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Energy sector moving towards competitive markets post election

KUCHING: The new government is highly likely to review large infrastructure projects, including oil and gas transfer pipelines and power plants.

According to Frost and Sullivan associate director of energy and environment, Abhishek Kumar, the projects are not at risk if they are considered to have been allotted fairly by the previous government and adopt fair business practices during their construction and operational life.

"Two major gas pipeline projects that could be reviewed are the Melaka to Jitra pipeline in Kedah and Sandakan to Kimanis in Sabah. Both pipelines are backed by Chinese investments and, based on the PH manifesto, are subject to review," Abhishek said.

In the power generation sector, IPPs which were awarded through direct negotiation without direct competitive bidding could be reviewed.

With the new government in place, Malaysia's energy sector will see business uncertainty from the anticipated GST removal, reinstatement of petrol subsidies and review of energy infrastructure projects.

"There could be three main implications for the overall energy sector. First, the upstream oil & gas contracts could see changes to compensate for lost government revenue," he said.

Second, the oil and gas transfer pipeline projects could be reviewed for their feasibility and necessity. Finally, the independent power producers could be subject to a review of their asset acquisitions during the previous government."

The projects are not at risk if they are considered to have been allotted fairly by the previous government and adopt fair business practices during their construction and operational life.

Through various policies, Malaysia's energy sector is moving towards an eventual competitive market.

The previous government introduced two major policies: Incentive-based Regulation (IBR) for TNB's transmission and distribution and the removal of gas subsidies in the power generation sector.

"IBR was introduced to drive better cost management and is incidentally aligned to the overall agenda of the new government. Hence, this is unlikely to be affected.

"The power generation mix will move away from dependence on gas by 2022, with about 66 per cent likely to come from cheap coal-fired capacity. Hence, removal of gas subsidies may not be a priority, unlike petrol subsidy removal.

"Moreover, gas subsidies amount to less than eight per cent of the overall electricity tariff component and are substantially less important from a consumer perspective."

As the GST accounts for about 18 per cent of the government's revenues, an abolishment will lead to lower government revenues. Frost and Sullivan said the government may try to compensate this revenue loss by demanding increased royalty and tax contribution in future production sharing contracts.

"Also, the favourable (high) crude oil prices will lead to increased contribution, some of which could cover the GST shortfall.

"With the reintroduction of petrol subsidies, the government is likely to incur significant burden through compensation to the petrol retailers for lost revenue.

"However, the introduction of subsidies will also increase the consumer's retail spending power. The fuel subsidy will result in lower cost of doing business for small businesses. These subsidies will help stimulate the economy and perhaps lead to better indirect tax collection."