Food for Thought

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AWER'S COMMENTS ON 2013 AUDITOR GENERAL'S REPORT - 2ND SERIES

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LETTER TO EDITOR - 20TH JUNE 2014

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Association of Water and Energy Research Malaysia (AWER) applauds Auditor General for taking a serious look into water services sector. The report has detailed out shortcomings on Syarikat Air Terengganu Sdn Bhd (SATU), Jabatan Kerja Raya Sarawak (management of water treatment plants) and rural water supply programme in Sarawak. Since 2011, AWER has been stressing on the need and its importance for an audit for rural water supply and electrification programmes in Sabah and Sarawak. We are hoping that an audit on Sabah's rural water supply and rural electrification programmes for both Sabah and Sarawak will be carried out by the Auditor General soon. This is to ensure billions spent on these programmes benefits the people.

Water Services Industry in Sarawak and Terengganu

Supplying clean drinking water is an utmost priority for water services industry. The non-conformance in the drinking water quality is not tolerable and it is reported that JKR Sarawak does not show concerted effort to improve the situation. In addition to that, many other negative findings were also reported.

SATU's performance was not commendable either. Weakness in asset management by SATU was also highlighted by the Auditor General. In addition to that, rural water supply programmes must have the involvement of a centralised water services industry regulator. A lot of allocation is given to improve lives of Malaysians in rural areas. Unfortunately, repeated failures to improve rural water supply is continued to be reported.

Therefore, AWER would like to reiterate that water services industry restructuring is a must to ensure Malaysia's water services infrastructure, technology and services are improved simultaneously. Currently, Selangor, Kedah, Terengganu, Pahang, Kelantan and Labuan have not completed the water services industry restructuring process. In addition to that, Sabah and Sarawak must be included in this process so that rakyat and businesses in Sabah and Sarawak benefits from the process directly.

The Water Services Industry Act 2006 (WSIA) was enforced beginning 1st January 2008 and the restructuring (excluding Sabah and Sarawak) should have been completed by 31 December 2010 (9th Malaysia Plan). This is a major non-compliance by Ministry of Energy, Green Technology and Water (KeTTHA). AWER urges the cabinet to ensure remaining states conclude their restructuring process by this year as well as Sabah and Sarawak should be included in the process by end of 2015. This will enable a nationwide streamlining of policies, procedures, financial mechanism and more importantly, development of water services infrastructures to enable continuous, reliable and safe drinking water.

An Audit on Sustainable Energy Development Authority (SEDA) is needed

AWER has been continuously raising issues related to proper development of Renewable Energy (RE) in Malaysia. Formation of Sustainable Energy Development Authority (SEDA) is marred office politics, redundancy and wastage. AWER would like to strongly reiterate that we are not against RE development in Malaysia but, developing RE energy mix in Malaysia should not be at the expense of Malaysians and our business sector. AWER urges the Auditor General to audit the formation and operation of SEDA beginning 2009. Below are some of the points that Auditor General needs to look into when an audit on SEDA is carried out:

I. Lower Income Group Not Affected by FiT - A Blatant Lie - It is true that if you consume less than 300 kWh of electricity for domestic sector, FiT (Feed-in-Tariff) charges are not imposed. This comprises of almost 70% of the domestic consumers' account. Unfortunately, all businesses (commercial and industrial) are imposed with the FiT charges as a levy on top of their electricity bill. The business sector does not absorb this cost. They pass it through in their products and services cost. So, it is very irresponsible for SEDA or even KeTTHA to say that the low income groups are not affected by FiT.

II. Renewable Energy Power Purchase Agreement (REPPA) - If we study the solar photovoltaic (PV) FiT, it is claimed that it gives rate of return on investment (ROI) between 16% and 20%. This financial model is worst than first generation Independent Power Producers' (IPPs) Power Purchase Agreements (PPAs). This is a vicious cycle for the cost of electricity and operational competitiveness for businesses. Imagine through FiT mechanism, the government is introducing back first generation PPAs as a levy to your electricity consumption!

III. FiT Brings RM 4.3 Billion Investment From Private Sector - The KeTTHA minister was quoted that private sector investment in RE via FiT reached RM 4.3 billion (Bernama, 22nd Nov 2013). It sounds like RE is growing on its own to greater heights in Malaysia. But the truth is, with lucrative deal given via FiT (ROI of 16% to 20%), industry players will definitely want to reap a good profit from RE sector in Malaysia. What the minister did not inform is that the investment, cost of investment (financial charges) and a good load of profit is actually recovered via FiT. So, all in all, Malaysians are paying for it.

IV. Transparent FiT Rates Breakdown Does not Exist in SEDA's Website - While SEDA said they are transparent and all documents are uploaded to their website, the documents that SEDA has presented in its website and the rates involved were already read by our team sometime back. In fact, AWER is asking the BREAKDOWN of FiT UNIT COST and NOT Levelised Cost of Energy (LCOE). If unit cost for FiT rate is X, ***X = capital expenditure (capex) + operational expenditure (opex) + regulated profit***. The documents in SEDA's website also did not revealed how the efficiency perk rates were achieved and determined. How SEDA derived the minimum efficiency that is needed for a Renewable Energy (RE) system to be allowed to plug in to the grid and at what actual unit cost?

V. Close down SEDA - Auditor General must study the implementation of Renewable Energy Act 2011 directly under Energy Commission to prevent redundancy and wastage of operational funds. Section 14 of the Energy Commission Act 2001, clearly stipulate the jurisdiction to develop RE is under Energy Commission. This means also SEDA Act 2011 must be repealed due to its gross redundancy and SEDA must be closed down.

Brazil was basically caught in a vicious cycle of energy dependent economy. In 1970s, they restrategised their energy mix and started to focus in biofuel via ethanol and subsequently biogas which are both RE. This sparked huge government support for technology development in Brazil. Unlike in Malaysia, we are merely buying end products or commonly termed as 'Technology Transfer'. Technology development of both upstream and downstream was so well established that Brazil withstood oil price shock that caused economic instability worldwide few years ago. But lately, the growth has been affected due to issue of sugarcane products for fuel or food and other environmental issues. In addition to that, monocrop (one type of crop in large scale plantation) have caused serious deterioration in soil quality and subsequently output of the plantation. While Brazil did fairly well in developing RE using their sugarcane by-products, they did experience hick ups and learn to correct it.

AWER does not see Malaysia's RE development anywhere near this experience. Using examples of Europe and other high income nations by the government are not a good comparison as our per capita income is not anywhere near those countries. This is why AWER is on the opinion that FiT is more like giving drug or SEDAtive to a drug addict (RE Industry) to develop. Once the drug (FiT) is removed, will they be there?

Malaysia has the potential to grow biomass sector (palm oil wastes and other agricultural waste, sewerage, organic food waste). Let us begin a Brazil success story in palm oil industry first compared to emphasis on Solar PV. One simple fact, Malaysia is neither the Solar PV technology owner nor developing the technology!

Need to Audit the 50 MW Solar Power Plant Deal Awarded without Transparent Competitive Bidding Process to 1MDB by Energy Commission

The Energy Commission has awarded a 50 MW (Mega Watt) solar power plant directly to 1MDB without a transparent competitive bidding process. A PPA was signed between Tenaga Nasional Berhad and 1MDB. The project award has raised doubt on Energy Commission's and KeTTHA's pledge to carry out transparent competitive bidding process for any new power plant projects. Huge funds were allocated to carry out workshops and operation of MyPower (a special purpose vehicle under KeTTHA) to carry out Malaysia Electricity Supply Industry (MESI) reforms. Why were the funds wasted for MESI reforms when Energy Commission is very 'shy' in carrying out transparent competitive bidding to ensure lower impact to electricity tariff from electricity generation sector?

Large scale solar power plant projects are seen as avenue for many solar technology owners to proof the tariff rates can match conventional power generation technology (grid parity). Without carrying out competitive bidding the possibility of achieving lowest levelised tariff would not occur. We urge the Auditor General to carry out in depth audit on the 50 MW solar power plant award and the MESI reform project to ensure government's prudency in expenditure and transparent governance.

Piarapakaran S.
President

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