

Food for Thought

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TANJUNG BIN AND JIMAH EAST DELAY: WILL ENERGY COMMISSION DO THE RIGHT THING?

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TANJUNG BIN AND JIMAH EAST DELAY: WILL ENERGY COMMISSION DO THE RIGHT THING?

Association of Water and Energy Research Malaysia (AWER) has raised the issue of delay in Tanjung Bin and Jimah East power plant construction few times. Unfortunately, Energy Commission has been tight lipped on this issue. Here is the recap of the issues:

ISSUE 1. DELAY IN COMPLETION OF MALAKOFF'S 1000 MW TANJUNG BIN COAL POWER PLANT PROJECT

Malakoff's Tanjung Bin coal power plant is scheduled to be completed by March 2016. Tanjung Bin power plant is expecting 6 to 12 months delay. Based on AWER's modelling, the additional fuel cost that will be passed to tariff for a 6 month delay is about RM 321.97 million and for a 1 year delay can be around RM 643.94 million for 1000 MW.

ISSUE 2. DELAY IN COMPLETION OF 1MDB'S 2000 MW JIMAH EAST COAL POWER PLANT PROJECT

1MDB is applying for 6 months extension within a year of winning Jimah East 2000 MW Coal Power Plant. Jimah East coal power plant is scheduled to be completed by end of 2018 (first unit) and mid of 2019 (second unit). If we benchmark the estimated additional fuel cost incurred due to 6 months delay in completion of Tanjung Bin 1000 MW coal power plant (RM 321.97 million), delay in completion of Jimah East 2000 MW coal power plant will cause additional RM 643.94 million in fuel cost.

AWER has given three choices:

Choice 1: Cancel the Award of Jimah East Coal Power Plant to 1MDB and Call For a New Competitive Bidding - To avoid a serious electricity supply security breach, the Federal Government should cancel the award of Jimah East Coal Power Plant project to 1MDB and call for a new competitive bidding for construction of Combined Cycle Gas Turbine (CCGT) power plant which takes only 32 - 36 months to complete.

Choice 2: Ensure 1MDB Bears All the Additional Cost Due to Delay in Completion of Jimah East Coal Power Plant - If government approves extension of Jimah East coal power plant construction, it will also have to extend few retired or retiring old gas power plants. Therefore, the Federal Government must ensure 1MDB bears all the additional cost (fuel cost and capacity charges) incurred due to extension of old gas power plants.

Choice 3: Additional Cost Due to Delay in Completion of Jimah East Coal Power Plant to be Paid by Cabinet and Ministry Officials Who Allow Extension - The Federal Government can allow the extension application by 1MDB and only impose a capped penalty of RM 108 million per 1000 MW. But, the additional cost (RM427.94 million) that will be incurred after deducting the penalty (RM 108 million per 1000 MW) should be paid by members of cabinet, minister and senior officials in Ministry of Energy, Green Technology and Water (KeTTHA) as well as chairman, commissioners and senior officials of Energy Commission.

WHAT ENERGY COMMISSION SHOULD BE DOING NEXT?

In this juncture, AWER would also like to address some arguments that surfaced in our suggestion to cancel Jimah East award and call for a fresh competitive bidding. One of the most misleading arguments is that the natural gas generation mix is already 60% and placing all eggs in one basket is not wise. The rationale behind AWER's suggestion to replace the coal power plant with CCGT are as following:

(i) 2014 electricity generation mix shows 52% natural gas and 43% coal. By 2016, the electricity generation mix will shift to 37% natural gas and 56% coal. By 2020, the electricity generation mix will be at 29% natural gas and 64% coal. Getting a new CCGT does not make the fuel supply to be in higher risk as claimed by certain parties. Leaving the electricity generation mix in the growing 64% coal dependent will cause more supply risk in near future. There should be a more balanced electricity generation mix.

(ii) CCGT takes a quicker time to complete compared to coal power plant. CCGT takes about 3 years and coal power plant takes about 4 years to be constructed respectively. If the competitive bidding is called in January 2015 and Notice to Proceed (NTP) is given by end of December 2015, there is sufficient time to complete the 2000MW CCGT power plant project in time (the power plant to be operational in end of 2018 and mid of 2019). This is also to prevent old gas power plants that are non-efficient from being extended and pass on additional cost (fuel cost and capacity charges) to electricity tariff.

Energy Commission must ensure incompetent electricity generation companies be harshly punished (due to delay in completion of power plants) and no additional cost should be passed to electricity tariff. Section 14 (1) (b), (d), (g), (m), (n) and (o) of Energy

Commission Act 2001 as well as Section 4(b), (d), (e), (f) and (m) of Electricity Supply Act 1990 (Amended 2001) have given enough power for Energy Commission to act against incompetent electricity generation companies and protect the consumers' interest. On the Tanjung Bin delay issue, there is a straight forward decision that Energy Commission must be making. Energy Commission must ensure Tanjung Bin bear all the additional cost due to the delay in completion of the Tanjung Bin power plant.

On the Jimah East delay issue, AWER strongly believes that a fresh tender process must be called soon to ensure electricity supply security is achieved. Why Energy Commission delays decision on Jimah East's extension application? Delay in deciding for Jimah East's extension application will cause insufficient time to call for open bidding for CCGT as suggested by AWER. Imagine every time a Power Purchase Agreement (PPA) is signed, the company that wins the award walks away with only a tiny penalty when the company fails to complete the project within stipulated time frame. This move is neither STRATEGIC nor INNOVATIVE. It is just making a FOOL out of the incompetent regulatory framework for electricity generation sector. It is time for Energy Commission to unzip its mouth and make right and just decisions that passes only equitable and affordable cost to electricity tariff.

The powers given to Energy Commission by Energy Commission Act and Electricity Supply Act are also binding the Minister of Energy, Green Technology and Water as well as the Cabinet. These laws were approved by Parliament and AWER's suggestions are in line with the provision of the law. Energy Commission must deliver its verdict by 23rd January 2015 for both Tanjung Bin and Jimah East delay issues to ensure electricity supply security are not jeopardised and consumers' interest are protected. **ENERGY COMMISSION MUST NOT PLAY ANY DELAY GAME ANYMORE!**

Piarapakaran S.

President

Association of Water and Energy Research Malaysia (AWER)

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