

Food for Thought

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1MDB'S ENERGY ASSETS SALE

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1MDB'S ENERGY ASSETS SALE

In the past few weeks, 1MDB's energy assets sale has been widely reported by the media with a variety of issues raised. However, Association of Water and Energy Research Malaysia (AWER) would like to bring forth the following issues to the attention of the government to ensure Malaysia's energy security is upheld and protected.

1. FOREIGN EQUITY OWNERSHIP CAP - PLAY BY THE RULES

There was no removal of foreign equity cap when IMBD's energy assets sale bidding was closed on 16th October 2015. KeTTHA minister was also quoted by media on 5th November 2015 that the government is still discussing on the foreign equity cap issue. However, it was widely reported locally and internationally that Malaysia has a cap of 49% foreign equity ownership for our electricity generation sector before the bid was closed. Therefore, any entity that participates in the bid must abide by this policy and the government must not entertain any request to change the policy to prevent setting bad precedence in the industry.

2. SALE OF POWER PLANT PROJECT'S DEVELOPMENT RIGHTS FOR MONETARY VALUE IS DETRIMENTAL TO ELECTRICITY SECTOR

Based on parliament's Hansard on 16th November 2015 (DR-16.11.2015), the second finance minister has mentioned, "We have only 5 IPP that

are involved in Edra. Only 5, the rest are abroad. From the 5, one is due in 2016, if they bully us Energy Commission will not continue the concession anymore. Others 2021, 2023, 2026 and 2033." (Kita ada lima sahaja IPP yang terlibat dengan Edra. Lima sahaja, yang lain di luar negara. Jadi yang lima ini satu tahun 2016 akan tamat, kalau dia buli kita Energy Commission tidak akan sambung lagi concession. Yang lagi satu 2021, 2023, 2026, dan 2033.)

However, based on information received by AWER, both Track 4B which is a 2000 MW combine cycle gas turbine (CCGT) in Malacca and 10 x 50MW utility scale solar power plants that were awarded via direct negotiation to 1MDB last year were included in the 1MDB's energy assets sale. These power plants are yet to be constructed. Now, AWER's worst fear on power plant project owners selling project development rights for monetary value has come true.

Did Energy Commission allow such sale of power plant projects' development rights for monetary value? If yes, such an act by Energy Commission is against its functions and duties stipulated in Energy Commission Act and Electricity Supply Act. At the same time, if the sale of power plant projects' development rights for monetary value is allowed, this will pave the way for a similar application from owner of delayed Track 4A (a 1000 MW - 1400 MW CCGT) to sell its rights to develop power plant to other entity for quick bucks.

3. COST-BENEFIT ANALYSIS IS NEEDED

In view of news reports that quoted KeTTHA minister as saying the government is still discussing on the foreign equity cap issue, AWER has a question for the government: Has the government carried out both short term and long term cost-benefit analysis for 100% foreign equity ownership of nation's strategic assets such as power plants? This is because, if the foreign bidders win the bid of 1MDB's energy assets sale and the 49% foreign equity ownership cap is waived, it means close to 18% of nation's electricity generation assets will be controlled by foreign companies. [The existing 1MDB's energy assets in Malaysia have installed capacity of 3112 MW and additional 2500 MW of non-existing power plants (Malacca CCGT and solar project) is also included in the current bidding process.]

In many cases, foreign investors will bring along their supply chain to the country they invest. Therefore, the government must address the following issues in the short term and long term cost-benefit analysis while comparing both local and foreign ownership:

- I. Foreign Direct Investment that will be brought in;
- II. New job opportunities created for locals;
- III. Impact to our local suppliers or manufacturers from upstream to downstream of the industry since the foreign investors may bring in their supply chain; and
- IV. Actual income that will be generated for Malaysia.

The quantitative findings of the cost-benefit analysis must be published and shared with all stakeholders as soon as possible to ensure the interest of the people and the nation is protected.

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[GO BACK](#)

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