

# Food for Thought

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## **TRACK 4A DRAMA - CLEAR EXAMPLE OF UNFAIR COST PASSED ON TO ELECTRICITY TARIFF**

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### **TRACK 4A DRAMA - CLEAR EXAMPLE OF UNFAIR COST PASSED ON TO ELECTRICITY TARIFF**

Association of Water and Energy Research Malaysia (AWER) has been urging the government to ensure transparent, equitable and affordable electricity tariff is implemented for many years now. Natural gas subsidy removal for energy sector will increase the natural gas price for electricity generation. In addition to that, Feed-in-Tariff (FiT) is already charging a 1.6% levy. Goods and Services Tax (GST) which amounts to 6% is also on the way. In total, all business sector will be imposed a total of 7.6% additional charges beginning 1st April 2015 for their electricity bill. Similar charges are imposed to domestic consumers whom are consuming more than 300 kWh (kiloWatt-hour) a month. Track 4A drama has shown clear indication that Energy Commission and Ministry of Energy, Green Technology and Water (KeTTHA) does not care about Malaysia's competitiveness when it comes to electricity charges or the increase in living cost for Malaysians. Think! How will investors view Malaysia? They do have experts in their respective countries and twisting engineering facts makes our regulator look silly internationally.

#### **1. Transparency in Electricity Cost Does Not Exist**

AWER has met Energy Commission in late 2013 and requested that a proper tariff setting mechanism is carried out similar to the one that was proposed by AWER (as published in our report entitled 'Survival: The Future of Our National Electricity Industry', 2011). The senior officers were more than happy to carry out our suggestions but claimed that "their hands are tied". The transparent tariff setting will allow public and

businesses to access the breakdown of cost which are passed on as electricity tariff to consumers. Generation cost, transmission cost and distribution cost are the 3 main costs in electricity tariff. Based on presentation by Tenaga Nasional Berhad at the Energy Week in Singapore, the cost breakdown is as following: Generation cost (69%), Transmission cost (9%), Distribution cost (21%) and others (1%). The generation cost is further broken down to fuel cost (41%) and capacity charges (28%).

While the fuel cost component is expected to increase substantially over the next few years, it is also vital to breakdown cost component to capacity charges (cost per unit kWh for each power plant). Energy Commission and KeTTHA are very reluctant to reveal these numbers. This will bring us back to the question of why did the government instruct Petronas to give natural gas subsidy back in 1997? Prior to that, there was no subsidy element in our electricity generation sector for fuel and it was a full cost pass through. During this time, many first generation Independent Power Producers (IPPs) were already plugged into electricity generation with lucrative Power Purchase Agreements (PPAs). Was Petronas forced to forgo its revenue so that first generation IPPs can continue to enjoy reaping profit without being questioned?

It is high time we have a transparent tariff setting mechanism to ensure only right cost are passed through and to ensure Energy Commission and KeTTHA does not pass through cost of blunders like Track 4A drama.

## **2. MyPower and MESI Reforms Wasted Taxpayers' Money**

MyPower Corporation was a special purpose vehicle set up to further outline Malaysia Electricity Supply Industry (MESI) reforms. It was a lavish affair with hiring of foreign consultants, expensive public relation activities, workshops and many more. In this Track 4A drama, we can clearly see that taxpayers' money was wasted to carry out MESI "Back-Peddalling" and not reforms as promised. The lavish reforms that were promised are supposed to ensure transparent, equitable and affordable tariff.

Since Malaysians are forced to accept the recent fuel cost pass through exercise in the last tariff increase (1st January 2014), Energy Commission and KeTTHA are now experimenting passing of unnecessary cost to electricity tariff due to failure to carry out transparent competitive bidding as seen in the Track 4A Drama.

For example, without competitive bidding, there is no way to predict and achieve the lowest levelised tariff. This is because no entity will reduce its profit margin when it does not need to bid for a project via transparent competitive bidding. The cost of technology and transmission line is somewhat similar for all bidders; it is the dip in profit margin that allows a bidder to win a bidding process. In Track 4A drama, Prai Plant project is used as a benchmark by Energy Commission to hoodwink all stakeholders. The Prai Plant project was approved 3 years ago and the cost of the same technology has reduced over the years. With proper risk management, a lower financial cost can be achieved to reach a lower levelised tariff with a lower Internal Rate of Return (IRR). Unfortunately, Energy Commission and KeTTHA twisted engineering facts to mislead all parties to push for a direct negotiation via MESI "Back-Peddalling".

More such blunders are on the way as MESI "Back-Peddalling" initiatives are being implemented by Energy Commission and KeTTHA **QUIETLY**. The fact is, all these additional costs that they are passing to electricity tariff will be charged with 7.6% additional cost (GST and FiT) beginning

1 April 2015.

### **3. IPPs and Direct Negotiation are Political Capital for Many Politicians. Why are There Only Few Voices Heard in Track 4A Drama?**

It is not new that there are many political leaders whom used IPPs, PPAs and direct negotiation as their political capital in the name of fighting for the people to enable equitable and affordable tariff. Unfortunately, only a handful of them voiced their concern on the Track 4A drama during the last Parliament session and it was a quiet affair after that. This is a golden opportunity for elected representatives both in Parliament and state assembly to voice their opposition against direct negotiation. AWER urges the elected representative to push the Federal Government to form an investigation panel over fact twisting by authorities (namely Energy Commission and Minister of Energy, Green Technology and Water) in justifying direct negotiation of Track 4A. Those whom voted all of you have placed a trust that all of you will champion their well being. It is time to **SHOW IT** and **PROVE IT**.

### **4. TNB Can Continue its Discussion with SIPP but as a GLC, It Must Reject Direct Negotiation Offer**

In TNB's filing to Bursa Malaysia, it has announced that TNB has signed Heads of Agreement with SIPP on Track 4A. TNB can continue its joint venture with SIPP or any party. But, TNB must reject the direct negotiation offer of Track 4A. Better still, TNB should push Energy Commission to call for transparent competitive bidding for Track 4A. TNB has also presented at the Energy Week in Singapore that competitive bidding managed to save billions of Ringgit which the saving is passed on to electricity tariff. Furthermore, its unions have also strongly opposed direct negotiation as such practice will push prices higher and impact the electricity tariff. In addition to that, the federal government has pledged for transparent competitive bidding in new power plant plant up via 10th Malaysia Plan, Economic Transformation Programme (ETP) and MESI reforms.

AWER is confident that engineers and planners hired by TNB will be able to advice TNB management that there is still sufficient time to carry out competitive bidding now and once Energy Commission issued Notice to Proceed (NTP) by June 2015, Track 4A can be completed by June 2018. AWER urges TNB to lead by example to participate in transparent competitive bidding similar to pledge made by YTL when YTL rejected Track 4A direct negotiation offer by Energy Commission. It is time to prove a GLC like TNB can perform better than IPPs which was condemned many times due to their PPAs.

### **Conclusion**

10th Malaysia Plan, Economic Transformation Programme (ETP) and MESI reforms are not mere shadow play (wayang kulit). These are pledges government made to the rakyat, businesses and investors. Breaking these promises and pledges will spell serious negative repercussions and erode investors' confidence in transparency of electricity cost. Why should everyone pay extra in their tariff just because of a group of people want to make some extra bucks? This will also affect Malaysia's competitiveness especially for businesses to operate. With the rise in living cost and many more subsidy cuts as well as the upcoming GST, it is unfair for the government to allow Energy Commission and

KeTTHA orchestrated blunders such as Track 4A Drama.

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