

Headline	Single Buyer to be carved out of Tenaga to manage energy exchange		
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Single Buyer to be carved out of Tenaga to manage energy exchange

STORIES BY ADAM AZIZ

Malaysia will soon have an energy exchange. But one that has an independent Single Buyer instead of a free market structure.

The proposal was approved by the cabinet recently and entails a medium-term plan for the Single Buyer to be carved out of Tenaga Nasional Bhd to become independent, says Natural Resources, Environment and Climate Change Minister Nik Nazmi Nik Ahmad. This independent Single Buyer will be responsible for the management of the energy exchange, he adds.

"The [current] Single Buyer [which is Tenaga] is already managing cross-border electricity [such as the] Laos-Thailand-Malaysia Power Integration Project ... we need to dispel the perception that the Single Buyer is pro-Tenaga because we are talking about an open market for exports.

"We believe an independent Single Buyer will provide market confidence. The Single Buyer is preparing the energy exchange and working together with the Energy Commission as well as the ministry to make it happen.

"We are working around the clock," Nik Nazmi tells *The Edge* in an interview.

In the meantime, the Third Party Access (TPA) mechanism for the national grid, which is owned by Tenaga, is being looked into, he adds.

The minister notes that the TPA mechanism requires a more comprehensive review of the entire tariff structure, which will be conducted over the next three-year regulatory period (RP4) of 2025-2027.

"I think one of the most important things is RP4... But we are going towards that (TPA). When we have a real idea of the costs, we can really talk about it fairly to everyone, whether it is the grid operator or the third parties," he says. Established in 2012, the Single Buyer is an

entity ring-fenced within Tenaga, responsible for managing the planning and procurement of electricity in Peninsular Malaysia.

It decides which power plant to procure electricity from, being the sole entity that will pool the entire electricity supply to meet demand at the lowest cost for all electricity users.

Power producers in turn sign long-term Power Purchase Agreements (PPAs) with Tenaga to supply electricity to the grid with fixed tariffs.

In the case of large-scale solar (LSS) projects, developers compete with each other through reverse bidding to secure a quota. The lower the tariff offered, the better the chance of winning, although some quarters believe it should not be a race to the bottom.

During LSS4 bids, companies bid too aggressively to get a spot — the winning bids ranged from 24.81 sen per kilowatt-hour (kWh) to as low as 17.68 sen/kWh.

The jump in solar panel prices during the pandemic resulted in some players being unable to achieve financial close then. The Energy Commission had to step in to extend the PPA tenure by four years to a total of 25 years from 21 years initially, and also to extend the commissioning deadline to the end of this year.

When Malaysia announced its policy to export electricity, there were expectations that power producers could then offer supply to different buyers through the upcoming energy exchange. This will require a TPA mechanism of the grid for Tenaga to cover the cost of providing the infrastructure as well as to ensure system stability.

Non-cost-reflective tariff stumbling block to TPA

"The problem is that the tariff is not really cost reflective," explains Nik Nazmi.

"When solar energy is planted up, that puts a burden on the grid and the way the tariff is structured currently does not really show the

real cost of producing and distributing energy. The brown (conventional-fired) energy has to be on standby and this has costs," says the minister.

Because of the intermittency issue of renewable energy (RE), conventional energy is essential to fill the gap during the rainy days.

Nik Nazmi stresses that the government needs to be mindful when working on the electricity tariff structure to avoid certain groups in society subsidising the others.

"It has to be clearly reflected so we do not have a situation such as in California where the rich who have solar are being subsidised by the poor who are living in apartments without RE generation.

"A lot of companies only want to pay the wheeling charges for the rights to use the connection. But that is not enough because you also need the other connections to make the grid viable," he says, adding that he does not see the timeline to delay the progress of Malaysia's RE exports agenda.

It is understood that the transition from Single Buyer to an open market will also require changes to the relevant

acts such as the Electricity Supply Act 1990.

With the independent Single Buyer tasked with managing the energy exchange and in the absence of the TPA for now, LSS developers will still be selling their electricity to one buyer although no longer Tenaga, instead of directly to customers.

In other words, from the RE producers' perspective, until the TPA is firmed up, there is little change on the operating landscape when the country opens the door to RE exports.

Those expecting a liberalisation in the power industry might be disappointed with such a model because independent power producers (IPPs) that intend to export would not be in a

position to negotiate the terms of the PPAs moving forward.

That said, LSS participants would also be better positioned to arrive at a more sustainable tariff offer in their future bids, having seen the cut-throat competition in previous bidding rounds,

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SHAHRELL BAKRU / THE EDGE

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61% of awarded LSS completed at end-September 2023

LSS progress in Malaysia



Excludes Feed-In Tariff and Net Energy Metering installations

resulting in some players struggling to complete the projects.

Bigger pie

The progress of the RE export ecosystem will provide an additional quota for the industry where the last LSS bidding round (LSS4) was awarded more than two years ago in March 2021, and which totalled just 823MW split among 30 companies at a maximum quota of 50MW each.

The electricity market in Singapore is targeting 1.2GW of imports by 2027, rising to 4GW by 2035.

Malaysia is also exploring the development of a second interconnection to Singapore with a capacity of 2Gw, Nik Nazmi says. Tenaga recently signed a memorandum of understanding (MoU) with Singapore Power to conduct a feasibility study on the second interconnection.

The first interconnection of 1Gw has locked in a capacity of 700MW, comprising 500MW for grid balancing, 100MW for Laos-to-Singapore supply, and another 100MW for Tenaga's pilot supply through YTL PowerSeraya as the importer in Singapore.

In theory, this leaves 300MW for the government to explore the feasibility of RE exports through the upcoming energy exchange before the second interconnection is built.

Funding grid upgrade

Through RE exports, the government is also

looking at directly supporting the grid upgrade to accommodate intermittent RE. Under the current mechanism, Tenaga is responsible for raising the capital expenditure for upgrades by incorporating the cost in the electricity tariffs and in exchange owns and manages the grid.

It is understood that through the energy exchange, the Single Buyer will export the electricity to the highest bidder who will bid for a price for a minimum supply period of one year.

"There's a whole purpose [to carving out a Single Buyer] ... the premium to sell RE to Singapore can be used to invest in the grid and [adopt] different technologies," says Nik Nazmi.

"Even in Singapore where the electricity market is open, the government has had to come in for battery storage because it is still expensive. And battery storage is important for solar [energy]."

Previously, one of the hurdles to carving out a Single Buyer from Tenaga was the liabilities that would need to be borne on the balance sheet of the independent entity, which is likely to be a government agency — due to its role in the procurement process for the entire country's power generation across coal, gas, hydro and solar from more than 70 IPPs.

"As long as there are certain approaches in place, then we can make that happen. We have been talking about taking out a Single Buyer [and making it independent] for 10 years or so," Nik Nazmi says.