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'IPPs take less than 10 years to recoup investment'

For this reason, a water and energy research group has proposed a revamped financial model for future independent power producers.

A group specialising in water and energy research and policy studies has proposed a financial model that would redress the lopsided power purchase agreements (PPAs) between national utility firm TNB and future independent power producers (IPPs).

The main thrust of the proposal lies in chucking out provisions contained in the current PPAs that guarantee for the IPPs decades of risk-free and increasingly wide profit margins.

In place of such provisions, there should be mechanisms by which IPPs are licensed, regulated and paid decreasing capacity payments by TNB for the power they sell to the utility firm, said the group.

According to the Association of Water and Energy Research Malaysia (AWER), this is because IPPs take less than 10 years to achieve Return of Investment (ROI).

Given the federal treasury's backing of IPPs' concession agreements with TNB, they are able to secure loans to carry out their projects without risk and, after achieving ROI within a decade of signing on, need only deal with operational expenditure (Opex) and profits reaped through higher tariffs, said AWER.

"All these costs are eventually passed back to the public via tariff. Such a lavish operation does not protect (the) nation's interests," said AWER president S Piarapakaran in a statement issued upon the release of its 28-page report on the matter entitled 'Survival: Our National Electricity Industry'.

The financial model that AWER has proposed is for the government to renegotiate with the IPPs to schedule the reduction of capacity payments to IPPs for energy supplied following ROI.

Hikes should be conditional

But even the payment of such reduced capacity payments and the hiking of electricity tariffs should be made conditional in the contracts upon the IPPs meeting a number of conditions, said AWER, such as:

- audits on the IPPs' Opex and capital expenditure (Capex);
- the periodic maintenance and improvement of operations;
- the regulation of profit margins so that end-users such as households and other consumers are not on the losing end;
- and the set up by the Energy Commission of a licensing regime for IPPs similar to the model provided by the Water Services Industry Act 2006.

On the government's part, said AWER, it must commit to entering into PPAs with IPPs only through open competitive bidding, blacklist those IPPs that reject the reduction of capacity payment charges and disallow them from bidding in any subsequent energy generation projects.

Such blacklisting of IPPs should also extend to their shareholders and board of directors, their subsidiaries as well as the parent company, AWER said further.

Tariff-setting must be transparent

On the issue of electricity tariffs, Piarapakaran called for the generation sector to be fully regulated under the Energy Commission.

"This will complement the PPA renegotiation process as well," he said.

The tariff-setting process must also be transparent and involve the public which, as with the awarding of PPAs, should include audits of Capex and Opex, the 'benchmarking' of electricity services-related costs, the differentiation of electricity services-related costs and non-electricity services related costs, the calculation of reinvestment costs, and 'punitive' tariff-setting to discourage wastage.

A transparent fuel cost pass-through mechanism should also be put in place to substitute the current practice, in which it is not known what portion of actual fuel cost is passed through to tariffs.

If a generation plant is inefficient in generating electricity, the fuel cost should not be fully passed to tariff, said AWER.