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Power shift: DCs eye self- generation

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THE recent suggestion by the government to the vast number of data centres (DCs) opening up in Malaysia to generate their own electricity could have interesting repercussions.

For one, it could mean that aside from the vast DC structures propping up in many places, there could now be gas-fired power plants next to them.

Could that in turn create a new level of uneasiness among the public, following the growing not-in-my-backyard sentiment towards DCs?

The move also marks the first time that the concept of Selco (self-consumption) is being opened up in such a big way. Under a Selco licence, a company can build its own power plant for its own needs, thereby being "off-grid".

A number of companies in Malaysia do have Selco power operations but the total capacity is small compared with the size and energy needs of DCs being built in the country.

It could also mean that demand for piped gas in Peninsular Malaysia could hit an all-time high at a time when gas supply from fields off the east coast of the peninsula is plateauing.

Finally, on a more positive note, industry players in the energy sector welcome the move, noting that the increased build-out of power plants will create a positive spillover into the economy, rather than the DCs continuing to rely solely on the grid.

A couple of months ago, Energy Transition and Water Transformation Minister Datuk Seri Fadillah Yusof said the government is encouraging DCs to generate their own electricity and not depend entirely on the grid.

The idea is to ensure the



■ DCs exploring on-site gas power amid rising energy constraints in Malaysia

■ Move could reshape gas supply dynamics and energy policy considerations

national energy grid is not overloaded following the high demand from DCs.

The idea makes sense. In the United States, by far the largest DC market in the world, DC developers are increasingly building or contracting for dedicated, on-site power generation, especially natural-gas generation, because grid interconnection can take years.

A recent Reuters report cited estimates that by 2030, the United States will have "behind-the-meter" or off-grid energy powered by gas of a whopping 29.6GW, with the bulk of that associated with DCs.

To be sure, DCs in Malaysia already have two power supply sources, either met through duplicate links to Tenaga Nasional Bhd's (TNB) grid (which the DCs have to pay for) or, as many of them do, a back up generator that is typically powered by diesel.

While the latter may seem to be an easy option, it is becoming increasingly a challenge, given diesel shortages and the fact that many DCs have committed to having green energy sources.

Going by this, it doesn't seem so odd that a DC may want to build its own gas-fired power plant.

But why gas and not solar power? The simple answer is that solar, even with batteries included, isn't sufficient to meet the voracious energy appetite of DCs, where chipsets operate 24/7 and need to be cooled around the clock.

That said, DCs are actively taking up energy from solar farm operators under programmes like

Corporate Renewable Energy Supply Scheme.

But a natural gas-powered power plant can provide way more energy. Furthermore, Malaysia is blessed with a gas transmission pipeline to key industrial areas, built by Petrolia Nasional Bhd over the years, with last-mile or distribution facilities operated by Gas Malaysia Bhd.

It would make sense for DCs to tap into this infrastructure for natural gas to power their own plants.

Then comes a big issue: how viable will it be for DCs in Malaysia to build their own gas-fired power plants?

Recall that one of the reasons DCs have flocked to Malaysia is the relatively cheap and accessible supply of energy and water. But it still is left to be seen if the cost of building their own gas-fired power plant would make sense for DCs.

It is an option they need to study, as their demand is beginning to outstrip the supply that the local energy incumbent and renewable energy players can produce.

Remember that DCs are still considered an important foreign direct investment into the country, with economic spinoffs in the form of land sales, construction and engineering work.

The country now has the Data Centre Task Force (DCTF), which coordinates and evaluates digital infrastructure and DC investments. It is understood that the DCTF is now in discussions with DCs on how they plan to address their own energy needs.

It is not unfathomable that DCs

could request subsidised gas in order to make their power plant projects more viable. The thinking is, if Malaysia wants these DC investments, then it needs to lend them a helping hand, especially if grid capacity isn't able to cope with DC energy demand.

Recall that until today, the power sector still enjoys preferential gas pricing. The rest of the market, including industrial players, ceased to enjoy such pricing in 2022, when the Malaysia Reference Price (MRP) gas mechanism was introduced.

But DCs should be made to pay the MRP price. The financial economics of DCs are being driven by explosive demand for generative artificial intelligence training and inference.

Financing and building their own power plants should not be a big issue, financially speaking, especially if it affords them energy certainty.

DCs are already paying a newly imposed higher tariff for electricity supplied by TNB.

Assuming DCs do decide to build their own gas-fired power plants, there will be a shift in the dynamics of gas supply, a sector which interestingly had already been liberalised since 2022 with the entry of new players at the last-mile level.

It is left to be seen how liberalisation, coupled with a potential spike in demand from DCs, will impact existing gas supply to key industries in Malaysia.

Any negative impact on them could be problematic, considering that many of those manufacturers are major employers and have been operating in Malaysia for a long time.