

Food for Thought

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AWER Urges KeTTHA and ST Not To Kill The Rakyat And Malaysia's Economy Via Electricity Tariff

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AWER URGES KETTHA AND ST NOT TO KILL THE RAKYAT AND MALAYSIA'S ECONOMY VIA ELECTRICITY TARIFF

Recently, there were news reports on unfair level playing field for new power plants, Fuel Cost Pass Through Mechanism and Energy Commission(ST)'s position as regulator in a tricky situation. Association of Water and Energy Research Malaysia (AWER) has published a report entitled "Survival: the future of national electricity industry" in mid of year 2011. Many proposals were placed in the report to ensure Malaysia's electricity industry continue to grow to greater heights with better operation model. However, there are groups of people with vested interest and are infected with **'International Best Practices' Syndrome** pushing many solutions that will kill the country's economy and its people to be implemented.

What is the primary objective for electricity industry in Malaysia? It is to supply continuous, reliable and safe electricity with equitable tariff to rakyat and the businesses to ensure energy security and economic growth of Malaysia. Are we heading anywhere near this primary objective while many culprits with vested interests proposing all kind of solutions? **Below are few issues that AWER wants Federal Government to address IMMEDIATELY before these culprits bury Malaysia's economy with 'International Best Practices' Syndrome.**

ISSUE 1: Regulate The Generation Sector Now. What Is ST Waiting For?

"National Energy Balance 2010" reports a total of 32,068 kilo tonne oil equivalent (ktoe) of electricity generated for Malaysia in year 2010. The

fuel mix consists of natural gas (53.0%), coal (40.4%), hydropower (4.9%), diesel oil (1.3%) and fuel oil (0.4%).

Natural gas being a subsidised energy resource consist the highest portion in the fuel mix followed by coal that is now being purchased at market price. Federal Government is embarking on **Subsidy Rationalisation (subsidy reduction)** and the high usage of natural gas to generate electricity will definitely impose higher impact to electricity tariff via this process.

During the implementation of Power Purchase Agreements (PPAs), initially, fuel was procured by Independent Power Producers (IPPs) and all fuel cost was billed to Tenaga Nasional Berhad (TNB). However, there were issues of varying prices for per unit fuel purchased due to many reasons. Therefore, it was the government that tasked TNB to ensure cost of procured fuel is stabilised. For example, coal is procured at market price by TNB Fuel Services Sdn Bhd to ensure no manipulation of fuel cost reoccurs.

In addition to that, generation sector contributes 80% of overall electricity cost and transmission (Grid) sector is about 18%. The balance 2% is from distribution sector. With these numbers in mind, **Energy Commission (ST) should have put in place reflective policies and regulations to make our electricity industry becomes cost efficient.** Unfortunately, ST does not do so. The entire Incentive Based Regulation (IBR) is actually focusing in regulating the transmission and distribution sector which is 20% of the entire electricity cost. **AWER is still adamant that there is NO POINT of ST to be a regulator if 80% of the electricity cost is not regulated.**

Now, the rakyat and businesses can imagine that the proposed IBR implementation by ST which has Fuel Cost Pass Through (FCPT) as a component in it, is basically regulating Tenaga Nasional Berhad (TNB) only and IPPs are still the free birds. Why Ministry of Energy, Green Technology and Water (KeTTHA) and ST fear to regulate generation sector namely IPPs? Are KeTTHA and ST misleading the Parliament, businesses and rakyat? Without regulating the generation sector, FCPT is set to pass through the cost of inefficiencies in fuel usage directly to rakyat and businesses. In return, businesses will pass this additional cost to its services and products. At the end, rakyat is the victim.

ISSUE 2: Renewal Of Few First Generation IPPs' PPAs Are Done In A Wrong Way

What was the model used by ST to extend few of the first generation IPPs' Power Purchase Agreement (PPA) end of year 2012? The new Prai Plant which can achieve 60% efficiency received lower levelised tariff compared to the extended first generation IPPs' power plants (which are junks technically). This is where transparency is vital in terms of what were the clauses that made the extension offers more lucrative compared to building a new and more energy efficient power plant. If we can have 2 more natural gas power plants at 60% efficiency, an equitable tariff can be achieved immediately. This is because the **first generation IPP power plants that were extended are having much lower efficiency at a higher levelised tariff.** Inefficiencies in generation sector will cause the electricity tariff to increase drastically if Fuel Cost Pass Through (FCPT) is implemented by KeTTHA and ST. Is this the "efficiency" KeTTHA and ST preaching?

ISSUE 3: Is Energy Commission Implementing Real Open Bidding?

Recently, there have been reports in the media that, TNB's ability to bid for new power plants projects at lower cost is not good for the country's

economy. ***Is building power plants at lower cost not good for Malaysia OR it is not good for someone's own pocket?*** By the way, the losers of the bidding actually can also bid for the projects at lower price as they themselves can issue 'Corporate Guarantee' to achieve it.

In addition to that, there was a period of time ST did not allow TNB to bid for power plant projects due to TNB's ability to bid at lower price. But, is it right to allow incompetent bidders to pass higher cost to tariff? Why Penjanabebas (representing IPPs) urge the government to exclude TNB from bidding even though ***TNB can bid at lower price? Lower construction cost of power plant means lower impacts to tariff.*** Why should rakyat and the businesses pay a higher tariff due to reluctance of bidders to issue 'Corporate Guarantee' to secure better financing? Is it because these bidders only intend to make quick bucks and wrap up when it is not lucrative? If a company or a consortium of companies fails to secure a good finance, it simply means they are incompetent.

ISSUE 4: KeTTHA And ST Protect Country's Interest Or IPPs Pocket

ST must be able to carry out actual open bidding to enable the primary objective to supply electricity is achieved. Every bidder can exercise their market power to secure a power plant project but if they only have ***LUCRATIVE PROFIT*** as their main objective, they usually do not win the bid.

The reason given by KeTTHA and ST that TNB exercises market power rhymes with IPPs' latest reasoning to stop TNB from bidding. However, there are IPPs that are big enough to wrestle TNB. If IPPs are not able to provide 'Corporate Guarantee' to secure better financing and bid at lower price, they could choose to retire from the electricity industry because electricity industry is a social-economic industry. ***LUCRATIVE PROFIT is not allowed here.***

Perhaps, now the rakyat and businesses can understand why AWER is pushing KeTTHA and ST for transparent tariff setting for electricity rigorously. It is your right to pay what you should; ***it is not your duty or responsibility to pay for some idiotic economic theory that makes someone rich from LUCRATIVE PPAs.***

If ST and KeTTHA fail to carry out actual open bidding and follow some idiotic suggestions to prevent building power plants at lower cost, AWER is left with no choice but to drag both entities for a Royal Enquiry and eventually a court case as they failed to ensure primary objective to deliver continuous, reliable and safe electricity with equitable tariff to the rakyat and businesses.

CONCLUSION

The 18th son of Emperor Shi Huang Di (Dynasty Qin), Qin Er Shi (Hu Hai) succeeded his father and had an officer named Zhao Gao (an eunuch). The eunuch wanted to test the dynasty's officers whom are loyal to him for his ulterior motive. So, the eunuch has brought a deer to Qin Er Shi one day and claimed it as a horse. The emperor said the eunuch lied and it was a deer. Zhao Gao then asked all the officers whom were present in the hall the same question. Those who replied it is a deer were scandalously killed by the eunuch after that. This incident in Chinese history is used for people or groups of people that misrepresent facts with ulterior motive. We have many such "ZHAO GAO" in

KeTTHA, ST, 'electricity industry observers' and of course IPPs, but AWER is confident that the rakyat do not want to have leaders whom behave like Qin Er Shi that caused Dynasty Qin to collapse within 3 years of his rule. We need brave leaders to stop such misrepresentation.

Why should the rakyat and businesses pay additional cost so that someone makes additional bucks via electricity tariff? What idiotic economic theory is this? Which idiotic economist is preaching this? Perhaps a ZHAO GAO eunuch-like individual or a group of ZHAO GAO eunuch-like people are doing this.

Energy Security is one of the National Security Pillars. We urge YAB Prime Minister and Minister of KeTTHA to act accordingly to prevent killing our electricity industry due to people with vested interest like ZHAO GAO, one of the most corrupt, villainous and violent EUNUCH.

Yours sincerely,

Piarapakaran S.

President

Association of Water and Energy Research Malaysia (AWER)

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Comments (2 Posted)

G. Lalchand

2013-09-23

Thanks AWER for posting my comments. I hope the points in question are taken up by the "powers-that-be" & that we get a more equitable & socially just development for these issues.

G. Lalchand

2013-09-20

Congratulations to AWER for being so forthright with these critical comments. Sorry I'm so late in making these comments on the post. While I generally agree with the critical comments against KeTTHA & ST, I must say that some statements need review to reflect the actual situation & I hope my input on these points will be taken in the right spirit & that these comments will be shown on this blog. My comments are:- 1) - Electricity generation does not really account for 80% of the electricity cost as stated. Generation cost may be about 60% of the total cost with transmission & distribution (T&D) being responsible for the remaining 40% (based on my experience in TNB LLN & CEB since 1963). The T component is lower than the D component. AWER is right to say that ST as the regulator should monitor & manage the generation costs from IPPs even if it is only 60% of the total electricity cost to consumers. 2) - On

the initial IPPs' renewal of licenses, I will not dispute their efficiency against that of the new combined cycle (CC) plants, but they cannot be classified as "junks" since the CC plant life is nominally about 25 years & can be extended with good maintenance & refurbishment. 3) - AWER is absolutely correct in defending TNB's right to bid for the new power plants on tender. The 1st Gen IPPs' made lucrative ("indecent"?) profits & were then able to venture overseas on similar projects backed by the cash horde generated by the high tariff rates they recd. from TNB. BUT THE BIG QUESTION IS "DOES MALAYSIA NEED THE ADDITIONAL COAL-FIRED POWER PLANTS THAT ST IS TENDERING FOR? I had posted such a question on the former YBM's (Datuk Seri Peter Chin) blog but there has been no answer even though the now defunct Green Prospects Asia made an "editorial comment" seeking KeTTHA's answer in January 2013. 4) - AWER is also right to criticise KeTTHA & ST as regards their social duty & responsibility to the Rakyat, not the interests of the IPPs. 5) - I hope AWER will also take a similar battle against SEDA as regards the socially unjust FiT rates for the PV installations, especially for the PV Farms. AWER had quoted me (under my pseudonym Elgy Bee) as the consultant who had accused SEDA of being a "Robin Hood in Reverse" in The Star in Dec. 2011. The PV Farms were NOT supposed to get FiT under the ETP's EPP 10 for solar (written in black & white in the ETP Book, Chapter 6 on Oil, Gas & Energy). This is even more critical now, when SEDA is trying to get an additional 1% levy for the RE Fund, most of which will go to the PV investors, whether for rooftop systems or for the PV Farms. The following is an extract from a SEDA press statement in response to AWER's criticism. "As at July 31, Seda has collected about RM398mil, of which about RM44m has been used to pay for FiT payments and administrative fees for the distribution licensees and Seda." SEDA has failed to divulge the distribution of the FiT payments between the different RE technologies that have been developed so far. The PV Farm investors are the new IPPs who will make exorbitant profits from the FiT payments they receive. Approving the additional 1% levy will mean the government favours the "few rich & affluent PV investors, residential, commercial, industrial & especially the PV Farm developers" at the expense of the levy paying Rakyat including commercial & industrial consumers (about 3 million consumers). This will make the YAB PM's often repeated slogan of "Rakyat Didahulukan" a mockery. Cheers, Lal (aka Elgy Bee)

Piara, 2013-09-22

Dear Mr Lal, according to official audited data, the G component is above 70%, it is set to increase with fuel cost pass through as bulk of the 70% is fuel component. Transmission is lower as we use very less underground cables and distribution is higher. ST does not publish this data transparently and we always opt to use international data. however, the components didnt run much. as for CC plants, extension of 5 years and 10 years makes difference. some of the issues raised are hoped to be solved before any tariff adjustments. thanks.

