

Survival: the future of our national electricity industry (STUDY REPORT)

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Kuala Lumpur, Jun 2 - Association of Water and Energy Research Malaysia (AWER) has conducted several stakeholder engagements and research work to study our national electricity industry. AWER has compiled our findings, recommendations as well as solutions and published the report entitled 'Survival: The Future of Our National Electricity Industry'. This report will be submitted to Ministry of Energy, Green Technology and Water (KeTTHA), Energy Commission, Economic Planning Unit, and all Members of Parliament. The softcopy of the report (temporarily only English version) is also uploaded to our website (www.awer.org.my) for public viewing.

KEY ISSUE 1: Power Purchase Agreement (PPA) Renegotiation Model Proposed by AWER

Based on our study, we found that in general the IPPs take less than 10 years to achieve their return of investment (ROI) and TNB takes more than 10 years. In reality, due to the guaranteed concession agreement (PPAs) and backing from the Federal Government, these IPPs were able to obtain financial loans to carry out their projects without risk. All these costs are eventually passed back to public via tariff. Such lavish operation does not protect nation's interest. AWER is suggesting government to reduce capacity payment of IPPs from year 2012 onwards. The new capacity payment must be based on audited operational cost, engineering report, and a regulated profit margin. This should be a transparent process. If IPPs agree to this, the extension of operation can be given via a licensing regime only (no more PPA).

If the IPPs disagree to the proposed renegotiation model, END the PPA when the time comes. However, the Federal Government MUST also do the following:

- (i) open for competitive bidding now onwards as we will have sufficient time to plant up new capacities;
- (ii) the IPPs that rejected the capacity payment charges reduction should not be allowed (blacklist) to bid in any new generation projects after this;
- (iii) the ban (blacklist) should be extended to shareholders and board of directors of the IPPs, their subsidiaries as well as the parent company. None of these shareholders or board of directors should be allowed to involve in any new generation projects through any other new set ups or other forms of entities.

This is because electricity industry cannot afford to accommodate industry players that only look for profit and sacrifice the well being of public and the growth of our beloved nation Malaysia. Therefore, the Federal Government must be FIRM in protecting the people's interest and the country's growth.

KEY ISSUE 2: Sustainable Electricity Industry with Equitable Tariff

Tariff is a sensitive issue in any country. To enable Malaysia to be competitive, the following must be implemented before the next tariff adjustment for electricity:

- (i) The generation sector contributes most cost to tariff. AWER proposes the generation sector to be fully regulated under Energy Commission. This will complement PPA renegotiation process as well.
- (ii) The bidding process for new power plants must have better competitiveness and transparency which can result into equitable tariff. The competitive bidding should incorporate Profit that is Capped, Best Generation Efficiency Available and Equilibrium between Return of Investment (ROI) and Impact to Tariff criteria.
- (iii) Tariff setting process must be transparent with public involvement. Equitable and transparent electricity tariff will be one of the factors for investors to invest in Malaysia as well as for affordability of all users. AWER has proposed a few core elements as listed below for the Federal Government to consider in implementing a transparent tariff setting process:
 - Audit of capital expenditure (CAPEX) and operational expenditure (OPEX)
 - Benchmarking electricity services related costs
 - Differentiating the electricity services related costs and non-electricity services related cost
 - Reinvestment cost
 - Tariff setting to be punitive and representative of usage by sector
 - Public involvement in tariff setting process to ensure transparency and clear understanding
 - Transparent fuel cost pass-through mechanism

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