KUALA LUMPUR, Nov 2 — Tengku Razaleigh Hamzah today suggested Putrajaya conduct a full analysis of Tenaga Nasional Bhd’s (TNB) controversial independent power producer (IPP) contracts to determine if Malaysia could have cut gas subsidies without needing to raise electricity tariffs.

He said such a study was necessary in light of the present increase in tariffs resulting from the government’s decision to trim its ballooning subsidy bill, which it estimated could hit close to RM21 billion this year.

“Is this the appropriate time to remove subsidies when the global economic pressures are already resulting in inflationary pressures in the country, or are there other concerns such as the high electricity supply reserve margin or leakages due to corruption or patronage that should be addressed first to remove the shortfall in finances?” he said in his speech at a Kuala Lumpur Rotary Club in Shangri-La Hotel here today.

The one-time finance minister and founding chairman of national oil company Petronas said the analysis should study if TNB had been forced to foot incremental costs due to the IPP agreements and determine the sum that had to be passed on to consumers.

“In other words, could the nation have enjoyed the same tariffs with gas subsidies being lower if TNB was not burdened with these excessive incremental costs?” said the Kelantan prince popularly known as Ku Li.

Tengku Razaleigh, who earlier this year urged for the formation of a Royal Commission of Inquiry to investigate the IPP contracts, also suggested that future IPP deals be struck via an open tender process in order to allow for more competitive pricing of electricity.

Future agreements with existing IPPs, he added, should take into account the fact that they would have fully amortised their capital cost and already enjoyed considerably high profits.

“A relatively lower profit margin should therefore be negotiated with these IPPs in the interest of the nation, which could translate to unit cost savings for consumers,” he reasoned.

Ku Li then questioned if the government had conducted any study to warrant the country’s high power reserve margin, which peaked at 50 per cent before the Asian Financial crisis, after the IPP programme was mooted to ensure Malaysia would meet her future power needs.

“Was such a high reserve planned for, in which case, what is its justification? Or, could better planning have enabled TNB to lower operational costs and hence electricity tariffs?” he said.

He asked if the costs of a potential electricity supply uncertainty would outweigh possible savings for TNB if the company was not bogged by its obligations to the IPPs.

“Did we produce cheap energy for the right reasons? Did we attract ‘good quality’ FDI which brought a rise in local income, technology and raised quality of life across different income stratas, or ‘bad quality’ FDI which increased disparity in income, damaged the environment and quality of life and trapped us in the resource curse,” he asked.

The Cabinet raised power tariffs by an average of 7.12 per cent effective June 1 this year, in a bid to trim a growing subsidy bill and widening fiscal deficit, casting a spotlight on TNB’s contentious IPP contracts.

By Clara Chooi November 02, 2011

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