

# Food for Thought

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## **AWER URGES KeTTHA MINISTER AND RELEVANT AGENCIES TO STOP TWISTING FACTS TO JUSTIFY DIRECT NEGOTIATION OF TRACK 4A**

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MONDAY, JUNE 16, 2014 | Comments(0)

PRESS RELEASE - 15th MAY 2014 (SUNDAY)

### **AWER URGES KeTTHA MINISTER AND RELEVANT AGENCIES TO STOP TWISTING FACTS TO JUSTIFY DIRECT NEGOTIATION OF TRACK 4A**

Association of Water and Energy Research Malaysia (AWER) slams unprofessional and unethical explanation given by the Minister of Energy, Green Technology and Water (KeTTHA) in the recent media report (Bernama- Kerajaan Timbang Semua Pilihan Sebelum Beri Projek Turbin Gas - Ongkili, dated 12 June 2014) which was widely covered in other media as well as few other media reports. The minister's explanation was seen as trying to twist engineering facts to justify direct negotiation of Track 4A project. ***The question is, who have misled the KeTTHA minister to mislead the rakyat, businesses and investors?*** AWER would like to rebut the explanation issued by the KeTTHA minister in the recent media reports.

**EXPLANATION 1: The decision to award the project was due to "uncomfortable" reserve margin in electricity generation for Peninsular Malaysia.**

As mentioned by AWER in our previous press statement dated 10th June 2014, the decision to speed up the Track 4A plant up was made during last year's Planning and Implementation Committee for Electricity Supply and Tariff (JPPPET) meeting. It has nothing to do with the latest load shedding situation in few states. The facts on unscheduled outages from the coal power plants can be linked to 3 main reasons:

- I. Over running coal plants during natural gas supply curtailment since 2011,
- II. Operation and Maintenance practices, and
- III. Design of economizer not being robust (certain types of coal are not suitable).

These reasons have affected the electricity generation using coal power plants recently. According to presentation at Energy Consultative Panel meeting on 10th June 2014, reserve margin is around 29.7% currently and it is expected to drop to 25%. The reduction of reserve margin is also in line with criteria set by JPPPET at Loss of Load Equivalent (LOLE) at  $\leq 1$  day (which is equivalent to 22% reserve margin benchmark to developing economies) as reported in "Peninsular Malaysia Electricity Supply Industry Outlook 2013" report (page 34). Due to increase in demand and to meet scheduled outage requirements, the operating reserve was also reduced from 2300 MW (MegaWatt) to 1800 MW. Average electricity demand growth is estimated around 3.31% from 2014 to 2018. Once the economizer redesigning is completed by next year (1 year is standard period to redesign economizer), the operating reserve will be back to normal. We also have few new power plants up by 2015.

For the information of all, these are few power plants that will plug into the system from 2015 until 2019:

- I. Janamanjung (Unit 4: 1 x 1000 MW - March 2015),
- II. Hulu Terengganu (250 MW - September 2015),
- III. Connaught Bridge (1 x 350 MW - September 2015),
- IV. Prai (2 x 535 MW - January 2016),
- V. Tg Bin (Unit 4: 1 x 1000 MW -March 2016),
- VI. Janamanjung (Unit 5: 1x1000 MW - October 2017),
- VII. Pengerang (400 MW - July 2017),
- VIII. Ulu Jelai (372MW - 2018), and
- IX. 1MDB (2 x 1000 MW - 2019).

The minister's explanation (decision to award the project was due to "uncomfortable" reserve margin) to justify direct negotiation of Track 4A seems to "forget" that we have many new generation capacities coming up soon. ***The engineering fact is that, awarding Track 4A by direct negotiation WILL NOT IMPROVE reserve margin and operational reserve margin until Track 4A begins operation in June 2018.*** AWER wonders how come the KeTTHA minister, KeTTHA and Energy Commission could not understand this simplest and basic fact! Track 4A is a combined cycle power plant (CCGT) which takes about 3 years to complete. If transparent competitive bidding process is carried out now and the Notice to Proceed (NTP) is issued by June 2015, there is still sufficient time to construct Track 4A. ***Why KeTTHA minister, KeTTHA and Energy Commission mislead the rakyat, businesses and investors?***

**EXPLANATION 2: Ministry uses three concepts to get new power plant which are transparent competitive bidding, selected tender (restricted bidding) and direct negotiation.**

The 10th Malaysia Plan (page 114), Peninsular Malaysia Electricity Supply Industry Outlook 2013 (page 65) and Economic Transformation

Programme Annual Report 2013 (page 45) only outlines competitive bidding as a measure to plant up new generation capacities and nothing else is mentioned. ***What would investors think when government carry out different implementation compared to the pledges it made in official publications which are available to investors?*** In fact, the "concepts" reason given by the KeTTHA Minister was never mentioned in the Malaysia Electricity Supply Industry (MESI) reforms workshops at all. AWER was one of the stakeholders that were part of this process. The minister can play back all the recordings; there was no mention of restricted bidding or direct negotiation as identified ways to plant up new generation capacities. The final conclusion of the MESI reforms workshop was that ***TRANSPARENT COMPETITIVE BIDDING is the only way to control cost from generation sector*** and improve investors' confidence. ***Why KeTTHA and Energy Commission makes a 'U' turn after committing to Transparent Competitive Bidding? What NON technical reason is stopping the government from carrying out transparent competitive bidding to get the best proven technology at the lowest levelised tariff?***

**EXPLANATION 3: Project was awarded based on competitiveness during the Track 3B tender process and unfair cost to tariff claim does not exist.**

On 7th March 2014, the Energy Commission released a press statement to justify why YTL-SIPP Consortium did not comply with the Part 2 (Technical Specifications) of the Request for Proposal (RFP) document for Track 3B. Part 2 stipulates that the power plant being offered shall be designed based on proven technology that has been in commercial operation at similar steam conditions as the one proposed in the bid.

Based on this clarification, if all bidders from Track 3B were to use unproven technology, they would not face any difficulty to offer a way lower bid as the difference between the levelised tariff offered by proven technology bidder (1MDB-Mitsui) and unproven technology bidder (YTL-SIPP) is just 0.21 cents/kWh. 1MDB-Mitsui won the Track 3B bid at levelised tariff of 25.33 cents/kWh.

***The government WOULD NOT BE ABLE to predict the lowest bid without carrying out transparent competitive bidding.*** Planting up new generation capacity is neither a "fortune telling" activity nor the government effectively hire "fortune tellers" as heads of agencies to determine future outcomes of bidding processes. We urge the KeTTHA Minister and his officers not to ridicule the rakyat, businesses and investors with lame excuses and fact twisting. Remember the whole world is watching and there are many engineers as well as professionals around the globe. ***Don't make them laugh at Malaysia!***

**CONCLUSION: Salute to YBhg Datuk Mohd Nasir bin Ahmad Who Resigned as Energy Commission Member as the Commission Failed to Carry Out Transparent Competitive Bidding for Track 4A**

AWER would like to salute the step taken by YBhg Datuk Mohd Nasir bin Ahmad who resigned as commissioner of Energy Commission due to failure of Energy Commission to carry out competitive bidding for Track 4A as reported by media. In light of this event, it is also perplexing that only a handful of members of Parliament are actually against this despicable and disgusting fact twisting action (award Track 4A via direct negotiation) by KeTTHA and Energy Commission. This is the golden opportunity for the elected representative (members of Parliament and assemblymen) to object direct negotiation before a Power Purchase Agreement (PPA) is signed. AWER hopes all of them will stand up to protect Malaysians' well being and the country's economy.

As for KeTTHA's and Energy Commission's senior management, commission chairman and board members as well as the minister of KeTTHA, AWER **still offers** two choices:

Choice 1: Carry out transparent competitive bidding process for Track 4A;

Choice 2: Step down immediately due to failure to carry out published pledges and misleading the rakyat, businesses and investors.

Ladies and gentlemen, the choice is **still** yours!

Piarapakaran S.

President

Association of Water and Energy Research Malaysia (AWER)

[GO BACK](#)

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