

Headline	CANCELLING IPP PROJECTS A BOLD MOVE		
MediaTitle	New Straits Times		
Date	02 Nov 2018	Language	English
Circulation	36,278	Readership	108,834
Section	Business Times	Page No	23
ArticleSize	485 cm ²	Journalist	DATUK YONG SOO
PR Value	RM 49,962		



POWER GENERATION

CANCELLING IPP PROJECTS A BOLD MOVE

Maintaining high level of unnecessary buffer is merely a sheer waste of government's resources

VIEWPOINT



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RESOLUTE and far-reaching. That perhaps best describes the government's latest decision to cancel four independent power producers (IPP) projects that are currently surplus to the nation's needs.

The four IPPs comprised three gas power plants with a combined installed capacity of 2,400 Megawatt (MW), and a 400MW solar power project.

Simply put, had the government gone ahead with the projects, it would have meant that the capacity margin or buffer at an already optimum level of 32 per cent is further raised to a level that is more than required by consumers.

Definitely a sheer waste of resources that will in turn increase the government's payments to maintain a higher level of unnecessary buffer, which would ultimately result in higher electricity bills.

Much thought has gone into the bold decision where the government would also not incur financial or legal consequences as a result of the termination of the four projects.

The Energy, Science, Technology, Environment and Climate Change Ministry had alleged that the four contracts were won through direct negotiations and had also breached the terms and conditions in their offer letters.

By unburdening the power generation industry with the timely cancellation, the government also laid the groundwork on a more sustainable power generation industry. This fits with the current thinking of the ministry in reforming the local power generation industry.

The reforms are part of an overall strategy to help the industry and market structure to be more efficient, market-based, green and sustainable.

The review by the government will certainly shed the fat in the industry and examine what is the right energy mix and mode to be, in line with best practices in more advanced countries.

The boldness on the part of the government demonstrates that there is no necessity to stick to certain modules just because some companies had won long-term contracts.

In Malaysia, more electricity is produced from coal than any other source of fuel like gas or hydro. The bulk of the coal, at around 70 per cent, is purchased from Indonesia, with the rest coming from Australia, South Africa and Russia. Gas is the second largest source of fuel for electricity generation in Malaysia, and is still impacted by a degree of subsidisation.

Against the backdrop of potential fuel source price volatility, a mechanism known as the Imbalance Cost Pass-Through (ICPT) was introduced by the Energy Commission in 2015 to provide a flexible way to adjust prices. That is aimed at helping a power generation industry that can continue to invest, grow and deliver a competitive and efficient services.

As a mechanism under the Incentive Based Regulation (IBR) framework, it allows the commission to reflect and effect changes (either an increase or reduction) in fuel and other generation-related costs in the electricity tariff every six months.

Since ICPT's implementation in 2014, a total of RM6.3 billion of rebates and subsidies have been passed through to electricity customers in Peninsular Malaysia.

When the ICPT was first introduced in 2015, global coal prices were at roughly RM250 a tonne. The price of coal rose over RM370 a tonne at the start of this year, a rise of 47 per cent since then.

As for gas, global spot prices hit a three-year high in January at US\$3.87 (RM16.16) per million British thermal unit (BTU) and are now trending at around US\$3 in the third quarter, up from a low of US\$1.73 in March 2016.

Gas prices in Malaysia are moving towards the market level under a gas price rationalisation programme.

When one pays for electricity tariffs, almost 70 per cent goes to fuel and generation. With more than 90 per cent of Malaysia's electricity generated by coal-fired and gas-fired power stations, changes in fuel prices usually have a big impact on electricity costs but the ICPT has been designed to accommodate such price fluctuations.

As prices remain volatile, so, too, does the challenge of providing a secure and reliable energy supply while at the same time maintaining affordable electricity prices.

That means Tenaga Nasional Bhd has to manage an electricity ecosystem that requires regulations and a market structure that can evolve to meet changing conditions.

As such, the ICPT mechanism allows the industry through the commission to review electricity prices based on the changing prices of fuel.

In a landscape that is constantly shift-

ing, Malaysia is not alone in facing higher fuel costs as rapidly growing economies in Asia will continue to drive coal and natural gas demand. Under such a scenario, the ability to be flexible is crucial.

At the end of the day, it means striking the right balance for long-term and cost-effective energy efficiency in the country.

The writer is former Bernama editor-in-chief