

# Food for Thought

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## **JIMAH EAST POWER PLANT: AWER'S SOLUTION TO AVOID ADDITIONAL COST TO ELECTRICITY TARIFF**

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### **JIMAH EAST POWER PLANT: AWER'S SOLUTION TO AVOID ADDITIONAL COST TO ELECTRICITY TARIFF**

Association of Water and Energy Research Malaysia (AWER) has raised the issues surrounding power plants' awards and construction delays numerous time. All of the concerns raised have been proven valid till date. In addition to that, the issues raised are only proving that Energy Commission fails to carry out its duties and functions as stipulated in both Energy Commission Act and Electricity Supply Act.

Financial close of Jimah East (2000 MW coal power plant) is in mid-April 2015. Has Jimah East met its financial close? Energy Commission must not keep mum on this issue as it is duty bound to ensure electricity supply security and reject the Jimah East extension application as well as cancel the award of Jimah East to 1MDB if Jimah East fails to meet the financial close requirement as stipulated in Section 4(f) of Electricity Supply Act and the Power Purchase Agreement (PPA).

There have also been repeated news reports that Tenaga Nasional Berhad (TNB) will be taking over Jimah East. Taking over Jimah East will still cause a possible delay unless the new owner (TNB or any other entity) makes unlikely decision to pump in cash to complete the financial close immediately. If delay occurs, who will bear the additional cost? AWER totally disagree to any additional cost incurred due to delay in power plant Commercial Operation Date (COD) to be passed on to electricity tariff.

In addition to that, Energy Commission must not allow any entity to take over Jimah East project just like that because it is unfair to other

electricity generation companies. It will also set a negative precedence in electricity generation sector. Imagine, after won a bid for power plant construction and using Jimah East as precedence case, Company A just sells its equity to another entity under the pretext of unable to meet financial close to make quick bucks. This sort of issue will definitely cause serious electricity supply security problem and unnecessary additional cost to be passed to electricity tariff.

Now, if Jimah East's financial close is not met and the PPA is cancelled, what are the alternatives to prevent shortfall in electricity supply and additional cost to electricity tariff due to construction delay?

Competitive bidding for 2 x 1000 MW Combined Cycle Gas Turbine (CCGT) must be announced in May 2015 and a Notice to Proceed (NTP) can be issued by March 2016. CCGT takes between 32 to 36 months to complete. The 4 months buffer makes CCGT an immediate replacement for coal powered Jimah East. Energy Commission can speed up the competitive bidding process.

In addition to that, Track 4B (2000 MW Malacca CCGT) that was awarded to 1MDB via direct negotiation in late 2014 must be canceled with immediate effect. There is ample of time to carry out competitive bidding for Track 4B because the project was awarded 7 years ahead of its completion date. This project must be converted to 2000 MW coal power plant competitive bidding that can be announced by mid of 2015. By doing this, the energy mix of electricity generation will be maintained as planned.

The solution provided by AWER will be able to prevent any unnecessary additional cost being passed to electricity tariff. It will also ensure integrity of the government and investors' confidence are restored. Therefore, solution like take over Jimah East by another entity, equity sales, increasing levelised tariff and extension must not be entertained at all by the government as this would be seen as actions that are against Energy Commission Act and Electricity Supply Act. There are ample of companies ready to participate in the competitive bidding process. So far, only competitive bidding has proven ability to reach competitive levelised tariff compared to direct negotiation which tend to pass higher levelised tariff. Besides this, in mid 2014, the unions of TNB has also urged the government to implement competitive bidding and that is the right way forward to plant up new power plants. Therefore, AWER also urges TNB, as national utility company, to lead by example and be committed in supporting competitive bidding as proposed by AWER and TNB's own unions.

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