Food for Thought

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CONSUMERS WILL BE SLAPPED WITH ADDITIONAL COST BETWEEN RM 11.2 BILLION AND RM 15.4 BILLION DUE TO TRACK 4A & 4B FIASCO

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1. Track 4A - Continuous Failure To Meet Financial Close

Both Energy Commission and KeTTHA has used various dubious reasons to justify direct award of Track 4A (a 1000 - 1400 MW combined cycle gas turbine-CCGT) power plant project. Track 4A was scheduled to complete its financial close by October 2015. Unfortunately, the financial close was never met till date. This project was awarded to a consortium of SIPP-YTL-TNB with a benchmark levelised tariff of 34.7 sen/kWh. However, both YTL and TNB have pulled out of the project. The latest development indicates that one of the consortium partners teams up again with SIPP with a levelised tariff close to 38 sen/kWh. Last year, Energy Commission has rejected two proposed levelised tariff submission by SIPP-TNB consortium which was between 36 sen/kWh to 39 sen/kWh because the proposed levelised tariffs were higher than the benchmarked 34.7 sen/kWh. Why there is a sudden U-turn now?

Energy Commission is bound by Section 14(1)(b), (d), (g), and (m) of Energy Commission Act as well as Section 4(f) of Electricity Supply Act which is to ensure that licensees are able to finance the carrying on of the activities which they are authorized by their licences to carry on. This means Energy Commission must cancel the award and render proper advice to KeTTHA Minister accordingly when a licensee fails to meet financial close. The minister is also bound by both Electricity Supply Act and Energy Commission Act as his actions only can enhance the functions of the act and not detrimental to it. Section 4(d) of the Electricity Supply Act also mandates Energy Commission to protect the consumers' interest.

Why there is no revocation of award of Track 4A after failure to meet financial close? Why Energy Commission and KeTTHA fail to call for transparent competitive bidding that ensure the public and businesses benefits from competing firms to achieve a much lower levelised tariff?

2. Track 4B - The Development Right Sold

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 penjanaan 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 keseluruhanya*). When 1MDB wanted to sell its energy assets and power plant development rights, it shows 1MDB was not able to finance the Track 4B project but Energy Commission failed to invoke Section 4(f) of Electricity Supply Act to cancel the award of Track 4B. Now, the award must be cancelled because Edra Global Energy is no longer a Malaysian government owned company (based on Parliamentary reply) and sales of development rights for power plant projects are not allowed.

Furthermore, referring to 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." (Kita ada lima sahaja IPP yang terlibat dengan Edra. Lima sahaja, yang lain di luar negara.) There was no mention that development right for power plant projects will also be sold. Neither KeTTHA nor Energy Commission has clarified this issue till date. Fortunately, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) of the People's Republic of China has published that CGN (via Edra) is focused on pushing the development of 2000 - 2400 MW CCGT in Melaka (Track 4B). It is now evident that development right for Track 4B was actually sold during 1MDB's energy assets sale.

A quick flashback, when 1MDB failed to meet financial close for Track 3B (2000 MW coal power plant - Jimah East), the development right was surrendered to Energy Commission. Energy Commission was then referred back to bidding process and set the second lowest bidding price as the cap for Track 3B's levelised tariff. TNB and a local IPP were involved in the process and TNB won the project. This shows that development rights cannot be sold even when the project has a Power Purchase Agreement (in Track 3B's case). Now, why did Energy Commission allow development rights for Track 4B as well as 500 MW Utility Scale Solar (USS) to be sold? Should Malaysians allow Energy Commission and KeTTHA breach Energy Commission Act as well as Electricity Supply Act and run scot free?

Track 4B has ample of time to go through a transparent competitive bidding process. AWER urges KeTTHA and Energy Commission to cancel the award and call for competitive bidding to allow fair and equitable levelised tariff to be achieved.

3. Cost Impact From Track 4A And 4B To Electricity Tariff

Every 1 sen increase in levelised tariff for 1000 MW power plant with 25 years Power Purchase Agreement (PPA) will pass on approximately RM 1.75 billion additional cost to electricity tariff. If the levelised tariff of Track 4A (1000 - 1400 MW) is close to 38 sen/kWh compared to the benchmark 34.7 sen/kWh, minimum additional cost that will be passed on to electricity tariff will be between RM 5.78 Billion - RM 8.09 Billion. In addition to that, delay in 'fast tracked' Track 4A project has caused old gas power plants (old junks) to be extended recently. The levelised tariffs for these extended old gas power plants were not announced by Energy Commission and due to this, the additional cost due to capacity charges are not known. However, the additional fuel cost for every 6 months for a 1 and half year delay in Track 4A can be estimated as shown in Table 1. Total additional fuel cost due to delay in Track 4A can be estimated to be between RM 1.32 Billion and RM 1.85 Billion. KeTTHA and Energy Commission incompetence in handling Track 4A will pass on additional cost between RM 7.1 Billion and RM 9.94 Billion to electricity tariff.

<u>Table 1: Additional fuel cost due to delay in Track 4A</u>

Year	Second Half 2018	First Half 2019	Second Half 2019
Additional fuel cost for 1000 - 1400 MW (RM Million)	416.3 - 582.8	440.6 - 616.8	464.9 - 650.9

On the other hand, Track 4B (1800 - 2400 MW CCGT) is estimated to have a levelised tariff higher than the benchmark value of 34.7 sen/kWh which may reach close to 36 sen/kWh. This will pass on minimum additional cost to electricity tariff between RM 4.10 Billion - RM 5.46 Billion. However, if a fair and transparent competitive bidding is carried out for Track 4B, the potential levelised tariff could be below 34.2 sen/kWh which will pass on minimum additional saving to electricity tariff between RM 1.58 Billion and RM 2.1 Billion.

Therefore, only via fair and transparent competitive bidding process, fair and equitable levelised tariff can be achieved. This is because project financing and technology cost are well established and it is the competing nature of bidders to reduce their profit margin that will allow lower levelised tariff for both Track 4A and Track 4B. Unfortunately, KeTTHA and Energy Commission have failed to adhere to repeated request from AWER to call for fair and transparent competitive bidding process for Track 4A and Track 4B. Their blatant ignorance eventually will pass on additional cost to electricity tariff between RM 11.20 Billion and RM 15.4 Billion.

Now, will Energy Commission and KeTTHA prevent domestic and business consumers benefitting from lower levelised tariff and pass on additional cost between RM 11.20 Billion and RM 15.4 Billion to our electricity tariff?

4. AWER Urges Auditor General To Investigate KeTTHA, Energy Commission And Related Processes

It is evident that power plant construction and its costing poses huge cost impact to electricity tariff, competitiveness, good and services affordability, investors' confidence and nation building. We urge Auditor General to audit the following issues:

(i) audit all approval processes and award letters for power plant in KeTTHA, Energy Commission and Sustainable Energy Development Authority (SEDA) from 2012 onwards;

(ii) audit all JPPPET decisions, meeting minutes, documentations and presentations from 2012 onwards;

(iii) handling of competitive bidding process for new power plants and documentation including how nodal points and land requirements (green field and brown field) are set;

(iv) extension process of old power plants and its bidding process; and

(v) failure of SEDA and FiT to meet RE mix target as well as SEDA mysterious set up process and FiT mechanism.

All future power plant competitive bidding process must be fair and transparent. Similarly, as power plants are national strategic assets, 49% foreign equity cap must be STRONGLY upheld!

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