

ECONOMIC AND ELECTRICITY OVERVIEW

Economic Overview

The Office of the National Economic Social and Development Board issued a summary of Thailand's economic performance for the year 2007, posting a declined growth rate of 4.8 percent compared with the 5.1 percent growth rate in 2006, resulting mainly from the decelerating private consumption and private investment. The quarterly GDP growth rates were 4.2 percent and 4.3 percent in the first half of 2007 and rapidly picked up to 4.8 percent and 5.7 percent in the third and fourth quarters respectively.

Main drivers of the Thai economy in 2007 included the robust growth of the export sector and the accelerated spending of the government and public sector. The economic expansion had also been supported by low interest rates especially during the first half year, the revival of consumers' and investors' confidence during the last quarter of 2007, the relatively low inflation rate of about 2.3 percent in 2007.

Although the country's economy as a whole was hard hit by many problems including the continuously skyrocketing oil price, the strong Thai Baht currency, political instability, and certain government's fiscal policies which impacted private investors' confidence at the beginning of the year, still the overall economy throughout the year remained reasonably solid. Economic expansion began to gain momentum in the second half of the year with evident signs of rapid recovery, i.e. increasing household consumption, more private sector investment in construction, machinery and equipment, accelerated budgetary spending of the public sector, the export sector adapting to and faring better in new export markets, the recovering tourism industry, increasing import of capital goods during the last quarter of 2007, as well as the Thai economy adapting better to the soaring oil price conditions.

Electricity Overview

In 2007, the country's peak demand for electricity continued to grow further. Peak generation requirements rose to 22,586.10 megawatts (MW) on Tuesday of April 24, 2007, a 7.23 percent increase from the preceding year. The increase was attributable mainly to the hot weather on the day when all parts of the country reported the highest temperatures of 37.9 - 44.6 degrees Celsius, the temperatures higher than those of the day when peak demand occurred the year before.



The sluggish economic growth has strongly impacted electricity consumption. Gross energy generation requirement throughout the year 2007 totaled 146,879.07 million kilowatt-hours (kWh), a mere increase of 3.43 percent compared with the 5.32 percent growth rate in 2006. Electricity consumption in all major sectors, including industrial, commercial and residential sectors grew at a slower pace compared with prior years. The 2007 growth also marked the lowest electricity growth since the year 2000 when Thailand began to recover from the economic crisis and electricity growth had averaged 6.30 percent per year.

In 2007, the installed generating capacity of the country's power system increased 5.25 percent from the previous year to 28,530.26 MW, comprising the generating capacity of:

- **EGAT's Power Plants** totaling 15,793.57 MW, accounting for 55.36 percent of the country's total generation capacity
- **Private power facilities and neighboring countries** totaling 12,736.69 MW, or 44.64 percent of the country's generating capacity, consisting of 10,017.59 MW from domestic independent power producers (IPPs), 2,079.10 MW from small power producers (SPPs) under firm energy purchase contracts, and 640 MW of power import from Laos and Malaysia.

Energy Industry Act B.E. 2550

The year 2007 saw a major reform of the energy sector governance. An Energy Industry Act B.E. 2550 (A.D. 2007) became effective since December 11, 2007. The new law has clearly separated regulatory process from policy formulation and electricity as well as natural gas industry operation. The new law also set provisions for the establishment of the Energy Regulatory Board as an independent regulatory body to oversee and ensure adequate and secure energy provision and maintain fairness for both consumers and licensees; promote fair competitiveness in the energy sector; promote fairness and transparency of the service provision of the energy network systems; and protect the rights and liberty of energy consumers, local communities, general public and licensees.

The Energy Industry Act also provides for the establishment of a Power Development Fund to be used as a capital to subsidize and support the extension of electricity service to reach underprivileged rural communities so as to decentralize prosperity to provincial areas.



Community Development Fund

The Cabinet made a resolution on June 19, 2007 approving the establishment of a Community Development Fund with a view to raising capital for the improvement of the quality of life of the people and the environment in the vicinity of power plants.

As from July 1, 2007, EGAT's power plants as well as domestic private power plants with agreements to sell 6 MW of electricity or greater, are required to pay into the Fund at rates varying according to the fuels used as follows: 2.0 Satang/kWh for coal, lignite, and hydropower, 1.5 Satang/kWh for fuel oil and diesel oil, 1.0 Satang/kWh for natural gas, biomass, agricultural residual and municipal waste, and 0.0 Satang/kWh for wind turbine and solar energy power plants. At the initial phase pending the establishment of the funds, the Cabinet resolution stipulated that EGAT would be responsible for paying into the Fund and later recovering the costs from Ft revenue. At present, a total of 102 power plants located in 39 provinces across the country, including 26 power plants of EGAT are liable to pay into the fund.

Management of the fund stresses strong public participation. Each fund will be managed by a Community Development Fund Management Committee with more than half of the total members being selected from the general public sector. Other members of the committee represent the government sector, the power plant and qualified experts.

Beneficiaries of the fund are communities living in a 5-km radius surrounding a power plant and other nearby areas as prescribed by the fund management committee. Proceeds from the fund will be allocated to the communities for the purposes of development of livelihood and quality of life, supporting activities related to education, religion, culture, sports and music, as well as public health and environmental activities, renewable energy development, immediate aid to alleviate damage resulting from any impact caused by the power plant, and others as prescribed by the committee.

Electricity Retail Tariff

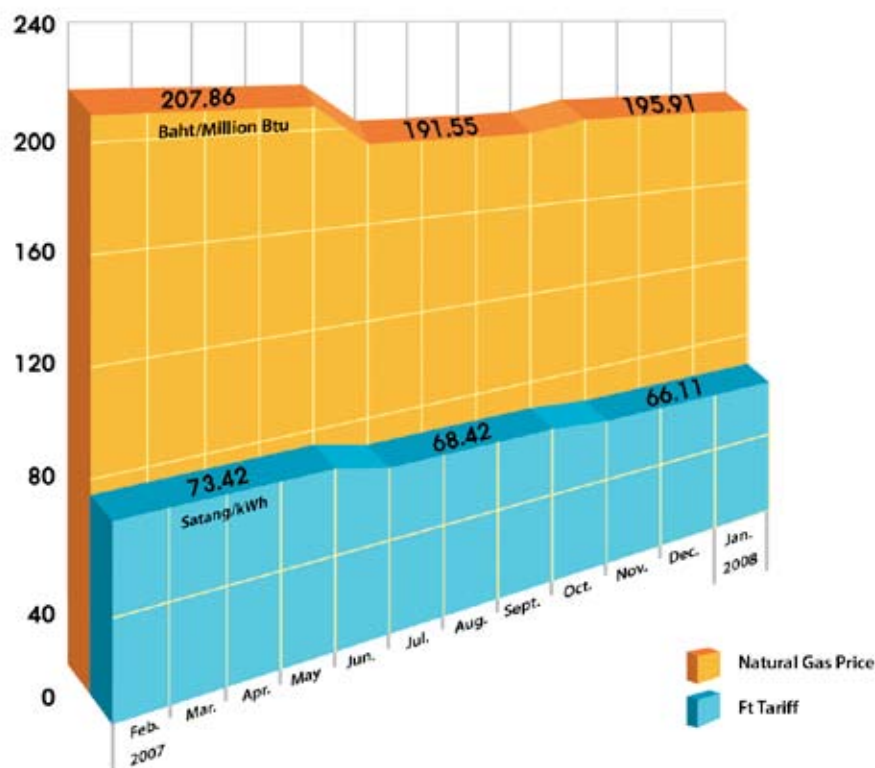
Amidst the sluggish growth of the Thai economy and the skyrocketing price of fuel prices, EGAT has scrupulously managed the power supply system and fuel utilization to achieve optimal efficiency and control power production cost to the lowest possible in order to help soften the blow to consumers.

Despite the soaring world oil prices, the appreciation of the Thai Baht currency which remained through the year 2007 largely contributed to the declining average natural gas price compared with the prior year. Gas price increased from 203.91 Baht/MMBtu at the year start to 207.86 Baht/MMBtu during the period of February - May 2007, and dropped to 191.55 Baht/MMBtu during June - September 2007, and climbed up slightly to 195.91 Baht/MMBtu at the year end (October 2007 - January 2008). The relatively lower price of natural gas had positive effects on EGAT's production cost since nearly 65 percent of the country's power generation was based on natural gas.

Moreover, in order to manage production cost and fuel diversification, EGAT has accelerated more energy generation from such cheaper fuel as coal to substitute for the high-priced fuel oil. With the full capacity operation of BLP Power Company's coal-fired power plant units 1 and 2 of 673.25 MW each, which started commercial operation in October 2006 and February 2007 respectively, energy portion from imported coal rose from 2.7% in 2006 to 6.6%. In addition, EGAT had also increased generation from its own hydropower plants so as to satisfy water requirements for irrigation through the year 2007, except during the flood season when its large reservoirs served to store flood water to alleviate flood damages to downstream areas.

Hence, the Ft tariff decreased throughout the year 2007, from 0.7842 Baht/kWh at the year start (October 2006 - January 2007) to 0.7342 Baht/kWh (February - May 2007), 0.6842 Baht/kWh (June - September 2007), and 0.6611 Baht/kWh at the year end (October 2007 - January 2008). As a result, the electricity retail tariff charged to consumers during the respective periods dropped continuously from 3.04 Baht/kWh to 2.98 Baht/kWh, 2.93 Baht/kWh and 2.91 Baht/kWh respectively.

Natural Gas Price and Ft Tariff (February 2007 - January 2008)



(100 Satang = 1 Baht)

Economic and Electricity Outlook for 2008

According to the estimates by the Office of the National Economic and Social Development Board, the Thai economy will fare better in 2008 with the estimated GDP growth rates of 4.5 - 5.5 percent as favored by certain positive economic factors. Private sector investment started to pick up speed since the end of 2007. Exports will continue to expand well, especially for electronic and automobile products as well as such agriculture products as rice, cassava, rubber, and etc. The 2008 economy will see a better balanced growth resulting from the recovery of domestic consumption favored by supporting factors, i.e. the government's continued policies of deficit budget and immediate measures to accelerate the economic expansion, relatively low interest rates, low unemployment rate, revival of consumers' and investors' confidence. However, the Thai economic performance may also be affected by the world economic downturn as well as the pressure of the skyrocketing oil prices which may push up the inflation higher.

Following the lower-than-forecast electricity demand growth in 2007, the Thailand Load Forecast Subcommittee therefore revised its projections to better reflect the actual economic conditions and issued a new load forecast in September 2007. According to the new projections, electricity peak generation requirement is projected to increase by 6.07 percent and the gross energy generation requirements will grow by 5.58 percent. Average growth rates of peak generation requirements and gross energy generation requirements for the 5-year period between 2007 and 2011 are 5.86 percent and 5.16 percent per year respectively.