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Stop giving IPPs easy money, govt told

Government must complete talks with IPPs now, to truly protect public interest, says Association of Water and Energy Research Malaysia.

Renegotiation of power purchasing agreements (PPAs) must be completed by Nov 30 this year or the country will continue to bleed money into independent power producers (IPP), the Association of Water and Energy Research Malaysia (AWER) said today.

Any delay in renegotiations between the government and IPPs would give the IPPs leverage to bulldoze exorbitant project bids to build new power plants on the excuse of lack of time, the NGO said.

Taking the issue of the recently approved construction of the Manjung and Tanjung Bin coal-powered plants, AWER said Malakoff Corporation Bhd got the Tanjung Bin project at RM500 million higher than the first project – because of the rush to build the power plant.

The association pointed out that while the Manjung plant project was awarded to national power company Tenaga Nasional Bhd (TNB), which submitted the best bid under 'Compromised Open Bidding', no fresh bid was called for the Tanjung Bin plant project.

The Manjung plant is estimated to cost some RM5.17 billion, including a US$810 million engineering contract, a 180 million euro procurement contract and a RM1.8 billion construction contract, according to a TNB announcement on Bursa Malaysia in April.

Both power plants are to produce 1,000 megawatts (MW) of power each when operational, to make up for the potential loss of power supply from the 2,400MW Bakun hydroelectric dam in Sarawak after the state government decided against supplying power to Peninsular Malaysia as initially planned.

Delay will cost more money

AWER pointed out that there are four to five years remaining in the power purchase deals with to the PPAs, which expire between 2015 and 2016 – just about enough time for IPPs to set up new power plants under the current agreement tenure.

This was essentially the basis for Malakoff's successful bid to push a higher price, on grounds that it faced with a "lack of construction time", the NGO said.

"This is exactly what (the) first batch of IPPs are trying to achieve in the ongoing negotiation process. Therefore, the federal government should not allow this to take place or it will have to shoulder the responsibility of the failure of negotiations."

AWER stressed that the government was in a position to stop the outflow of cash into IPPs after the agreement period, provided it settled renegotiations by the end of next month.

The association proposed that the government moves towards a transparent process of reducing the capacity payment to IPPs from 2012 onwards, based on audited operational costs, engineering reports and a regulated profit margin.

Shift to licensing regime

Should the IPPs agree to reduce capacity payments, the government should then do away with the PPAs and adopt a licensing regime in the extension of operations.

“If the IPPs disagree to the proposed renegotiation model, end the PPA when the time comes,” AWER added.

To add more weight to the federal government’s position, AWER said IPPs that reject the renegotiated terms must be blacklisted from any new power generation projects, with the ban extended to its shareholders and board of directors, their subsidiaries and parent companies and any new companies or entities related to them.

AWER also urged the government to open competitive bidding from Dec 1 this year to allow for sufficient time to build the new power plants.

“The federal government must be firm in protecting the people’s interest and the country’s growth,” the association added.