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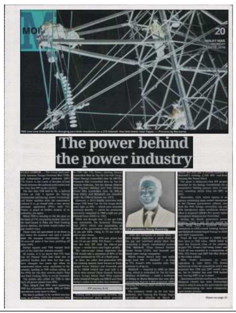
The power behind the power industry

The power behind the power industry

KUALA LUMPUR — The recent back-and-forth between Tenaga Nasional Bhd (TNB) and independent power producer (IPP) YTL Power is the result of decades of bad blood between the national grid owner and the very first IPP in the country.

The fact that TNB had to file a judicial review on July 4 against the Energy Commission and Energy, Green Technology and Water minister after the commission ordered it to go ahead with a new power purchase agreement (PPA) with YTL Power, is proof of further erosion of its authority, yet again.

While TNB is refusing to ink the deal on the basis of YTL not paying market rates for the land leased in Paka and Pasir Gudang power stations, the latter would rather not pay market rates.

These rates are speculated to be three to five times the nominal rate and it would slash the margins considerably off the 23-year-old plant it has been profiting off since 1993.

Earlier reports said TNB wanted back part of the land that remains unused.

Of course, it is no secret that YTL boss Tan Sri Francis Yeoh had close ties to political leaders back then but that may have changed two years ago when he commented about crony capitalism in the country, leading to TNB unions calling on the PPAs for the then soon-to-expire Paka and Pasir Gudang PPAs to not be renewed.

The unions also called for TNB to take back all power plants from IPPs.

They alleged that IPPs were squeezing TNB dry of profits as nearly 40% of TNB's operational costs went to them.

But this is unlikely to be verified anytime soon, as all PPAs with first-generation IPPs in 1993 like YTL Power, Genting Sanyen (controlled then by Tan Sri Lim Goh Tong), Segari Energy (controlled then by MRCB), Powertek Bhd (controlled then by Tan Sri Ananda Krishnan, Tan Sri Azman Hashim and Yayasan Melaka) and Port Dickson Power Bhd (controlled then by MRCB, Sime Darby and Malakoff) are classified under the Official Secrets Act 1972.

However, a 2014 *KiniBiz* interview with former TNB head Tan Sri Ani Arope sheds some light on IPPs — which were awarded contracts directly — prices for producing electricity compared to TNB's eight sen per kilowatt hour (kWh) in 1993.

While Ani thought that 12 sen per kWh was reasonable, the Economic Planning Unit (EPU) which was negotiating on behalf of the government then decided on 16 sen per kWh, rising to 23 sen with a take-or-pay clause.

So while the other IPPs saw prices just over 14 sen per kWH, YTL Power — which was the only IPP with the take-or-pay clause — would have seen higher profits.

The take-or-pay clause stipulates that TNB would take a minimum of 80% of the power produced by YTL at a fixed price.

In time, the other first-generation IPPs like Genting Sanyen (now known as Kuala Langat Power Station) and Powertek sold out to 1MDB (which last year sold it to China state-owned China General Nuclear Power Group) before their PPAs expired, while Malakoff bought out MRCB and Sime Darby's stakes in the other two ventures.

IPP playing field

Putting aside hydropower, oil-fired, and biomass-powered plants which generally — with the exception of Bakun Dam — have smaller capacities, a quick check of the gas and coal-fired plants show that ownership is largely consolidated around TNB, Malakoff, China General Nuclear Power Group (CGN), and Sarawak and Sabah state energy companies.

Which means there's only one really large local IPP — Malakoff — as long as YTL Power's PPA troubles with TNB continue to drag on.

Malakoff — acquired in 2006 by MMC Corp, which is controlled by Tan Sri Syed Mokhtar Al-Bukhary — made a lackluster re-listing on Bursa Malaysia last year after announcing that its 1,000 megawatt (MW)

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Tanjung Bin Energy plant would be delayed six months.

The company made up for lost time, however, and Tanjung Bin Energy began operations on schedule on March 21 earlier this year and is located adjacent to Malakoff's existing 2,100 MW coal-fired Tanjung Bin Power Plant.

The plant is Malaysia's first IPP project awarded by the Energy Commission via a competitive bidding process since it took over awarding duties from the EPU in 2011.

Meanwhile, CGN, which reports to an agency overseeing state-owned enterprises in the Chinese government cabinet, saw both the 49% foreign ownership cap and 30% bumiputera stake conditions waived when it acquired 1MDB's five power assets throughout Malaysia last November.

Among the fourth generation power projects, Track 1 and 3A are owned by TNB, while Track 2 involved 10-year extensions to CGN-owned Genting Sanyen and Malakoff-owned Segari Energy to 2025 and 2027 respectively.

Track 3B was awarded to 1MDB (and then later to TNB when 1MDB failed to meet the financial close of the project), despite YTL Power's bid being lower, and Track 4A was awarded to a consortium of TNB, YTL Power and SIPP Sdn Bhd (linked to the Johor sultan).

After Yeoh's statements on crony capitalism in June 2014, YTL Power backed out of the 4A consortium and it was expected that TNB and SIPP would carry on, but in October last year TNB backed out, leaving SIPP to go it alone.

Association of Water and Energy Research Malaysia (Awer) has been increasingly vocal in what it sees as the government and EC circumventing the more transparent, open tender process.

Grandstanding or powerplay?

In a statement last December, Awer president S. Piarapakaran noted that one important requirement for a power plant project to be awarded to a company or a consortium of companies is that the company or its partner(s) must have an operating power plant.

"In the case of Track 4A, both companies with existing power plants have pulled out of the project. Furthermore, SIPP has missed the financial close deadline. Therefore, the

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award must be cancelled.

"Why are the Energy, Green Technology and Water ministry, and Energy Commission still dragging their feet to cancel the award of Track 4A and call for a fresh competitive bidding process?

"The failure by this duo to adhere to both the Energy Commission Act and Electricity Supply Act is causing an unnecessary PPA extension of inefficient old gas power plants that will pass a higher fuel cost to electricity tariff," he noted.

What the future holds

So with newer projects getting delayed, and CGN and Malakoff appearing as the two dominant IPPs, what's next?

Malakoff has spread its wings beyond Malaysia to run power plants in Saudi Arabia, Algeria, and Bahrain, in addition to a wind farm in Australia.

YTL Power — based on its bidding for fourth generation projects — is not too keen on letting go of local power assets yet, despite operating the Seraya power plant in Singapore and having a 20% stake in Indonesia's second largest IPP PT Jawa Power.

Perhaps its interest in keeping its 23-year-old plants in Paka and Pasir Gudang stems from the fact that its profits may suffer from the recent Brexit decision?

A June 17 report by TA Research noted that Wessex Water, a regional water and sewage treatment business in the United Kingdom, would account for around 90% of YTL Power's pre-tax profit — meaning a significant hit for the local IPP with the weaker pound.

Meanwhile, CGN followed up the completion of the US$2.3 billion (RM9.08 billion) purchase of 1MDB assets in March with a further announcement in April that it would be setting up its Southeast Asian regional hub in Kuala Lumpur.

Though many were worried about national assets put in foreign hands, the business community saw it as a step towards liberalisation. According to HLIB Research, CGN only controls 3,640GW or 15.6% of Peninsular Malaysia's power generation capacity, with the majority still controlled by TNB (54.9%) and Malakoff (21.3%).

While 1MDB may have framed the sale of its power assets to CGN as a successful rationalisation programme, CGN boasted that it acquired "13 clean energy projects along the Belt and Road".

The Belt and Road initiative underscores President Xi Jinping's modern reimagining of the Ancient Silk Road and allows CGN — which reports to the cabinet — to have instant presence in five countries (Malaysia, Egypt, Bangladesh, the United Arab Emirates and Pakistan) along the route to drive China's "soft power" motive.

So did CGN get the memo? Is this move purely to push the Belt and Road initiative forward or is it paving the way for its nuclear power aspirations?

Russian trade officials here have long been pushing Malaysia to adopt nuclear power and use state agency Rosatom's services, as Indonesia and Vietnam did, but the Russians have no stake in the local power sector as yet.

And just as China Railway Group Ltd is likely to bag the Malaysia-Singapore high-speed rail project thanks to its role in rationalising another 1MDB asset (Bandar Malaysia), is CGN using its 15.6% stake in Malaysian power plants as a leg-up in long-term nuclear negotiations?

Will Malaysia's nuclear power option — with the earliest start of 2025 if politically viable — see two superpowers at the table?

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Malakoff production head Kaswadi Abdul Halim (left) and performance and recovery head Mohamad Zahari Mat Zaid (right) at the Tanjung Bin Energy plant.

CGN president Zhang Shanming.

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TNB Live Line Unit workers changing porcelain insulation in a 275 kilovolt live line tower near Kapar. — Pictures by Bernama