



More than 40 keen on new power plant

STORIES BY **Nadia S Hassan**

When the Energy Commission (EC) announced in December last year that it was asking for expressions of interest in relation to a new combined cycle gas turbine (CCGT) plant, it brought to the forefront the prominence of its role.

The announcement definitely caused a frisson of excitement in the power sector and attracted more than 40 submissions, according to the EC's chairman Tan Sri Tajuddin Ali. "Our next step is to whittle this number down to a more manageable half a dozen and then pre-qualify them, which will take place by March."

The group that has been successfully pre-qualified will then receive an invitation from the EC to submit its proposal for the CCGT plant, he adds. "They will have just over three months to submit their firm bid for the project. After being evaluated by the EC's board of directors, we will rank them and then make our recommendations to the government."

According to Tajuddin, the EC hopes to announce the successful bid by 3Q this year. The site of the CCGT plant, which is targeted to come onstream by 3Q2016, has already been picked.

"Subject to the confirmation of the board, we are talking to Tenaga [Nasional Bhd] which is offering its Prai site. This will be available to all the bidders, allowing those who are making proposals to know the parameters they are working with. They will then have a better idea of costing."

The question is, will Tenaga be a front-runner for the project, given that the site belongs to the national power provider? But Tajuddin is quick to point out that the specifications of the land will be in a document made available to everyone.

"We are facing constraints of time. So, we will need to give whoever wins adequate time to achieve financial close. If it's Tenaga, it is easier but if it's a standalone project company, it will need to go to the market to raise the debt portion.

"However, this time it might be faster because the site is already there. There is no need to do site clearance and so on," he explains.

The CCGT plant forms part of the EC's plan to add 4,500mw to the grid. According to Tajuddin, the EC plans to invite tenders for the remaining capacity in two parts. The first would be to replace the 2,000mw that will come offline when the first generation power purchase agreements (PPAs) expire in 2016.

Although it has been reported that the first generation independent power producers will not have their PPAs renewed, the most notable being Genting Sanyen (M) Bhd and YTL Power International Bhd, Tajuddin does not discount the plants not being taken completely offline. "The bottom line is whether these plants still have something to offer the government. At the end of the day, the country paid for these plants, although they would need some refurbishment to continue to be used."

However, Tajuddin makes it clear that while some of the additional 4,500mw capacity might come from existing providers, there is also a possibility that it will come from new plants.

When asked how many new plants the EC is looking at, Tajuddin says the capacity of each plant will be between 750mw and 1,000mw, and based on current information, they will most likely be gas-powered.

Moving forward, the new plants will come under the purview of the EC. In addition, the government recently gave the EC jurisdiction over the regulation of piped gas, which was previously under the Economic Planning Unit. Essentially, this gives the EC a say in the tariffs, given that it will play the role of referee in the pricing of gas.

Tajuddin also stresses that the new plants will be awarded through competitive bidding, saying: "The days when Tenaga was directed to negotiate with certain people on the PPA are gone."

It was the EC that recommended that the first 1,000mw of coal-fired power, due to come onstream in 2015, go to Tenaga. It also oversaw the sec-

ond round of bidding between Malakoff Bhd's Tanjung Bin power plant and Jimah Energy Ventures Sdn Bhd for an additional 1,000mw of coal-fired power. Malakoff won the bid due to its "innovative financing proposal", according to Tajuddin.

Still, some quarters questioned why Tenaga was awarded the first 1,000mw. They alleged that the EC had favoured Tenaga over the others. And even though the winner of the second 1,000mw power plant was decided via competitive bidding, it did nothing to erase the doubts of critics who pointed out that only two companies were considered.

But according to Tajuddin, the EC saw it as the best solution given the time constraints. "The EC decided to recommend to the government that the first unit be awarded to Tenaga because of the time factor and its desire to remove any doubt about the openness of the process."

Another question that arose was why only two companies were considered when proposals were called to build a second 1,000mw coal-fired power plant. Tajuddin says this was because of the non-delivery of power from the Bakun Hydroelectric Dam. "This meant that we were working under time constraints."

The government had planned for the power from Bakun to be transmitted to the peninsula via high-voltage undersea cables by the end of 2011. But the undersea cable project fell through when the government decided that the power from Bakun be utilised by the Sarawak Corridor of Renewable Energy (SCORE). The EC was then mandated to invite tenders for power plants in the peninsula with a plan for power to come onstream from 2015.

"We wanted the second 1,000mw coal-fired power plant to be commissioned by the end of 1Q2016. Given the circumstances, going greenfield was impossible. Which is why we decided we would go brownfield, which meant Jimah and Tanjung Bin."

After years of being dubbed a "tiger with no teeth", it seems that the EC is finally coming into its own. "An internal review is ongoing, moving us



away from the role of just an enforcer of safety and other matters. We are looking at strengthening our role as economic regulator," says Tajuddin.

However, he does not believe that the role should be simply handed to the EC. Rather, he says, it has to earn its stripes. "If the government is not confident that the EC can do the job, it shouldn't be handed to us. On the other hand, if we can prove that we can do it, we should be allowed to play a proactive role going forward," concludes Tajuddin. **E**



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'Biggest task is to undertake competitive bidding'

As the Energy Commission (EC) approaches its 10th year, there are definitely changes afoot both internally and externally. As the regulator for the power sector, the EC has been criticised as not having enough muscle when it comes to shaping the future of the industry.

However, according to its chairman Tan Sri Ahmad Tajuddin Ali, following a change in the Energy Commission Act as well as a transfer of responsibilities by the government, the commission appears poised to come into its own. The EC sparked some excitement in the power sector when it asked for expressions of interest in an upcoming combine cycle gas turbine plant, which will represent the fifth generation of power producers.

Also in the offing are a possible five other plants, which will all be awarded via open bidding, eschewing the old way where they were awarded via direct negotiations. But doubts over the effectiveness of the EC as a regulatory body remain.

In an interview with *The Edge*, Tajuddin puts to rest speculation about the EC's future plans for the power sector, its reinvention and how the commission will work to prove itself.

The Edge: What have been the biggest changes at the EC over the years?

Tan Sri Ahmad Tajuddin Ali: For me, the biggest change was in late 2009 with the amendment of the Energy Commission Act. It was because of this amendment, in a way, that I accepted the position. Although the change may look very cosmetic, it has far-reaching implications. Under the amendment, the post of chairman becomes non-executive with the appointment of a CEO.

Thus, the day-to-day running is in the hands of the CEO. There is a genuine desire on the part of the Ministry [of Energy, Green Technology and Water] for the EC to fully undertake the role it has been given under the Act. As a result, some adjustments are being made, and an internal re-

view is going on. This moves us away from the role of just enforcement of safety and other matters, as we look to strengthen our economic regulation role.

This essentially means that we are re-looking our more traditional roles that we have been doing all this while. For example, in terms of contractor registration, it is a task that has fallen to us since the days of Jabatan Bekalan Elektrik. So we are thinking of probably working with the CIDB, which also does contractor regulation. We are asking whether the CIDB can incorporate our set of criteria into their evaluation. This will determine whether the contractors that want to do work in the power sector have the necessary qualifications. This would then help to free up some people on our side.

So essentially, what the EC is looking at is internally streamlining its operations.

Yes, in a way what we are doing is redeploying our resources more effectively. This is necessary because we are not everywhere. In the East Coast, for example, our presence is only in Kuantan. Also, the government recently agreed to transfer to the EC the role of the regulation of piped gas, a responsibility that was previously under the Economic Planning Unit. However, the process has since become more technical.

So we are going to play a role when Petronas' regasification facility in Melaka eventually comes onstream. It is the government's intention to open up the facility for third-party use, which allows a party to go out into the market and buy the gas. Subsequently Petronas will be paid for converting the gas into LNG, and the owner of the gas can then sell it directly to the customer, which could be themselves. For that, we will come in as a referee, to make sure the charge on the use of the facility is reasonable to an extent.

We are already there because the EC does the licence for all Gas Malaysia customers, while the tariff is governed by us. So if the government doesn't feel comfortable that the EC can do the job, then it shouldn't come

to us. On the other hand, if we prove we can do it, then we should be allowed to take a more proactive role going forward.

Our biggest task now, where we have already done one round, is the competitive bidding for the power plants. I think those days when Tenaga was directed to negotiate with people on the power purchase agreements (PPA), those days are gone. Now it's all about open and competitive bidding.

Despite what some people may have said, I stand with my hand on my chest that it was the best that could have been done under the circumstances.

It was the EC that recommended to the government that Tenaga be awarded the first 1,000MW for the expansion of the Janamanjung plant, and subsequently for Malakoff Bhd's Tanjung Bin?

The reason behind the EC's decision to recommend to the government that the first unit be awarded to Tenaga was the time factor and the desire to remove any doubt about the openness of the process. And the government accepted; it's not the other way round as some people might think.

Then some people questioned — why was it only open to the two for the second round? This is due to the non-delivery of power from Bakun, meaning that we are working under a time constraint.

We want to have this second unit of 1,000MW of power to be online by the end of 1Q2016. Given the complexity, going into a greenfield would be impossible, hence we decided to go for a brownfield, which were only Jimah and Tanjung Bin.

And it was truly a competitive bidding process, but Malakoff did a very innovative proposal from a financing standpoint and so on. Tenaga was also very happy with the rates that were offered. That whole process, to me, demonstrated that we could get competitive pricing, and move into an era where it is more open in getting the best pricing, because that will be what the consumer will eventually pay.

In your annual report, it is stated that you are looking at the proposal to plant up another 4,500mw. Will that be entirely gas?

By the look of things, the first few will be gas. However, we are also looking at other elements, such as fuel security, before we decide on any additional plants. However, now that Petronas is building this gas terminal, hopefully those interested in buying gas will find sources that are competitive, that will point to a future where we have a sustainable supply at reasonable prices.

Given the current situation with gas and how Tenaga was hurt by the shortage, is that a wise move to increase dependence on gas?

Those are the other elements that we are managing. It is not fair that only one party or another should be burdened due to the differential between the market and regulated price. On the other hand, there are three parties to consider — Tenaga, Petronas and the government. A sudden increase will impact other things, but we have to ensure that there is adequate capacity. What the EC is doing is managing the progress to make it as independent as possible.

For the 4,500mw you mentioned, does that mean you will be planting up that entire amount post-2016?

The plan for this 4,500MW is for it to comprise two buckets. The first is in order to replace the expiring first generation PPAs, which comprise plants run by Genting [Sanyen (M) Bhd], YTL [Power International Bhd] and Segari [Energy Ventures Sdn Bhd], among others. In total, the capacity from these plants comes to just over 2,000MW.

Datuk Seri Che Khalib Mohd Noh has said that the PPAs will not be renewed, so the replacement capacity will have to be tendered out. However, there are still some studies going on because the country has paid for those plants, even though they need some refurbishment.

It is not totally a given yet whether the 2,000MW will be part of the 4,500MW, or it will not happen at all. That decision will come soon. The bottom line is whether those three plants still have something they can offer the government, following which

we can firm up a recommendation for the government on what to do. At the moment, MyPower [Corp] is working on the matter.

Recently, the EC issued a notice for the expression of interest for a combined cycle gas turbine (CCGT) power plant. So will the additional plants be a mixture of old and new, or completely one or the other?

We are still looking into the matter. Remember the 4,500MW is not all in one go. Maybe for the first tract, it could be between 1,500MW and 2,000MW, depending on the plant. These plants are the ones we are targeting for 2016. That is what we are working on at the moment.

So far, over 40 parties have expressed interest in the CCGT plant. Our next step is to whittle them down to a more manageable half dozen and then pre-qualify them, which will take place by March. We will then send out a request for proposals from these parties, which will then have just over three months to submit their firm bid for the project. Of course, this is all subject to the agreement of the EC board.

Also, subject to confirmation by the board, we are talking with Tenaga, which is offering its Prai site to all the bidders. This will allow those making the proposal to know the parameters they are working with, which would allow them to have a better idea of the costing. This will be an open document that will be available to everyone. We will then evaluate all the bids, rank them and make our recommendation to the government.

When do you see this happening?

Our target is later part of this year, in 3Q, because whoever wins will have to achieve financial close. If it's Tenaga, it is easier, but if it's a standalone project company, while they may have some funds for the equity component, they will need to go to the market for the debt portion. So we need to give them adequate time to get financial close.

We are also constrained in that we want the project to be commissioned by 3Q2016. However, this time it might be fast because it's already an available site. There is no need to do site clearance and so on.

If you get more than one good bid, would you proceed to allot the remaining capacity then and there?

That is a possibility. Why should we waste our effort going for another round if we have something we are happy with? We may want to sit down with the second lowest bidder and see if they can match the winner's offer. However, if the gap is too wide, then we can call again.

How many plants are you looking at in total?

We are looking at plants that are between 750MW and 1,000MW. The basis of our evaluation will be the market price of gas or at least, something close to that number.

What other changes in the power sector is the EC currently managing?

Moving forward, Tenaga will be governed by a new set of criteria called incentive-based regulation. That means the tariff will have elements of reward and punishment.

In other words, we will be reviewing the tariff every six months, and then adjusting the tariff for the next six months based on the performance of the previous six months. It will be based on their performance on certain key performance indicators and adjustments to the fuel price. When all that comes together, it could mean a plus or minus on the tariff charge.

We want to introduce efficiency gains in order to put pressure on the utility firm to improve its operations to reduce cost, which they would be rewarded for. However, if their level of service goes down, they can also be penalised.

When will this be implemented?

The target for full implementation is 2015 because we have to go through a process with Tenaga to find a level that it is comfortable with. You must remember that 2015 is also the government's target for reaching market price for gas.

The government announced that it wanted to adjust the gas price every six months, but that didn't happen in December.

The government did defer the deci-





sion on the RM3 increase for its own reasons, but it eventually has to bear the consequences.

All future tariff adjustments will go through the EC then?

With the change in the gas pipeline rule, the tariff is now under us. However, the ultimate decision rests with the government. But it should be kept in mind that if you raise the gas price by RM3, you will see a 7% ef-

fect on the tariff. If you want to do it every six months, then consequential to that agreement is an automatic adjustment of about 7% to the tariff. The question is, can the government live with that? **E**

Additional generation capacity leading up to 2020

YEAR	ADDITIONAL GENERATION CAPACITY	
2015	Hulu Terengganu	250MW
	One coal-fired plant	1,000MW
2016	Ulu Jelai	372MW
	One coal-fired plant	1,000MW
2017	Two combined cycle gas turbines	1,500MW
2018	Two combined cycle gas turbines	1,500MW
2019	One combined cycle gas turbine	750MW
2020	One coal-fired plant	1,000MW
Total		7,372MW



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