

Executive Summary of the report Power Trade Operating Agreement scheme in the Greater Mekong Sub- region Creates Consumer Risks

An analysis by Dr. Bretton Garrett, Canadian power grid expert¹

The points of concern:

- **Costs**
- **Regulatory issues**
- **Organizational structure**

Executive Summary

The *PTOA-General Design, Final Report: Study for A Regional Power Trade Operating Agreement in the Greater Mekong Sub-Region*, prepared for Asian Development Bank by Mercados Energeticos – Soluziona (November 2004), presents a design for the Power Trade Operating Agreement (PTOA) and describes an organizational structure and operational procedures that promote electricity trade among the GMS nations. The report calls for a four-stage implementation designed to harmonize the capabilities and procedures of the member nations and evolve in uniform manner to a market-based interconnection. No timetable is given for implementation of the four stages. Details are provided only for the first two stages; the two later stages are described only in broad outline.

The proposals in the report create concerns over cost, regulatory issues, and organizational structure.

The most serious concern with the report's proposals is the wisdom of committing to an expensive, long-term electricity trade arrangement without certainty of the economic benefits. While from an engineering standpoint there is no doubt that interconnecting power systems can bring operating benefits, the costs may not always justify the benefits.

The *Indicative Master Plan on Power Interconnection in GMS Countries*, prepared for the Asian Development Bank by Norconsul (June 2002), showed that, for the recommended long-term expansion alternative the benefits would amount to US\$914 M for a total investment of US\$43,496 M. The claimed \$914 M in savings results from savings and benefits of \$2071 M in generation, made possible by an additional investment of \$1157 M in transmission.

The analysis in the *Indicative Master Plan* is based on a conventional vertically integrated utility model, where generation costs and transmission costs all accrue to the same account. This is not the case in a market or semi-market environment such as the proposed PTOA, however. There is

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no reason to believe that generation costs with the PTOA will converge to marginal costs in the absence of perfect competition, which cannot occur before Stage 4, and is unlikely to occur for many years thereafter because of limited cross-border transmission capacity into the distant future. Thus there does not appear to be any guarantee that consumer-funded investments in a regional transmission system will bring the expected reduction in generation prices to those consumers any time soon.

Without a strong independent regulator to oversee and approve construction of regional transmission lines there is little reason to believe the interests of the consumers (and other vulnerable stakeholders) will be protected. This introduces the second primary concern with the report's proposals: lack of transparent, independent and participatory regulation in (at least) the first stages of implementation.

In the early stages of the PTOA implementation a primary purpose of the proposed "Regional Regulatory Board" is to facilitate cross-border power exchanges. The report recommends against implementing "a highly independent regional regulatory agency during Stages 1 and 2 because, among other reasons, "the introduction of liberalization and truly competitive markets is not a short or medium-term objective of GMS countries." Yet the non-existence of truly competitive markets is one of the primary motivations for strong and independent regulation. With perfect (or even near-perfect) competition the market can be expected, after time, to respond to the desires of the consumer. Without competition, however, the situation demands an independent regulator who can ensure, among other things, that regional transmission investments are prudent, timely and in the best interests of the consumer. Such an independent regulator is needed, before aggressively pursuing cross-border transmission investments, to provide for meaningful intervention by consumers and other vulnerable stakeholders in decisions on investments that will ultimately become their lasting burden.

Palang Thai (Thailand) commissioned this analysis, June 2005. Full report is available for download at www.palangthai.org/en/policy.