

Headline	IPPs are beneficial to the people		
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ELECTRICITY TARIFF

IPPs are beneficial to the people

THIS is in reference to the recent hike in electricity tariff. Admittedly, we can't talk about electricity without discussing independent power producers (IPPs). Why have IPPs become the opposition's whipping boy to stir public sentiment in the last few decades?

Basically, it is because of the lack of transparency in the first generation of IPPs back in the 1990s, when the "take or pay" deal enjoyed by IPPs seemed unfair to the government.

We must understand that when Malaysia experienced a national power crisis, it required a quick and expensive solution, which could be made possible only by a private sector venture.

Because it involved multi-billion ringgit in capital and the risks it undertook were thought to be phenomenally high, the "take or pay" deal was included.

It is strange to see that some IPPs, which are now seen as locusts, were the white knights that had aided the government to plant-up quickly, using private sector funding. If not for IPPs, the peninsula might have experienced more severe and persistent power outages in the 1990s and 2000s.

The "take or pay" deal was only given to YTL Power. YTL's licence will expire at the end of 2015. It means that in two years, there will be no more "take or pay" deal to any IPP in Malaysia. Why are IPPs given subsidies, when the people are not? The cheaper gas by Petronas to IPPs and Tenaga Nasional Bhd (TNB) is meant to benefit the people in the form of low tariff rates. It's not like IPPs or TNB can sell and trade the subsidised gas for their own profit.

In fact, if there was no subsidy given, the people would have to pay

the market price for electricity. This is what is happening now. The government has decided to gradually remove the subsidy, resulting in the increase in electricity tariff.

Some may say all the IPP licences were given to cronies of the government. But, cronies or not, the frequency and minutes of interruptions would have driven away many investors if the IPP solution was not initiated in 1990.

The involvement of IPPs in power generation has introduced efficiencies, besides having contributed significantly towards stabilising the nation's reserve margin.

Also, thousands of jobs have been created and today, we proudly see that some IPPs have ventured in the international market to do business in the energy sector.

How about Petronas? Shouldn't Petronas' profit be used to subsidise the energy sector? Petronas already has to forgo revenues amounting to RM12 billion annually because of the discounted gas price given to TNB and IPPs. It would be better if this revenue was channelled to develop high-value downstream activities.

Some readers have questioned why TNB is the sole electricity provider in the country. They argue that in most developed countries, there are a few providers that compete with each other to give the best rates to the consumer.

To be fair, it is not accurate to say TNB has monopolised the electricity sector in Malaysia, given the current practice. While TNB is the sole electricity distributor in the country, it is not the only electric producer.

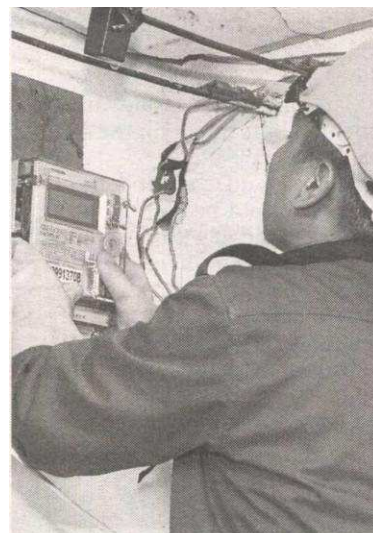
Under the Malaysia Electric Supply Industry (MESI) transformation, TNB will have to compete with IPPs, in terms of building new

plants and generating electricity. The competitive bidding, apart from ensuring transparency, allows the government to choose the most competitive rates and, eventually, pass on the savings to consumers.

For the record, the government recently conducted its first competitive bidding process for the new power plant in Prai, which was won by TNB and extensions of power purchase agreements for some of the first-generation IPPs. Obviously, IPPs brought competition to TNB in an industry that TNB had long monopolised.

Many wonder why the government did not impose the price hike gradually. Why should it be a one-off increase? Economically, a one-off increase will give faster result and substantial savings, whereas savings from a gradual increase might be insignificant.

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IPPs have brought **competition** to TNB, allowing the government to **choose the best rates**