

**TNB, stop burdening the consumer through IPPs**  
**Malaysiakini.com**  
**Disember 16, 2010**

The Consumers' Association of Penang (CAP) calls on the government to end the outsourcing of electrical energy production to independent power producers (IPPs) as it has been a drain on the resources of Tenaga Nasional Berhad (Tenaga) and a burden to the consumers.

We believe that Tenaga, with decades of experience in energy production unlike the IPPs who had no experience when they entered the industry, has the capacity to produce energy more efficiently and at a lower cost. Moreover, profits coming to Tenaga, a government-controlled company, will benefit the people and the nation rather than private companies.

Access to energy is a basic human right and of national security and therefore its production and supply should not be left in the hands of profit-hungry private companies. If these companies face financial problems then the government will be forced to bail them out with public funds to ensure continuous availability of energy. The authorities should learn from the failed privatised projects locally and internationally and not repeat the mistakes.

It has been reported that negotiations are going on between the government and five IPPs for review of the first generation power purchase agreements (PPAs). The authorities must put pressure on the IPPs to revise the terms in the PPAs to reduce Tenaga's payouts to them which has been bleeding its finances.

If they refuse, then a windfall tax should be imposed on their super profits. There is no need to fear an adverse impact on the bond market as a result of such a move. On the other hand, the collapse of Tenaga, due to the haemorrhaging of its financial capacity resulting from huge payouts to IPPs, will have a devastating impact on our energy and financial sectors, and the economy.

The first generation PPAs were entered into by Tenaga against the advice of, and despite strong objection by, its former chief executive officer Ani Arope. These agreements were made in breach of public-private partnership principles. There was no open competition for the projects. The government, not Tenaga, negotiated with the project promoters and pressured Tenaga to execute the agreements.

There was no value for money accruing to Tenaga under these agreements as the IPPs had inflated their costs, including their initial construction costs, taxes, financial allowances and interest rates. There was no equitable sharing of risks resulting in the agreements being lop-sided where profits go to the IPPs and the losses to Tenaga.

Through privatisation, Tenaga was turned into a cash-cow for the IPPs which made huge profits, not through competitiveness, business savvy and innovation but due to the 'take or pay' and 'public risk and private profit' provisions in the PPAs.

Under these sweet-heart deals which make no economic sense, Tenaga is required to buy energy from the IPPs at a price higher than its own generating cost, which in the case of YTL Power Generation Sdn Bhd is 25percent. It has also to pay for unused capacity, that is,

energy it does not need. It is also required to bear the risk of any fuel price rise.

As a result of these unfair terms, a large portion of Tenaga's revenue has gone to the IPPs. It increased from RM 9.2 billion or 54percent of Tenaga revenue in 2005 to a projected RM19 billion or 65percent in 2010. From 2001-2010, Tenaga's payment to the IPPs totals RM 78.3 billion. With this large steady stream of revenue every year, Tenaga could have been transformed into a global player in the power industry, instead of enriching a few well-connected families.

The large payouts to the IPPs have put Tenaga under tremendous financial stress and seriously eroded its share price. Within less than a year of the IPPS coming on-stream, the price of Tenaga shares took a nose-dive from around RM 20 per share in 1993 to less than RM 10 in 1994, and below RM 5 during the Asian Financial Crisis in 1997.

Since then, the share price has recovered but it is still only around 50 percent of what it was before the entry of the IPPs. The collapse of Tenaga has been prevented by tariff increases borne by the public. It is unbelievable that a government-controlled corporation would be crippled to benefit the interests of a handful of private companies.

The super-profits from the PPAs propelled many IPPs like YTL Corporation Berhad and Malakoff Corporation Berhad from relative obscurity to great wealth and fame. Yet very few of these IPPs have used the profits they gained from these contracts to give back to the industry. In some cases, the profits were instead used to expand business empires and finance ventures overseas.

It is shocking that the government is awarding new projects in other sectors of our economy to the owners of the IPPs who have been refusing to renegotiate their PPAs on a fair basis. Why reward them for their unreasonableness and greed? They should not be given any economic opportunities by the federal and state governments, statutory bodies and government-linked companies unless they act reasonably and agree to revise the PPAs to achieve fairness.

Tenaga has been appealing to the government for a tariff increase to overcome its deteriorating financial position. Efforts to improve performance and lower operations and maintenance costs have been undertaken by Tenaga and these have resulted in significant cost savings. However, the amount of savings that can be achieved through this means is limited.

Under the current environment where we are facing a global financial and economic crisis and consumers are facing high inflation and significant increases in the cost of living, lucrative payments to the IPPs are not sustainable and immoral.

Electricity tariffs will continue to rise and electricity customers will suffer in spite of Tenaga's best efforts to manage its costs. Structural changes will not be successful in reducing burden to the customers if the underlying reasons for excessive payments to the IPPs are not addressed.

As such, the only significant area that has not been explored is the reduction of IPP costs. As IPP costs constitute a large share of Tenaga's costs, any reduction will have a positive impact on electricity tariffs.

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