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**Labour's energy proposals
don't work**

WHY LABOUR'S ENERGY PROPOSALS DON'T WORK

Key issue 1: DNV Kema presentation for Labour confirms a gas pipeline (PN policy) is cheaper than what is being proposed by PL.

Key issue 2: Labour's presentation greatly understates the capital costs of what they are proposing by over €200 million.

Key issue 3: Standard power purchase agreements do not provide for a price guarantee for 10 years; an agreement which does provide for such a guarantee will be far more expensive than Labour are claiming.

Key issue 4: Timeframes for the implementation of the Labour's proposal are unrealistic. They are proposing to cut tariffs years before their project could materialise.

Key issue 5: The Labour party's proposals as presented will lead either to an increase in tariffs or an increase in taxation

Fact 1: LABOUR'S PROPOSAL IS BASED ON SIMPLISTIC ASSUMPTIONS NOT ON FACTS

Labour's Proposal is based on simplistic desk top assumptions when it comes to critical issues such as:

- Gas prices
- Cost structure of the new power station
- Conditions of power-purchase agreement
- Profit margins of private contractor
- Timeframes

Fact 2: DNV KEMA DID NOT PREPARE LABOUR'S TARIFF REDUCTION PROPOSALS AND HAVE AT NO STAGE ENDORSED THEM

Labour's brief to DNV Kema:

“To produce estimate of levelized cost of electricity with some possible options for using Gas in Malta, building or converting and also the supply infrastructure. The cost of generating each kwh at Net Present Value at the power station, cost of power including generation equipment, cost of fuel - assumed to operate at base load of 95% as rate has effect on the LCOE.”

Fact 2 (cont): DNV KEMA DID NOT PREPARE LABOUR'S TARIFF REDUCTION PROPOSALS AND HAVE AT NO STAGE ENDORSED THEM

DNV Kema did not recommend:

1. Which technology should be used;
2. Which method of supply of gas should be selected;
3. Did not select the combination of technology or determine the energy mix.

**DNV Kema described their level of research as “a desk top review”
(Pg 4 of DNV Kema presentation).**

**It is irresponsible of Labour to suggest that we should run the country
on the basis of desk top reviews and not detailed studies.**

Fact 2 (cont): DNV KEMA DID NOT PREPARE LABOUR'S TARIFF REDUCTION PROPOSALS AND HAVE3 AT NO STAGE ENDORSED THEM

DNV KEMA do not associate themselves with PL conclusions and the promised tariff reductions.

Therefore:

All the assessments presented as potential savings in the report, and the impact on tariffs are not based on **independent expert** workings and studies but on workings made by **Labour Party officials**.

This was confirmed by Labour Candidate Konrad Mizzi on Bondiplus (8th January 2013).

LCOE estimations

Option	Estimated potential LCOE (€/kWh)		
	1. New build	2. GT conversion (Delimara Ph 2)	3. BWSC Diesel-Gas conversion
1. Gas Pipeline from Sicily to Malta	7.6	11.1	8.7
3. Liquefied Natural Gas (LNG) terminal; including regasification facility	9.4	14.0	11.0
3. Offshore Compressed Natural Gas (CNG) receiving point	10.0	13.1	10.9

 **PN's choice**
 **Labour's choice**

Assumes cost of capital of 8.4%

In fact, Labour's choice is more expensive

In fact, PN's choice is more effective



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Fact 4: LABOUR PLANS TO BUILD A NEW 200MW POWER STATION WHICH THE COUNTRY WILL NOT NEED

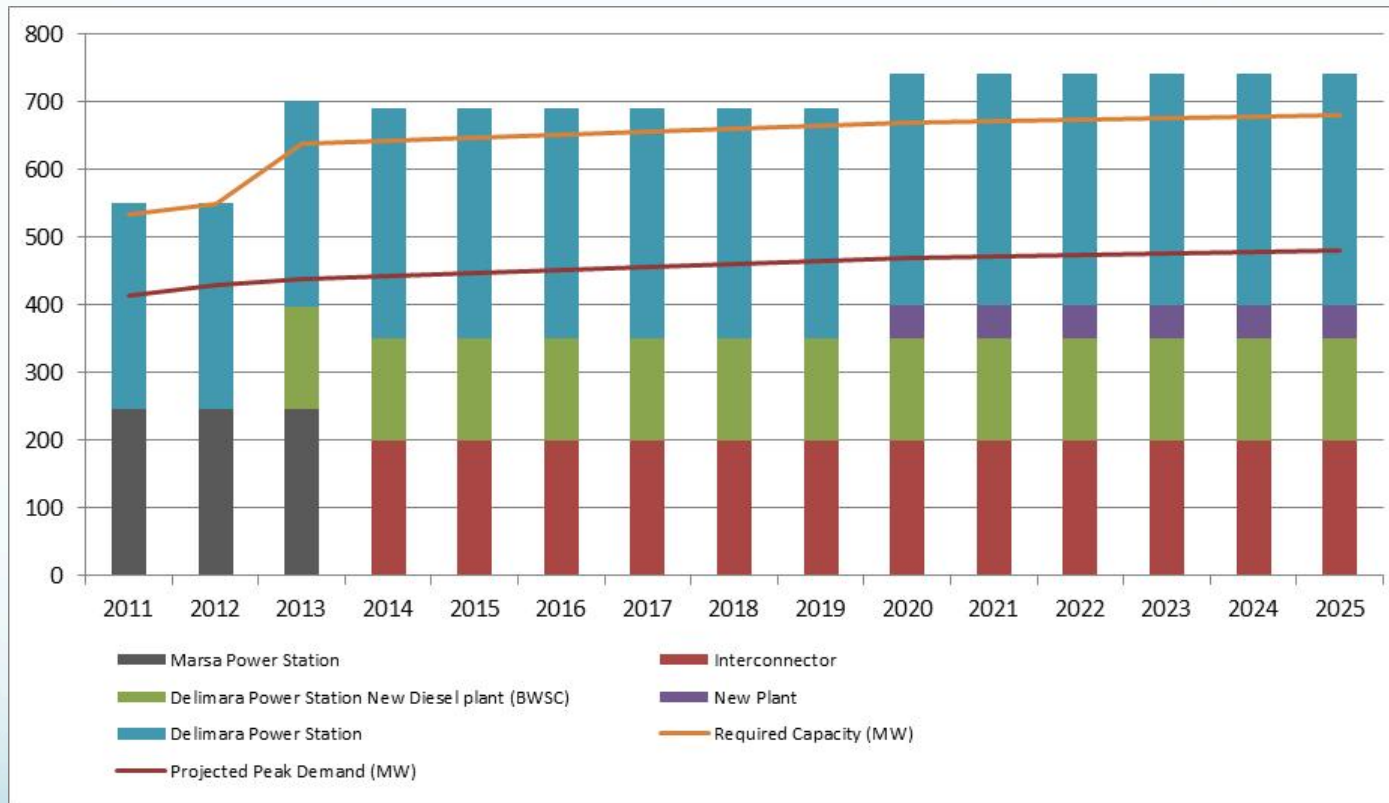
Labour is assuming that Malta requires 200MW generating capacity more than what Malta will actually need. This is a major flaw that further renders their proposal financially flawed.

Malta will already have the following generating capacity by :

- 200MW Interconnector cable to Sicily currently being installed
- 150MW new Delimara Extension which has recently become operational
- 184MW in reserve from the existing Delimara gasoil generation
- 50MW from renewals

Labour's proposed 200MW plant will be an unrecoverable cost of at least €300 million which will have to be passed on the consumer or the taxpayer.

Fact 4 (cont): LABOUR PLANS TO BUILD A NEW 200MW POWER STATION WHICH THE COUNTRY WILL NOT NEED



Fact 4 (cont): LABOUR PLANS TO BUILD A NEW 200MW POWER STATION WHICH THE COUNTRY WILL NOT NEED

With the Inter-connector coming on stream in 2014, the new Delimara power station and the present infrastructure, Malta's energy needs will be fully met until 2019

By 2020 Malta will need only 50MW extra capacity which will be reached through renewable energy sources.

Enemalta's present Production Plan:

Total consumption 2,340,000 Mph of which:

- 70% will be bought through the Interconnector
- 25% new Delimara extension
- 3% renewable sources
- 2% Delimara 2 and (only in summer), this should also be replaced by renewable energy.

Fact 5: LABOUR HAS PURPOSELY UNDERESTIMATED THE COST OF ITS PROJECT TO MAKE IT APPEAR FEASIBLE

The new 200MW CCGT plant proposed by Labour is estimated at €166 million. In 2009, Bateman's with the same technology tendered at €186 million euro for a smaller 150MW plant. The cost will actually be closer to €240 million.

Labour has ignored the fact that the area proposed for the terminal is reclaimed land – which requires piling of the area before constructing the LNG storage tanks. This cost will be close to €40 million.







Fact 5: LABOUR HAS PURPOSELY UNDERESTIMATED THE COST OF ITS PROJECT TO MAKE IT APPEAR FEASIBLE

Labour has failed to account for the cost related to the acquisition of tankers: €50 million for every dedicated tanker. From the visuals presented, the size of the storage tanks, 2 or possibly 3 dedicated ships may be required to provide the constant and secure supply of gas. This will mean a further cost of €100 million to €150 million.

If a jetty is required, this will cost an addition €50 million.

Fact:

Clearly, Labour have got their figures wrong and their estimated capital cost structures are incomplete possibly by over €200 million.

Fact 6: 10 YEARS GUARANTEED PRICES WILL EITHER COME AT A VERY HIGH COST OR WILL NOT BE FIXED AS CLAIMED

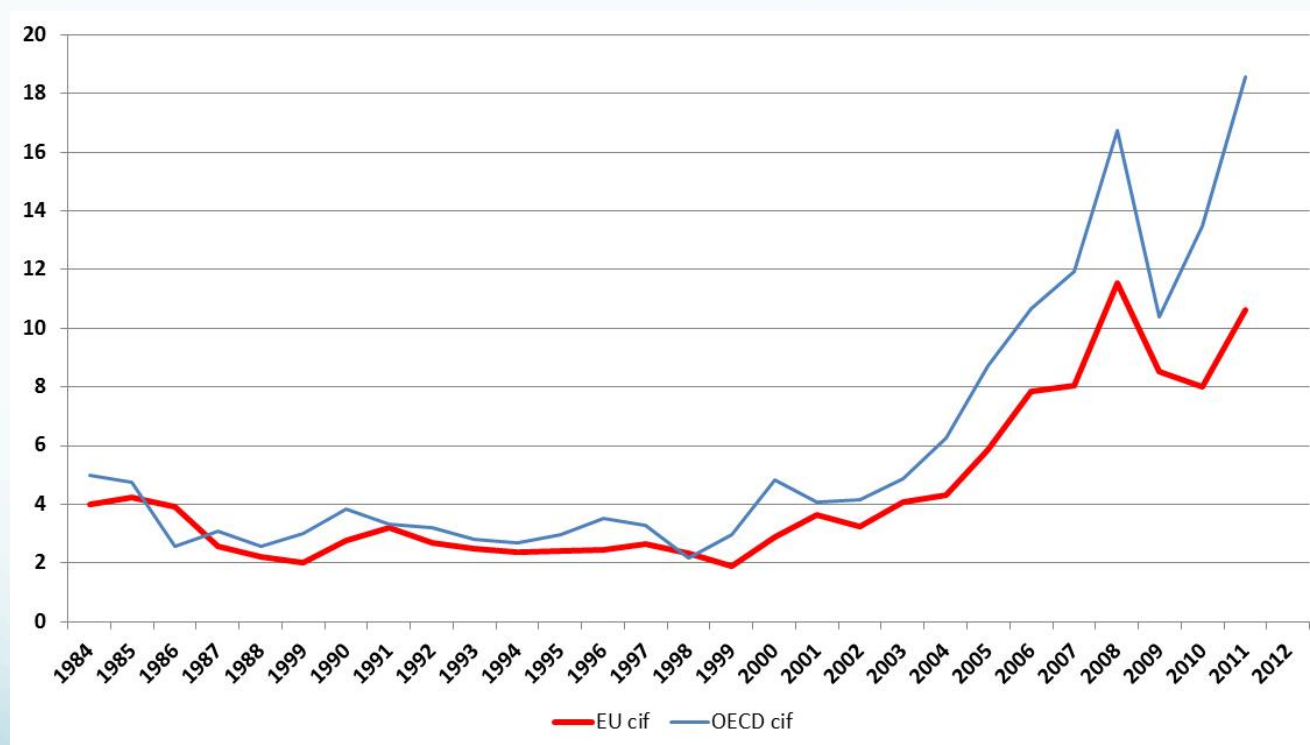
Labour has claimed that the private sector suppliers will be regulated by a power purchase agreement that will fix the prices for 10 years.

There are no standard hedging agreements for 10 years.

Therefore to mitigate the future fuel prices increases and also exchange rates fluctuations, the private operator will either demand contractually much higher rates; or as the standard recommends World Bank Power Purchase Agreement recommends, (1) rates will vary according to fuel and exchange rates fluctuations, and any other costs during the life of the contract, and (2) the capital investment is paid separately.

Also, these agreements usually oblige a level of plant utilisation which could imply that even if the interconnector can provide cheaper energy in the night, EneMalta will still have to buy the energy produced by the new power station at the higher rates.

Fact 6: 10 YEARS GUARANTEED PRICES WILL EITHER COME AT A VERY HIGH COST OR WILL NOT BE FIXED AS CLAIMED



Fact 7: THE 9c6 GENERATION PRICES ON WHICH LABOUR'S TARIFFS HAVE BEEN BASED DO NOT COME FROM DNV KEMA AND ARE NOT SUSTAINABLE

- DNV KEMA stated that the generation price could vary from 8c Kwh to 14c Kwh
- It assumes each plant is used at 95% capacity
- The rate of 9c6 EXCLUDES the return on capital expenditure (ROCE)

Clearly Labour's 9c6 estimation is a simplistic calculation designed to mislead the electorate:

- If a Plant is used at a lower capacity (as it will be) the rate will significantly increase as the ROCE (capital investment) is applied on the actual units produced/sold.
- No information on the utilisation of each generation facility, i.e. the mix, considering day and night levels, seasons and maintenance has been presented.

Claims based on the assumption that all energy assets will have a 95% utilisation efficiency are false.

**Fact 9:
LABOUR'S PROPOSAL WILL KEEP US
ISOLATED FROM EUROPE AND IGNORES
THE FACT THAT GOVERNMENT HAS
ALREADY EMBARKED ON A STRATEGY TO
CONVERT THE POWER STATION TO GAS
THROUGH A PIPELINE LINK**

In February 2011, the European Union – on Malta's insistence – agreed that no member state should remain isolated from European gas and electricity networks.

As a result, the European Commission has proposed funds in the 2014-2020 EU Budget to Malta for this project.

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Government has already issued a tender for a feasibility study to present to the EU Commission on which funding will be based.

Labour's project does not have the potential of attracting any special EU funding. This means that all costs will be borne by the Maltese consumer or taxpayer.

DÉJÀ VU – 1998/2003/2008/2013

- 1996 – MLP promised to remove VAT
- 2003 – MLP promised two months tax free
- 2008 – MLP promised 50% reduction in surcharge
- 2013 – MLP is promising tariff reductions

**LABOUR
WON'T
WORK.**