

Food for Thought

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TRACK 4A, TRACK 4B, AND UTILITY SCALE SOLAR POWER PLANTS - A MESS IN ELECTRICITY GENERATION SECTOR

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TRACK 4A, TRACK 4B, AND UTILITY SCALE SOLAR POWER PLANTS - A MESS IN ELECTRICITY GENERATION SECTOR

Association of Water and Energy Research Malaysia (AWER) has raised issues concerning fair and transparent competitive bidding and its positive impact to electricity tariff as well as disciplining the electricity generation industry players numerous times. However, lack of ethics and discipline within officers from Ministry of Energy, Green Technology and Water (KeTTHA) and Energy Commission will impose a higher risk to electricity generation sector in the form of threat to energy security.

Project development rights offered to a particular company or consortium of companies must abide by few requirements as well as both the Energy Commission Act and Electricity Supply Act. Firstly, the company or its consortium partner(s) must have existing power plant operating. Secondly, 49% foreign equity cap must be upheld as it is important for economy at the size of Malaysia to protect its national strategic assets. Thirdly, the offer letters do not allow the development rights to be sold to any party. Let's look at Track 3B (Jimah East) as a reference case.

1. LESSONS FROM PROJECT TRACK 3B (JIMAH EAST)

Track 3B or widely known as Jimah East is a 2000 MW coal power plant. 1MDB failed to meet the financial close for this project which it won via competitive bidding. Therefore, 1MDB has submitted letter to inform Energy Commission that it cannot proceed with Track 3B. After that, Energy Commission has awarded the project to Tenaga Nasional Berhad (TNB). Based on information we gathered, TNB and another

Independent Power Producers (IPP) were called in to discuss which entity could offer levelised tariff capped at second lowest bid which is 26.67 cents/kWh. TNB did not buy the development rights of Track 3B and such move was taken by Energy Commission as Track 3B was awarded via competitive bidding.

2. CURRENT PROJECTS WHICH ARE PROBLEMATIC

(I) 500 MW Utility Scale Solar (USS) Project

A written reply by Minister of KeTTHA to Dewan Rakyat for question on 50 MW USS project given via direct negotiation to 1MDB on 10 November 2014 did state that the 50 MW was a pioneer project (sebuah projek perintis) which will pave way (akan membuka peluang) for future projects that will be given via competitive bidding (di dalam proses tender terbuka) while government's interests are protected (di mana kepentingan negara di lindungi). Now, the question is why was 1MDB given 500MW USS via direct negotiation? Was KeTTHA minister not informing the Parliament of the actual size of USS project awarded via direct negotiation? More importantly, ***did KeTTHA and Energy Commission authorise the sale of development rights of the 500MW USS project in the recent Edra's asset sale?*** Now, let's refer to Track 3B example. Project development rights cannot be sold and it has to be surrendered back to Energy Commission if the project owner failed to fulfil requirements or milestones set. If KeTTHA and Energy Commission did authorise such a sale, it means they have breached both Energy Commission Act and Electricity Supply Act.

(II) Track 4A 1000 MW - 1400 MW Combined Cycle Gas Turbine (CCGT)

A written reply by Minister of KeTTHA to Dewan Negara for question on why Track 4A was given via direct negotiation on 30 June 2014, the minister was citing the need to speed up (terdapat keperluan untuk mempercepatkan) the project completion date to fulfil the system need (bagi memenuhi keperluan sistem). The project was awarded to a consortium of SIPP-YTL-TNB. However, both YTL and TNB have pulled out of the project. One important requirement for a power plant project to be awarded to a company or a consortium of companies is that the company or its partner(s) must have operating power plant. In the case of Track 4A, both companies (YTL and TNB) with existing power plants have pulled out of the project. Furthermore, SIPP has missed the financial close deadline. Therefore, the award must be cancelled. Why KeTTHA and Energy Commission are still dragging their feet to cancel the award of Track 4A and call for a fresh competitive bidding process? ***The failure by KeTTHA and Energy Commission to adhere to both Energy Commission Act and Electricity Supply Act is causing unnecessary Power Purchase Agreement extension of inefficient old gas power plants that will pass a higher fuel cost to electricity tariff.***

(III) Track 4B 2000 MW CCGT in Malacca

A written reply by Minister of KeTTHA to Dewan Rakyat for question on why Track 4B was given via direct negotiation to 1MDB on 9 October 2014 stated that Track 4B was awarded directly to 1MDB due to its ability and capability in managing and implementing its electricity generation projects (kemampuan dan kebolehan dari segi kepakaran dalam mengendalikan dan melaksanakan projek-projek penjanaaan elektrik yang dimilikinya) as well as 1MDB is government fully owned company (syarikat milik penuh kerajaan) and on overall nation's strategic interest

(atas kepentingan strategik negara secara keseluruhannya). The minister also manipulated reserve margin to justify the award via direct negotiation. The reply by KeTTHA minister specifically highlighted that Track 4B was given to government fully owned company and on overall national strategic interest. Therefore, **is it 'STRATEGIC' to sell off project development rights of Track 4B?** Again, did KeTTHA and Energy Commission authorise the sale of project development rights of Track 4B in the recent Edra's asset sale and breached both Energy Commission Act and Electricity Supply Act?

3. KeTTHA AND ENERGY COMMISSION MUST ANSWER

Both KeTTHA and Energy Commission must stop playing deaf and start answering important questions raised on issues related to 500 MW USS, Track 4A and Track 4B.

AWER stands firm that we can only achieve affordable and equitable electricity tariff via fair and transparent competitive bidding. Cost of power generation technologies are something that are widely known among industry players. **For a bidder to win the project, the bidder must be willing to lower its profit margin and bear some of the financial risks related to the project to lower its financing cost of the project.** The lower bidding price due to lower financing cost and lower profit margin will translate into long term cost saving for domestic and business consumers via electricity tariff. Therefore, it is preposterous to implement direct negotiation.

We urge also Members of Parliament to take the KeTTHA minister to task for giving flip-flop answers in the parliament with regard to projects that awarded via direct negotiation and the mess KeTTHA and Energy Commission have created in electricity generation sector.

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President

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