

# Food for Thought

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## **DISSECTING THE DIRTY COAL POWER PLANTS AND ENERGY COMMISSION - WHO PAYS FOR THEIR INCOMPETENCE?**

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### **DISSECTING THE DIRTY COAL POWER PLANTS AND ENERGY COMMISSION - WHO PAYS FOR THEIR INCOMPETENCE?**

Lately, the electricity generation sector in Peninsular Malaysia has been hit by many unprecedented events that are spelling more trouble and cost which will be borne by both domestic and business consumers. Making a pledge for competitive bidding and eventually making 'U' turn is seriously eroding investors' and people's confidence. The most embarrassing act of all these events are those whom hold office at ministry level came forward and gave lame excuses to justify why they do not keep their promises. But, incompetence will leak no matter how it is covered.

Let's dissect the dirty coal generation sector now.

#### **Plans to Duplicate TNB Fuel Services Sdn Bhd**

Based on information received from MyPower Corporation in fourth quarter of 2013, a new entity is being planned to procure coal. Why decisions are made without understanding the nature of coal mines business and the problems faced by Malaysia many years ago in coal procurement? Is there another entity that is capable to procure coal cheaper than existing outfit?

TNB Fuel Services Sdn Bhd (TNBF) was incorporated in September 1998 as a wholly-owned subsidiary of Tenaga Nasional Berhad (TNB). Its core role is to act as the nominated coal and fuel supplier to TNB Generation and Independent Power Producers (IPPs) that are having Power

Purchase Agreements with TNB. The decision was made by cabinet back then to ensure only equitable cost is passed through and to prevent profiteering via direct purchase of fuel by power plants.

At the moment, based on generation capacity planning, coal generation mix is expected to double up by 2020. This means, coal procurement will also double up. With increase in total amount of coal that needs to be procured, the TNBF outfit will have a better bargaining power to reduce the cost of coal procured from international market. This will in return reduce the fuel cost from the coal mix and these are savings that can be passed through to electricity tariff.

In addition to that, based on Peninsular Malaysia Electricity Supply Industry Outlook 2013, there is a need to increase stockpile of coal from 45 days to 90 days to improve fuel security. Currently, there is talk in the industry that a centralised storage and coal handling facility is being pushed by certain quarters. At the moment, all coal power plants are required to have a 45 days stockpile. This requirement can be amended to increase the stockpile in each power plant's coal storage facility to 90 days. This is a far more cost effective and low risk approach that is effectively being practiced at the moment. This will also nullify the need to build a centralised stockpile and coal handling facility which will only incur additional cost for electricity generation. Such a centralised facility will also become a security threat as it is a single stockpile facility that can cripple coal supply for all the coal power plants if any unwanted incident takes place. Therefore, a centralised stockpile and coal handling facility is not a viable solution. So, why is there a push for single stockpile and coal handling facility? Who is pushing this sort of project to make easy money and pass the cost to electricity tariff?

Association of Water and Energy Research Malaysia (AWER) would like to remind the relevant agencies to stick to the decision (to form TNBF) made by cabinet back then. Primary goal in electricity generation is to generate electricity at optimum cost. We would also urge the Federal Government to study the possibility of TNBF to report to parliament as it is an entity that was formed to protect national interest. This will allow elected representatives to understand the issues and problems faced in procuring fuel for generation sector as well as monitor performance of TNBF.

### **Robustness of Coal Power Plants Must Be Investigated**

A coal power plant is required to be designed to cater all types of coal and it is a condition set in the Power Purchase Agreement (PPA) for coal power plants. The ability to use (or cater) all type of coal is termed as robustness of design. If any entity that signed a PPA designed the boiler to cater only certain type of coal for any reason including to reduce the technology cost, it will jeopardise the electricity supply security as the power plant may face problem during operation. In addition to that, the operation and maintenance (O & M) practices are equally important to ensure stable output of electricity generated by the plant.

The derailment of coal power plants in May this year that left few states without electricity is not a simple matter. Lack of design robustness as well as operation and maintenance practices is a definite electricity supply security issue. This is a dangerous situation because once minor derailments occur, it is already too late to make any immediate corrective measures to prevent electricity supply disruption. Eventually, load shedding incident like the supply disruption in May this year happened.

Now, the question is, should the consumers (domestic and business) pay for the failure of power plants to comply with PPA signed? What other unseen issues are covered by the electricity generation sector? The derailment incident is just the tip of an iceberg!

AWER would like to suggest to Federal Government to set up a technical investigation panel to review all power plants that are operating and under construction. The panel must review design robustness, O & M processes and efficiency of the power plants. The panel should report the findings of the investigation to the parliament and the report should be made public as well. Whatever issues and problems that are covered up are eventually passed on to consumers via electricity tariff. It is the duty of the Energy Commission to be transparent and not vice versa.

### **Energy Commission's Ability to Regulate the Generation Sector is Questionable**

While derailment showed weakness of Energy Commission in regulating electricity generation sector, the delay in construction of a 1000 MW (MegaWatt) coal power plant is yet another blow to their credibility (that is already eroding fast) as a regulator. It was Energy Commission that resorted to restricted bidding in year 2011 and awarded the second coal power plant project (1000 MW) to Malakoff (one of the two losers in the first restricted bidding process). This restricted bidding is given to brown field (location that already has a coal power plant). This also means that both Energy Commission and Malakoff should be aware of the location and problems associated to it. Now, why the delay took place and why the information on the foundation problem was kept away from the knowledge of the regulator for a substantial period? Why the regulator did not monitor the progress of the construction of the power plant?

Can we now be rest assured that Energy Commission is able to deliver its objectives accordingly? Is there a need to revamp the human capital to ensure the ability of the Energy Commission is uplifted to ensure supply security is achieved without 'derailment'? What about commissioners whom are suppose to be the brains of the commission to direct its staff force to the right path? Are they equipped for the position?

The only reality at the moment is that the cost and expenditure incurred due to incompetence at all level in electricity generation sector is a "pass through" to our electricity tariff. Should the domestic and business consumers continue to pay for such incompetence?

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