

Food for Thought

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GOVERNMENT MUST NOT REPEAT DR MAHATHIR'S ERA'S DIRECT NEGOTIATIONS FOR POWER PLANT THAT GAVE BIRTH TO "NOTORIOUS" FIRST GENERATION INDEPENDENT POWER PRODUCERS

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GOVERNMENT MUST NOT REPEAT DR MAHATHIR'S ERA'S DIRECT NEGOTIATIONS FOR POWER PLANT THAT GAVE BIRTH TO "NOTORIOUS" FIRST GENERATION INDEPENDENT POWER PRODUCERS

Association of Water and Energy Research Malaysia (AWER) would like to reiterate the importance of competitive bidding process for power plant construction. AWER stands firm that we can only achieve affordable and equitable electricity tariff via fair and transparent competitive bidding. Cost of power generation technologies is something that is widely known among industry players. For a bidder to win the project, the bidder must be willing to lower its profit margin and bear some of the financial risks related to the project to lower its financing cost of the project. The lower bidding price due to lower financing cost and lower profit margin will translate into long term cost saving for domestic and business consumers via electricity tariff.

Building new power plants via competitive bidding was a promise stated very clearly in 10th Malaysia Plan (page 114) and 11th Malaysia Plan (page 7-40). Is Energy Commission and Ministry of Energy, Green Technology and Water (KeTTHA) back pedaling on government's promise? Yesterday, it was widely reported that Energy Commission again awarded a 1000 MW Combined Cycle Gas Turbine (CCGT) power plant project via direct negotiation to Tadmax. What new "creative" reasons Energy Commission is going to use to justify for not carrying out competitive bidding for new power plant project? Can Energy Commission and KeTTHA guarantee that Tadmax will offer a fair and equitable

levelised tariff?

It is evident that direct negotiation will not be able to reduce levelised tariff. Let's revisit a "fast track" project. Both Energy Commission and KeTTHA have used various dubious reasons to justify direct award of Track 4A (a 1000 - 1400 MW CCGT) power plant project in 2014. The project's levelised tariff was benchmarked at 34.7 sen/kWh. But now, why did Energy Commission approve the levelised tariff for Track 4A at 38.02 sen/kWh? The additional levelised tariff, 3.32 sen/kWh will pass on additional cost to electricity tariff between RM 5.82 Billion and RM 8.14 Billion.

More importantly, when Energy Commission and KeTTHA award power plant projects via direct negotiation, are they acting according to Energy Commission Act and Electricity Supply Act? KeTTHA and its agency cannot act beyond the duties and responsibilities that are empowered by both Acts. In addition to this, many other wrong doings by KeTTHA and Energy Commission are affecting the electricity sector in a serious manner. Electricity tariff has multiplier impact to goods and services price. Any unfair increase in electricity cost will hamper the government's effort to manage the increase in cost of living.

AWER reiterate that power plant construction and its costing poses huge cost impact to electricity tariff, competitiveness, good and services affordability, investors' confidence and nation building. We urge Auditor General to audit the following issues:

- (i) audit all approval processes and award letters for power plant in KeTTHA, Energy Commission and Sustainable Energy Development Authority (SEDA) from 2012 onwards;
- (ii) audit all JPPPET decisions, meeting minutes, documentations and presentations from 2012 onwards;
- (iii) handling of competitive bidding process for new power plants and documentation including how nodal points and land requirements (green field and brown field) are set;
- (iv) extension process of old power plants and its bidding process; and
- (v) failure of SEDA and FiT to meet RE mix target as well as SEDA mysterious set up process and FiT mechanism.

Government must not repeat Dr Mahathir's era's direct negotiations for power plant that gave birth to "notorious" first generation independent power producers. Is Energy Commission compromising government's promise to carry out competitive bidding in 10th and 11th Malaysia Plan by implementing more direct negotiations?

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