

# Food for Thought

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## **TANJUNG BIN AND JIMAH EAST DELAY: WILL THE FEDERAL GOVERNMENT PROTECT THE PEOPLE?**

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### **TANJUNG BIN AND JIMAH EAST DELAY: WILL THE FEDERAL GOVERNMENT PROTECT THE PEOPLE?**

Association of Water and Energy Research Malaysia (AWER) has carried out National Energy Security Survey (NESS) to establish a baseline data on energy related issues. The sampling frame used for the survey is from the National Household Sampling Frame (NHSF) which is made up of Enumeration Blocks (EBs) created for the 2010 National Population and Housing Census. The sampling was developed by Department of Statistics Malaysia.

*When we asked the respondents if they opined that the government is protecting Independent Power Producers (IPPs), 60.09% Malaysians opined that the government protects the IPPs and the balance 39.91% opined that the government does not protect IPPs. Kuala Lumpur records the highest percentage (85.86%) of respondents opined that government protects IPPs, followed by Negeri Sembilan (79.28%) and Selangor (78.62%). Putrajaya has the highest percentage (81.25%) opined that government does not protect IPPs followed by Sarawak (59.87%) and Pahang (58.22%). The detailed breakdown of responses can be seen in Table 1.*

#### **Table 1: Opinion of Malaysians whether Government Protects IPPs or Not (percentage)**

State	Protect IPPs	Does Not Protect IPPs
Johor	50.00%	50.00%
Kuala Lumpur	85.86%	14.14%
Kedah	53.29%	46.71%
Kelantan	73.03%	26.97%
Labuan	61.18%	38.82%
Melaka	71.38%	28.62%
Negeri Sembilan	79.28%	20.72%
Pulau Pinang	77.96%	22.04%
Pahang	41.78%	58.22%
Perak	72.04%	27.96%
Perlis	54.93%	45.07%
Putrajaya	18.75%	81.25%
Sabah	42.11%	57.89%
Sarawak	40.13%	59.87%
Selangor	78.62%	21.38%
Terangganu	61.18%	38.82%
<b>Malaysia</b>	<b>60.09%</b>	<b>39.91%</b>

*When we asked the respondents what is the most important responsibility of the government when it comes to electricity supply,* 66.47% of Malaysians are in the opinion that keeping electricity tariff low is the most important responsibility of the government. This followed by 24.26% of Malaysians in the opinion that ensuring all rakyat including those who live in rural areas has continuous supply of electricity is the most important responsibility of the government. 7.56% of Malaysians are in the opinion that ensuring stable and continuous electricity supply for industrial areas is the most important responsibility of the government and balance 1.71% of Malaysians are in the opinion that ensuring stable and continuous electricity supply for urban areas is the most important responsibility of the government.

Based on the responses stated above, AWER would like to pose the following questions to the Federal Government:

- I. What Federal Government is going to do to prove that it is fair in dealing with award of power plant projects as well as ensure only competent and cost effective bidders are selected?
- II. What Federal Government is going to do to ensure the electricity tariff remain low, equitable and affordable?

Now, let's look at some immediate solutions that the Federal Government can implement by 31st December 2014.

#### **A. DELAY IN COMPLETION OF MALAKOFF'S 1000 MW TANJUNG BIN COAL POWER PLANT PROJECT**

In 2011, Energy Commission resorted to restricted bidding for brown field (location that already has existing power plant) for two 1000 MW

(MegaWatt) coal power plant and awarded the second coal power plant project (1000 MW) to Malakoff without a fresh bidding process. Malakoff lost in the first bidding process to TNB's Janamanjung. Malakoff's Tanjung Bin coal power plant is scheduled to be completed by March 2016.

Now, Tanjung Bin power plant is expecting 6 to 12 months delay. Why the delay took place? Why the information on the construction problem was kept away from the knowledge of the regulator for a substantial period of time (a period that could have delivered a healthy baby elephant)? Based on AWER's modelling, the additional fuel cost that will be passed to tariff for a 6 month delay is about RM 321.97 million and for a 1 year delay can be around RM 643.94 million for 1000 MW. If the Federal Government would like to prove to Malaysians that it is not protecting IPPs, it must ensure Malakoff bears all the additional cost due to the delay in completion of the Tanjung Bin power plant. Indirectly, it will also assist the Federal Government to achieve a low, equitable and affordable electricity tariff.

## **B. DELAY IN COMPLETION OF 1MDB'S 2000 MW JIMAH EAST COAL POWER PLANT PROJECT**

1MDB's application for 6 months extension within a year of winning Jimah East 2000 MW Coal Power Plant is sheer incompetency. What went wrong? Once a project is awarded, the winner of the bid has responsibility to deliver the project in time. Since Jimah East Coal Power Plant is still in early stage, AWER would like to propose only three choices for Federal Government to solve the power plant's delay issue:

### **Choice 1: Cancel the Award of Jimah East Coal Power Plant to 1MDB and Call For a New Competitive Bidding**

Jimah East coal power plant is scheduled to be completed by end of 2018 (first unit) and mid of 2019 (second unit). Delay in completion of this 2000 MW power plant will cause a serious electricity supply security breach. Therefore, the Federal Government should cancel the award of Jimah East Coal Power Plant project to 1MDB and call for a new competitive bidding. It is a known fact that construction of coal power plant needs around 4 years, but construction of Combined Cycle Gas Turbine (CCGT) power plant takes only 32 - 36 months to complete. Therefore, the new open bidding should be called to build CCGT power plant and not coal power plant to prevent electricity supply security breach in 2018 and 2019. If the competitive bidding is called in January 2015 and Notice to Proceed (NTP) is given by end of December 2015, there is sufficient time to complete the 2000MW CCGT power plant project in time. This step (cancel the award of project to 1MDB) is also a deterrent reminder to all electricity generation companies that it is their full responsibility to complete the power plant project in time or they will be penalised heavily for their incompetency.

### **Choice 2: Ensure 1MDB Bears All the Additional Cost Due to Delay in Completion of Jimah East Coal Power Plant**

Fuel cost comprises 41% of the current average electricity tariff. When natural gas and coal price increase, fuel cost will give a higher impact to tariff. If government approves extension of Jimah East coal power plant, it will also have to extend few retired or retiring old gas power plants. These old gas power plants will use more fuel to generate electricity as the generation efficiency of these old gas power plants are way low

compared to new power plants. This in return will increase the impact of fuel cost to electricity tariff. Why should people and businesses pay for this additional cost? People and businesses did not ask 1MDB to delay the completion of Jimah East coal power plant. Therefore, the Federal Government must ensure 1MDB bears all the additional cost due to the delay in completion of the Jimah East coal power plant if Federal Government decided to allow 1MDB's extension application.

**Choice 3: Additional Cost Due to Delay in Completion of Jimah East Coal Power Plant to be Paid by Cabinet and Ministry Officials Who Allow Extension**

If the Federal Government does not take up Choice 1 or Choice 2, AWER still have a third and final choice for it. The Federal Government can allow the extension application by 1MDB and only impose a capped penalty of RM 108 million per 1000 MW. But, the additional cost that will be incurred after deducting the penalty (RM 108 million per 1000 MW) should be paid by members of cabinet, minister and senior officials in Ministry of Energy, Green Technology and Water (KeTTHA) as well as chairman, commissioners and senior officials of Energy Commission. For example, if we benchmark the estimated additional fuel cost incurred due to 6 months delay in completion of Tanjung Bin 1000 MW coal power plant (RM 321.97 million), delay in completion of Jimah East 2000 MW coal power plant will cause additional RM 643.94 million in fuel cost. After deducting the penalty (RM 216 million), the cabinet members, minister and senior officials in KeTTHA as well as chairman, commissioners and senior officials of Energy Commission need to pay RM427.94 million in total. They can fork out their savings, pension money as well as seek help from family members, friends and relatives to chip in money to pay the additional cost if they don't have enough money. All in all, do not pass any additional cost to members of public and businesses via electricity tariff!

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President

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