Insight: Myanmar's power struggle endangers economic boom

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KYA-OH, Myanmar - The banging of Win Maung's hammer echoes across the farming village of Kya-oh in parched central Myanmar, as twilight descends upon its thatched-roof homes. His arms and legs streaked in oil, the 48-year-old is struggling to repair a 22-horsepower diesel engine in a wheezing generator, the only power source for about 200 villagers whose homes will soon be enveloped by darkness. It is a familiar scene in rural Myanmar.

"I'm not sure it can be fixed quickly. I'm not sure what the problem is," he says. Kya-oh lies in Myanmar's oil-rich heartlands but is not connected to the nation's power grid, a problem shared by hundreds of poor villages where electricity is elusive, and homes are sometimes powered by car batteries or lit up at night by the glow of campfires.

A year of dramatic political changes after half a century of isolating military rule has convinced the West to start lifting sanctions imposed years ago in response to human rights abuses, encouraged by this month's historic by-elections that saw Nobel Peace Prize-winning dissident Aung San Suu Kyi win a seat in parliament. But the lack of a cheap and reliable energy supply could slow an expected economic boom, forcing consumers and businesses to rely on costly private generators and imported fuel.

For the multinational companies descending on one of Asia's last frontier markets, the shortages are both a curse and a blessing: some say the erratic power could lead them to delay investments. Others see opportunity in expanding power supplies. In Kya-oh, Win Maung charges each household 3,000 kyat ($3.65) a month for 2 1/2 hours of electricity a night, and an extra 1,500 kyat if they own a television. That translates into nearly a week's wage for some villagers, who, like a third of the country's 60 million people, live on less than a dollar a day.

"We do not believe the government will give us power, so we have to do it ourselves," said Win Maung, shirtless and sweating as he hovers over his broken engine. "We can only hope foreign companies will come in and help us."

The unprecedented reforms over the past year have raised expectations of a wave of foreign investment that could help improve power supplies if the government gives priority to fixing the sector. But even if reform and capacity building progress quickly, gains will take time. Western energy firms say that once sanctions are lifted it will take at least two years to significantly boost Myanmar's power capacity due to decades of neglect and mismanagement.
"The power infrastructure is extremely important. That is one of the main questions you hear from people looking to set up manufacturing," said Jeremy Kloiser-Jones, chief executive of Bagan Capital, a new private equity firm dedicated to investing in Myanmar. Billions of dollars of investment in the power sector would be needed, he said.

The government announced nationwide rolling blackouts on April 2, the day after the historic landslide victory for pro-democracy leader Suu Kyi and her other party members in by-elections.

"Things are not going to change overnight. We have plans on paper but implementing them in a country where we haven't operated will obviously take some time," said a senior official with a major Western company, who asked not to be identified because sanctions are still in place.

Concern over power supply and future investment have been exacerbated by the scrapping of two major electricity projects, the China-led Myitsone dam and Thailand's Dawei coal-fired power plant, by Myanmar's government, in an apparent response to public concern over damage to the environment.

LEFT IN THE DARK

Power consumption in Myanmar, where only 25 percent of the population has access to the national grid, is one of the lowest in the world, averaging 104 kilowatts an hour per person, near the same level as the Democratic Republic of Congo and Nepal, according to the World Bank and Asian Development Bank.

Government officials believe demand would be at least double if supply was available. "Needless to say, for a developing country, energy demand is always a problem. We are always facing the big challenges with demand and supply," Htin Aung, director general of the Ministry of Energy's planning department, told an oil conference in Yangon on March 28.

For those lucky enough to have access to the national grid, the price of electricity varies sharply from one region to another. In the commercial capital of Yangon, electricity costs 35 kyat per kilowatt hour but surges more than 12 times that amount in the western city of Sittwe.

The government has embraced hydropower as the main source of electricity for the immediate future, allowing the country to continue exporting most of its natural gas output to Thailand, rather than burn it. Myanmar will also pipe gas to China from next year.

Hydroelectricity represents nearly 70 percent of Myanmar's power generation, while natural gas fuels more than 20 percent and coal 9 percent, according to the state-run Central Statistical Organisation.
Installed power capacity for fiscal 2011-12 was estimated at 2,544 megawatts, up from 1,717 four years ago.

"The policy for the electric power sector is to employ gas turbine power generation only for the short term and rely on hydroelectric power as the vital source of energy sufficiency," Kyaw Sar Soe Naing, executive engineer for the Ministry of Electric Power, told the same oil conference.

Relying on limited water resources for power, however, has forced Myanmar to ration its electricity supplies, especially during the dry season, which can last for half the year. To keep the power on, businesses use their own generators that run on diesel. The oil is purchased at fuel stations that typically smuggle in supplies from Thailand and China due to Myanmar's limited refining capacity.

At the Myanmar Treasure Resort in Bagan, for instance, the 94-room hotel spends the equivalent of about $100 an hour to run both of its generators during a blackout, a heavy financial burden in the dry season, said its deputy manager Myo Myo Latt.

Myanmar diesel imports are on the rise since the government reformed the sector to facilitate imports by private companies, surging to $1.39 billion in fiscal 2010-11 from $673 million the year before.

FOREIGN HELP

Myanmar's government is optimistic that it will be able to meet domestic power demand within a few years with help from foreign investors.

A senior official with a Western energy firm said his company could increase Myanmar's power capacity by more than 15 percent, or an additional 400 megawatts, within a 26-month period by simply upgrading the current infrastructure.

Much more could also be done with billions of dollars of credit support and loans from multinational organizations such as the Asian Development Bank, industry officials said. "If the world is now going to be serious about welcoming Myanmar into the fold, then multinational institutions are going to have to open up funding opportunities," said Bagan Capital's Kloiser-Jones.

POWER AND CHINA

The country - the biggest in mainland Southeast Asia - has more than 48 planned power projects, 45 of which are for hydropower stations, that would boost installed capacity more than 14 times to 36,635 megawatts, the ministry said.

But many of those projects have come under question following September's unexpected scrapping of the Chinese-led $3.6 billion Myitsone dam, Myanmar's largest hydropower project. Myanmar said it canceled the project because of environmental worries, but the decision was also seen as an attempt by its government to distance itself from Beijing. China's ties with Myanmar have since been strained, raising concern over future investment from its second biggest trade partner. Chinese firms, including state-owned
China Power Investment Corp and China Datang Corp, were due to build at least 33 of the 45 planned hydropower stations, the ministry said.

Myanmar could also help increase its power capacity by tapping more into its natural gas reserves, estimated at between 11 trillion and 23 trillion cubic feet. An energy official said a gas-fired power plant would likely be built at the multibillion-dollar Dawei Special Industrial Zone after the government halted construction of a 4,000 megawatt coal plant in January due to environmental worries.

Myanmar's energy minister in January promised to keep gas from new projects beyond 2013 for the country's fast-growing energy needs, but would not use natural gas to power Dawei.

The country produces about 1.47 billion cubic feet of gas per day (cfd), but exports 1.2 billion cfd to Thailand. The 270 million cfd kept at home met only 48 percent of domestic demand, according to Zaw Aung, director of planning for the state-run Myanmar Oil & Gas Enterprise.

"We are now very much deficient in natural gas for our domestic utilization," said the Ministry of Energy's Htin Aung. "Natural gas to the private sector is negligible with just 1 percent of our supply. In the future, we plan to give the private sector more gas."

Back in Kya-oh, promises and plans mean little for Kyaw Soe Khaing, who faces a night without light if his friend, Win Maung, doesn't fix the village engine before sunset.

"Electricity for us is a luxury," the snack seller said with a smile. "We can manage without it, we have to make do with what we have."