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Energy Costs Seen as Hindrance to Investment

By SIMON MARKS THE CAMBODIA DAILY, 30 SEPTEMBER 2009

Cambodia must attract more investment in the provision of electricity services for the country to increase its economic competitiveness and meet demand from a growing customer base, officials said yesterday at an energy conference in Phnom Penh.

Speaking at the conference on "Energy Development in the Greater Mekong Sub-region," US Ambassador Carol Rodley said that GMS economies undergoing multiple transitions—from agriculture to industry, and rural to urban migration—need to significantly up their investment in energy supply.

"These transitions will drive energy demand growth in coming decades," the ambassador said. "In the next decade, the demand for energy at national levels is expected to continue to rise between 7 percent and 16 percent per annum or at rates much faster than projected growth of economic activities, potentially straining existing power systems," Ms Rodley said.

"GMS energy infrastructure will require billions of dollars of investment if energy supply is to keep pace with energy demand," she said.

In April, the UN Development Program announced that Cambodia was one of the region's least competitive countries due to a range of factors stretching from poor labor productivity to high energy costs.

"Poor service and high cost of utilities creates heavy burdens on businesses. Cambodia should consider attracting further electricity investment," the UNDP stated in its "Cambodia Country Competitiveness" report.

According to the UNDP, demand among existing grid customers in Cambodia is projected to grow by around 13 percent per year. Yet rural enterprises still pay an average of between \$0.30 and \$0.90 per kilowatt-hour compared to about \$0.16 in urban areas.

Lawrence Mackhoul, an investment consultant for the private equity firm Leopard Capital, said by telephone after the conference that reducing energy costs for investors was very important when trying to compete in the region.

"If [Cambodia] was a closed economy with no importers it would be OK as everybody would be on the same level playing field. But if you are competing against people in Singapore and Thailand for example that takes away your competitive advantage," he said of Cambodia's energy costs.

Speaking at the conference, Phalla Phan, deputy secretary-general of the Supreme National Economic Council, said that Cambodia's energy sector had, so far, heavily prioritized urban demand, a practice that he said has resulted in 87 percent of urban households having lighting powered by electricity compared to just 13 percent in the rural areas.

"Cambodia has a fragmented system mostly relying on power from diesel" Mr Phan explained, adding that the lack of a national power grid added to high energy costs in the country.

According to government statistics, 80 percent of the population resides in rural areas. Yet the remaining 20 percent, who live in the country's urban areas consume 20 percent of the nation's electricity.

The development of hydropower, said Mr Phan, will play a key role in the future of Cambodia's power sector. Cambodia currently has three functioning hydropower dams and six more under construction. By am, Mr Than said that hydropower would supply 68 percent of Cambodia's energy needs.

"[The energy] sector is very hard for the government alone to develop," he said 'We need private companies to help the development of the country's energy sector."

Environmentalists, however, say that such hydropower projects risk wiping out Cambodia's crucial fisheries and the livelihood of local communities as water flow and water quality is negatively affected by dam projects.

Environmentalists have also cited concerns that the development of coal power stations-such as the 3,600megawatt coal-powered project in Koh Kong province-could greatly increase Cambodia's carbon footprint.

Chhith Sam Ath, executive director of NGO Forum, whose organization decided not to attend yesterday's conference due to its concentrated agenda on environmentally damaging energy sources, said continued continued investment in hydropower would have lasting and detrimental effects on Cambodia's rural inhabitants.

"We are concerned on the plan to building hydropower dams to generate electricity, specifically along the Mekong," he said. 'We are concerned that development will. .. undermine the livelihoods of many."

"I think that alternative energies could be used," he said.

Mr Sam Ath said that the demand for electricity in urban areas should not overpower the needs of those living along the Mekong River, who depend on the river's resources for their livelihoods.

Rogier van Mansvelt, an independent rural energy consultant, said by telephone that renewable energy sources "are often forgotten about and are not so much the focus" when rapidly trying to boost the energy SUM of developing nations.

He added that private investment in the energy sector, although hugely beneficial, was perhaps not the best way to insure that energy costs for consumers are kept down, as development on a national level is often beyond the scope of what private investment can achieve.

Still, the rising demand for energy in the Greater Mekong Sub-region is urging governments to prioritize regional interconnectivity over decentralized energy systems. Cambodia already imports electricity from Thailand and Vietnam.

"In the long term, when Cambodia develops its resources and has fully developed its national grid system, there will be a greater possibility of interconnectivity," Yongping Zhai, an energy specialist for the Asian Development Bank's Southeast Asia Department, said at the conference. .

Parameetee Vimolsiri, a senior adviser at the National Economic and Social Development Board in Thailand echoed Mr Zhai's comments.

"To meet potential in the future, we have to have regional economic integration to help each other," he said.

Environmentalists argue that alternative solutions are available, such as investing in more decentralized power mechanisms-which would see electricity generated on a more local level-and the creation of so-called micro hydropower dams that cause much less devastation to local fishing communities.