang Power Station. This is true even though there is no competition among the private generators in Malaysia due to a shortage of electricity supply.

The reduction in generation cost is due to the private firm's motive to maximize profit. It is also due in part to the reduction of operating personnel. It has to be noted that PD Power has 16 operating personnel compared to Serdang Power Station which has 23.

- ii. The analysis also reveals that the NPV per installed capacity is higher for PD power. This, too, is probably due to the same reasons as above. Another reason is that PD Power was the first private generator to commence commercial operations, and this could have given them an added advantage to obtain higher capacity payment compared to Serdang Power Station. In addition, the tariff rate for PD Power is 13sen/kWh which is much higher than that of the Serdang Power Station.

A significant point that was discovered during the course of this study is that the reduction in the generating cost experienced by PD Power is not passed on to the consumers. This is probably because the energy cost is fixed in the Agreements, which is related to the initial settlement level and the values of the indexes at the time of contract. Furthermore, the tariff rate is usually higher in order to attract private investors to participate in the development of the power generation sector.

The result of this study reflects the success of deregulation of power generation in improving the operating efficiency of the power plants. This has also been proven in many developed countries such as the United Kingdom and the United State. Many developing countries now prefer to deregulate their energy sector, but the manner and speed in which this is executed has to be planned carefully on a case to case basis.