TENAGA NASIONAL
Better. Brighter.

Headline	Major changes seen in electric industry		
MediaTitle	The Star		
Date	14 Jul 2018	Language	English
Circulation	201,943	Readership	605,829
Section	Star BizWeek	Page No	4
ArticleSize	585 cm²	Journalist	GURMEET KAUR
PR Value	RM 44,475		

Major changes seen in electric industry

By GURMEET KAUR
gurmeet@thestar.com.my

THE POWER sector looks poised for a reset with a push towards renewable energy (RE) and the return of competitive bidding in awarding contracts.

On Thursday, the Energy, Green Technology, Science and Climate Change Ministry said it has cancelled four independent power producer (IPP) contracts that were awarded under the previous administration.

Its newly minted minister Yeo Bee Yin said none of the four are existing IPP contracts and one involves a listed company.

She said the Government is still in the midst of reviewing other contracts and intends to cancel as many as eight IPP contracts, including the four that have been cancelled.

In her inaugural town hall session with energy stakeholders, Yeo said the previous government had approved many IPP contracts through direct negotiation and direct award and the Government will be reviewing these contracts, especially those that bring no cost implication to it.

Separately, she said that the government wants to move forward with RE.

CIMB Research reckons that the IPP contracts review is just the beginning and there could be more changes in regulations and policies with a new minister in place.

"We see risk for power generators, particularly those with expiring power purchase agreements (PPAs) or upcoming plants.

"Power plants with PPAs expiring in the near term might not get an extension due to the excess power reserve, in our view," it said in a note yesterday.

Notwithstanding this, industry players agree that open tender for future projects is the way to go.

Recall that in 2011, the country's Energy Commission (EC) was given the mandate to handle the awarding of power plants based on a competitive process.

Before that, awards to build power plants were given on a direct negotiation basis, which sparked rent-seeking and ultimately contributed to a higher cost of electricity.

But in the last few years, there has been a regression, made worse by a slew of IPP licences dished out on a direct negotiation basis, prompting many unsolicited bids. Many of these were RE contracts to build up capabilities in the sector.

List of some directly negotiated power plant projects in recent years

Owner	Project
TNB-SIPP	Track 4A 1440MW CCGT
Edra	Track 4B 2242MW CCGT
Tadmax	Pulau Indah 1000MW CCGT
Quantum Solar Park	Melaka LSS 50MW
Quantum Solar Park	Kedah LSS 50MW
Quantum Solar Park	Terengganu LSS 50MW
Ranhill	Sandakan Sabah 300MW CCGT

*LSS – Large Scale Solar, CCGT – Combined Cycle Gas Turbine
Source: MIDF

Where listed companies are concerned, the incumbent players are YTL Power International Bhd and Malakoff Corp Bhd.

They are mostly involved in conventional power projects and sell their supply to utility giant Tenaga Nasional Bhd (TNB) through PPAs.

Besides being the single buyer from power generators, TNB has also emerged as a player in the RE sector in recent years.

New players in the power sector are Tadmax Resources Bhd, which was directly awarded a 1,000MW combined-cycle gas turbine plant on its Pulau Indah land in August 2016. The award had raised questions, as Tadmax lacked a track record in developing power plants, given that it was primarily a property company.

The company subsequently tied up with South Korea's state-owned company, Korea Electric Power Corp.

Late last year, the company shortlisted eight companies for the 2bil power plant project, which is slated to start operations in 2023. Early this year, Ranhill Holdings Bhd announced that it had received a conditional letter of offer from the EC to develop a power plant in Sandakan, Sabah, for the development of a 300MW combined-cycle gas turbine plant.

However, there has yet to be any development announced on this project so far.

According to MIDF Research, other IPPs under review might involve large-scale solar (LSS) projects.

Under the LSS initiative, Quantum Solar Park was one of the first companies to be awarded a project on a direct award basis in late 2016. The company has three PPAs signed with TNB for projects in Melaka, Kedah and Terengganu.

According to Hong Leong Investment Bank (HLIB) Research, some of the more recent IPPs inked were Tenaga's 70%-owned Jimah East and 51%-owned SIPP Energy Sdn Bhd, which is the Johor Sultan's private vehicle. But it says these are unlikely to be materially affected, given the company's prudent feasibility measures in buying these stakes back in 2015-2017. Furthermore, the projects were 90% and 30% completed as at end-March. As for YTL Power, it has one domestic Paka IPP under contract extension, but this is not considered a new IPP, say analysts.

The push for RE is in line with Pakatan Harapan's manifesto, which has pledged to increase its contribution from the current 2% to 20% by 2025.

It has also pledged to reduce the dependence on coal-fired power plants - one of the power-generation methods that has a serious impact on carbon dioxide emissions.

But for a meaningful development of the RE sector, three things are key: price, technology and efficiency, says analyst Hafriz Hezry of MIDF Research.

"Solar accounts for the bulk of Malaysia's RE. However, there is the issue of getting RE sources to reach grid parity for it to be cost competitive and gain a larger share of generation mix without burdening end-consumers," he notes in his report.

As a yardstick, he says in cycle two of the LSS awards, the average bid is about 37 sen/kwh, which is at a 19%-54% premium to the grid's displaced cost of 24 sen-31 sen/kwh. Current solar panel technologies here allow for an average four hours per day of power generation, which is still very low.

"Moreover, the LSS already entails a 21-year PPA (which ties in with the expected life of solar panels) and allows an 8%-10% internal rate of return to operators.

"So, technological development to improve solar panel generation ability and pricing are critical factors for meaningful development of solar-based RE, going forward," he adds. Currently, the country is heavily dependent on coal plants as they are a cheap fuel source. Coal contribution to the generation mix now stands at 54% from just 8.3% in 1996. But given that coal is entirely imported, this is not sustainable in the long run.

CIMB Research notes that 31% of the generation cost goes to capacity payment. Around 44% of electricity in the peninsula was generated by IPPs, while the remaining 56% by TNB as of last year.

Currently, the country has abundant reserve capacity of 30%, which is apparently much higher than most countries.

This inflates the sector's cost, as the non-utilised IPPs still need to be paid capacity payment, which in turn is passed on to consumers via electricity tariffs, say analysts.

Demand, meanwhile, has been growing by 2%-3% in recent years except 2016 which was inflated by a heatwave.

"Meanwhile, three first-generation PPA extensions (combined capacity of 1,660MW, or about 6% of installed capacity) are scheduled to expire up till 2020.

"While there is no indication of an ideal or target reserve capacity, the new minister has indicated that the abundant reserve capacity gives the industry decent time to build up its RE capacity within the next three to seven years, without the need for much more major new plant-ups in the near term," says MIDF Research.