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Energy at What Price?

Nam Theun 2 Too Costly for Thailand and Lao PDR

On 8 November 2003, Electricity Generating Authority of Thailand (EGAT) signed a Power Purchase Agreement (PPA) with the Nam Theun 2 Power Company (NTPC). The 25-year agreement, signed on a take-or-pay basis, commits EGAT to buy 920 megawatts of power from the proposed US \$1.3 billion Nam Theun 2 Hydroelectric Project, at an average price of 4.2 US cents per kilowatt-hour starting in 2010.

The agreed price however, does not include the investment costs of a 160 kilometre transmission line required to extend the power grid to the Thai-Lao border, estimated to be 7 billion baht (US \$1.75 million). Since Thailand already has a large surplus of generating capacity, the costs would be borne by Thai consumers through higher rates, whilst undermining the competitiveness of the Thai economy. Furthermore, if the proposed Nam Theun 2 project goes ahead it would discourage investment in more environmentally sound and economically viable energy projects.

Thailand has plenty of domestic, renewable energy potential to serve increased power demand. The Thai Government has set targets to increase the share of renewable energy from the current level of 0.5 per cent to 8 per cent by 2011. According to data presented at the Energy Strategy for Competitiveness Workshop in August 2003, the potential capacity from domestic co-generation Small Power Producers (SPPs) and renewable energy projects, not yet included in *Thailand's Power Development Plan*, exceeds 4,000MW, four times the generating capacity of Nam Theun 2.

Despite claims that Nam Theun 2 is integral to alleviating poverty in Lao PDR, proponents, including NTPC and the World Bank, have yet to clearly demonstrate the project's economic viability. According to the last economic study commissioned by the Government of Lao PDR - conducted by Louis Berger International in 1997 - Nam Theun 2 would need to sell its output for an average price of 5.75 US cents per kilowatt-hour to cover estimated costs and provide a fair return for Lao PDR.

If built, the Nam Theun 2 Hydroelectric project would ensure that the Thai power market is over-supplied with artificially cheap power in Thailand, discourage investment in higher-value, lower-cost generating options and sink Electricite du Laos further into debt.

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