

# Food for Thought

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## **TANJUNG BIN AND JIMAH EAST DELAY: ENERGY COMMISSION'S DELAY TECHNIQUE**

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### **TANJUNG BIN AND JIMAH EAST DELAY: ENERGY COMMISSION'S DELAY TECHNIQUE**

Association of Water and Energy Research Malaysia (AWER) has raised the issue of delay in Tanjung Bin and Jimah East power plant construction numerous times. According to AWER's modelling, delay in Tanjung Bin 1000MW power plant construction will cause additional fuel cost about RM 321.97 million for a 6 months delay and for a 1 year delay can be around RM 643.94 million. Meanwhile, 6 month delay in Jimah East 2000MW power plant construction will cause additional RM 643.94 million in fuel cost if we benchmark with the estimated additional fuel cost caused by Tanjung Bin delay. To prevent the additional fuel cost to be passed to electricity tariff, AWER has suggested to Energy Commission to ensure Tanjung Bin bears all the additional cost and given 3 choices for Jimah East delay. The 3 choices are as following:

- i. Choice 1: Cancel the award of Jimah East Coal Power Plant to 1MDB and call for a new competitive bidding for Combined Cycle Gas Turbine (CCGT) power plant;
- ii. Choice 2: Ensure 1MDB bears all the additional cost due to delay in completion of Jimah East Coal Power Plant; and
- iii. 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.

In history, an important technique in war to defeat the enemy is the delay technique. Delaying an open war when the enemy is short of supply will ensure a full victory when it is planned carefully. Unfortunately, the delay technique used by Energy Commission benefits neither the people

nor the nation. It will only assist both Tanjung Bin and Jimah East to get an extension without the need to pay for the additional cost incurred due to the delay in power plant construction.

Is this the first time Energy Commission plays delay technique?

### **1. DELAY IN FIRST GENERATION PPAs RENEGOTIATION**

Averagely, construction of new (and efficient) power plant takes between 3 to 5 years. Energy Commission and the government had all the time to build more efficient power plants, but they resorted to extending few first generations' Independent Power Producers (IPPs) Power Purchase Agreements (PPAs) due to 'insufficient' time to plant up. The reason for 'insufficient time' is totally unacceptable as the renegotiation for first generation PPAs was started in year 2007. Construction of power plants is not like building a playground in a community. It needs detailed planning and the need to build a new power plant will be known way before the time to call for competitive bidding. Such reason ('insufficient time') also undermines the existence of Planning and Implementation Committee for Electricity Supply and Tariff (JPPPET). What were JPPPET doing until they overlooked the need to plant up? Delaying renegotiations has caused billions worth additional cost being passed to the electricity tariff due to both capacity charges and fuel cost incurred by inefficient old power plants.

### **2. 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.

Now, why is Energy Commission dragging its feet to ensure Tanjung Bin bears all the additional cost incurred due the delay in completion of the power plant? In addition to that, will the government cancel the Power Purchase Agreement (PPA) and take over the delayed 1000MW coal power plant project if the construction problem remains unsolved? Why the Energy Commission is silent in this delay issue?

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

Section 4(d)(ii) and 4(e) of Electricity Supply Act 1990 mandates Energy Commission to ensure electricity supply security is not breached as well as Section 4(d)(i) of the same act mandates Energy Commission to protect consumers interest and not to pass unnecessary cost to electricity tariff. In view of the strict requirement by the law that governs Energy Commission, AWER would like to propose a quick solution:

#### ***(i) Cancel Jimah East and Track 4B (2000 MW Malacca CCGT)***

Based on news reports, Jimah East has time to complete financial close until mid April. Energy Commission is duty bound to ensure electricity supply security and reject the Jimah East extension application as well as cancel the award of Jimah East to 1MDB if Jimah East fails to meet the financial close requirement by mid April as stipulated in Section 4(f) of Electricity Supply Act. By then, a competitive bidding for Combined

Cycle Gas Turbine (CCGT) must be announced and a Notice to Proceed (NTP) can be issued by April 2016. CCGT takes between 32 to 36 months to complete. The 4 months buffer makes CCGT an immediate replacement for coal powered Jimah East. Ironically, the delay technique (delay in making the decision) used by Energy Commission is trying to negate this option. Again, this is not the first time Energy Commission played delay technique!

In addition to that, Track 4B (2000 MW Malacca CCGT) that was awarded 7 years ahead of project completion date via direct negotiation to 1MDB must be canceled also due to gross violation of Energy Commission Act and Electricity Supply Act. The reasons given for this direct negotiation is not in line with the Energy Commission Act and Electricity Supply Act. This project must be canceled and be converted to 2000 MW coal power plant competitive bidding that can be announced by mid of 2015. By doing this, the energy mix of electricity generation will be maintained as planned. It is also an opportunity given to Energy Commission to correct its previous gross mistakes. There is ample of time to carry out competitive bidding for Track 4B.

### ***(ii) Equity Sales of Jimah East - New Owner Needs To Pay Additional Cost***

There have been reports that Jimah East is looking at equity sales to another entity either to raise funds or total exit from the coal power plant project. Whatever the proposal is, the new owner will still have to fork out any additional cost due to delay in construction of Jimah East. If Energy Commission allows extension without ensuring the project's owner(s) to pay any additional cost incurred due to delay in completion of the power plant, then who is Energy Commission protecting? The people or the project's owner(s)?

## **CONCLUSION**

Any wrong precedence set by Energy Commission will allow all new power plant operators to use it as a case to justify their construction delay and pass additional cost incurred due to their delay in completion of power plant construction to electricity tariff. If that happens, what is the use of having Energy Commission? The solutions for the delay in power plant construction are straight forward. Will Energy Commission governed by its commissioners follow Energy Commission Act and Electricity Supply Act to protect the people, businesses and the nation? The officers in Energy Commission are paid to do their job and NOT to warm up their seats!

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