Suruhanjaya Tenaga

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# Power generation no longer a sure winner

STORIES BY **SYARINA HYZAH ZAKARIA**

As the Energy Commission (EC) continues to negotiate second generation power purchase agreements (PPAs), it can be seen that those involved in power generation are not getting landmark "sweetheart deals" unlike the previous generation of independent power producers (IPPs).

In fact, in recent PPAs, the EC has been more stringent with its guidelines and held more open tenders, thus bringing down the commercial terms of the agreements.

This is a marked departure from the past when the Economic Planning Unit awarded IPP licences to private companies, which then negotiated a PPA with Tenaga Nasional Bhd on terms that were believed to favour them.

EC chairman Tan Sri Ahmad Tajuddin Ali tells *The Edge* in an exclusive interview that the new generation PPAs are a result of stricter requirements and a level playing field.

"These improvements, which are seen especially in lower buying rates, are all because of competitive bidding. That is why they are cheaper," he says proudly.

Under his leadership, the EC has renegotiated first-generation PPAs and invited bids for Prai, Manjung 4, Tanjung Bin and Jimah as well as Tract 3A.

Tajuddin, who retires in end-March, notes that in the renewed deals, the mid-teens project internal rate of return (IRR) enjoyed by first-generation IPPs has been brought down to between 5.8% and 6% while the equity IRR is between 5% and 8.64%.

For power generated by coal-fired plants, the EC has managed to lower the average rate from between 22 and 22.42 sen per kWh to between 18.2 and 21.3 sen per kWh based on a coal price of US$87.50 per tonne.

In the case of gas-fired plants, in the current PPAs, the average rate based on RM44 per mmbtu is 34.74 sen per kWh, which is more than 10 sen cheaper than the previous rate of between 45.55 and 47.05 sen per kWh

Also in place are more difficult performance requirements, which have seen the availability rate of a plant increase to between 91% and 93% from 85% and 87% previously. There is clear segregation between a forced and planned outage as well, which the EC has narrowed in terms of range. Failure to conform to these rules will result in the IPPs being penalised.

"Negative billing is still in place for IPPs if availability drops below a certain level. The penalties will be offset into a pool that will help small and medium industries deal with the tariffs," he explains.

"It is critical that this is managed properly. To be fair, we don't want to penalise anybody. We are partners. But they [IPPs] also have to generate their share, not only in good times, but also in bad," says Tajuddin, adding that in the new PPAs, IPPs are only allowed to "front load" up to 85% of their financing in the early part of the agreement as opposed to having no restriction before.

Through the incentive-based regulation (IBR) regime, Tenaga is required to guarantee a certain service level if it fails to meet the agreed service level or be penalised. The money then goes into the stabilisation fund.

Although there was talk of a stabilisation fund being set up, Tajuddin says the proposal has been shelved for the moment, considering the lack of funding sources. However, the EC has been told to look at the proposal again as penalties from the IPPs alone are not enough for the fund.

This fund is meant to be funnelled back to the public, but it will not lead to a reduction in tariffs. Instead it will be used to subsidise small and medium industries and those who really need help.

Interestingly, there is also a provision for players to participate in new markets should there be a restructuring. According to Tajuddin, an IPP can procure its own coal or fuel and may even own its own coal mine should it choose to take on the "fuel risk".

This would mean that players are paid based on kWh and will include the energy component, which is dependent on Tenaga. However, this will only come into play if the conditions are right and if "everyone wants to do it".

Although often a sensitive issue and point of contention, the removal of subsidies and tariff hikes are necessary steps, Tajuddin opines.

"If we keep the tariff low, everybody enjoys it — the big power consumers, international foreign companies and the rich are essentially making money from state subsidies. But when it is done in the correct way, those who use less than 300 kWh or less than RM20's worth are subsidised. The government can use the subsidy for those who really need it.

"To me, we should do this for the good of the country and economy. The sooner we get to market, the better. The government had earlier said gas subsidies would be rationalised at RM3 every six months, but that is now RM1.50 for the same period of time due to the sensitivity of the issue.

"Whether or not it happens, we'll have to wait and see. We only provide the numbers and the basis, but how politically palatable it is is not our concern," he explains. E

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