

# Food for Thought

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## **TRACK 4A'S DIRECT NEGOTIATION HAUNTS MALAYSIA'S ELECTRICITY SECTOR**

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### **TRACK 4A'S DIRECT NEGOTIATION HAUNTS MALAYSIA'S ELECTRICITY SECTOR**

Association of Water and Energy Research Malaysia (AWER) first raised the issue surrounding direct negotiation of Track 4A on 21st May 2014. Energy Commission and Ministry of Energy, Green Technology and Water (KeTTHA) had placed full effort in twisting engineering facts to justify why Track 4A was given via direct negotiation. In fact, KeTTHA minister himself has uttered few of these twisting facts to media. Track 4A is a 1000 - 1400 MW combined cycle gas turbine (CCGT) power plant which takes about 32 to 36 months to complete. The project was awarded to a consortium of SIPP-YTL-TNB. YTL was the first entity to pull out. In recent weeks, TNB has also announced that it has pulled out from the project.

Now after 17 months, Energy Commission was quoted by a business daily on 26th October 2015 that the Track 4A is expected to face a 1 year delay. This response by Energy Commission is a slap on the face of the KeTTHA Minister, ministry officials as well as Energy Commission. If we remember clearly, on 12th June 2014, KeTTHA Minister claimed that Track 4A was fast tracked via direct negotiation to ensure it can be completed quickly to fix the "uncomfortable" electricity reserve margin. Surprisingly, the electricity reserve margin is manageable now as claimed by Energy Commission recently!

The latest average tariff consists of 36.80% fuel cost and 29.74% capacity charges. If fair and transparent competitive bidding process is carried out, newer and efficient natural gas power plants can pass savings in both fuel cost and capacity charges. This will translate into a more affordable and equitable electricity tariff.

AWER stands firm that equitable levelised tariff can only be achieved through fair and transparent competitive bidding process. Every 1 cent 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. Of course, this additional cost will be paid by both domestic and business consumers.

While Liquefied Natural Gas (LNG) price has reduced to RM 31.30 per mmBTU (million metric British Thermal Units) now compared to RM 41.68 per mmBTU in January 2014, the latest regulated natural gas price was increased by RM 1.50 per mmBTU to RM 16.70 per mmBTU as of 1st July 2015. Using RM 16.70 per mmBTU as benchmark price, estimated annual fuel cost for old 1000 MW CCGT (generation efficiency around 35%) is RM 1083 million and estimated annual fuel cost for new 1000 MW CCGT (generation efficiency around 60%) is only RM 813 million. This means new and efficient CCGT can save an estimated fuel cost by RM 270 million annually compared to old CCGT and this potential fuel cost savings is set to be higher when the Federal Government gradually increases the regulated natural gas price. Unfortunately, this savings could not be realised as few old gas power plants' PPA are extended due to the failure of Energy Commission in carrying out its functions and duties in ensuring Track 3B (Jimah East) and Track 4A meets their respective milestones. Therefore, the people and businesses will be haunted by this unnecessary additional fuel cost via electricity tariff.

Direct negotiation of Track 4A should be canceled and a fast tracked competitive bidding must be carried out. The bidding process can be completed within 9 to 12 months and financial close can be achieved in 6 months. This will take approximately 15 to 18 months. If CCGT construction is completed without major issue, it will take 32 months. Therefore, if competitive bidding is called in November 2015, expected Commercial Operation Date (COD) for Track 4A via competitive bidding will be between September 2019 and December 2019.

AWER does not want to hear anymore excuses from Energy Commission and KeTTHA. They are duty bound and legally bound by Energy Commission Act as well as Electricity Supply Act to carry out right steps to protect consumer's interest in term of tariff and security of supply.

One more question still linger around, will KeTTHA minister, its senior officials as well as Energy Commission's board members and its senior officials take full responsibility over the Track 4A blunder and step down?

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