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# Lighting the way ahead

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SOMETIMES, the biggest changes are when there is no change after all. This was the case when the Malaysian government decided earlier this year not to proceed with plans to restructure the power sector.

The move raised eyebrows because it had once seemed imminent that Malaysia, like most other countries, would reform the market by splitting up the generation, distribution and transmission of electricity. Back then, it was accepted wisdom that such a step would promote competition and improve efficiency, thus leading to lower costs all around.

The idea was for Tenaga Nasional Berhad (TNB) to gradually reduce its domination of the generation business - it produces about 60 per cent of the country's electricity - so as to facilitate open competition among the other power producers.

To pave the way, TNB put up for sale some of its power stations. It was also proposed that power pooling be introduced so that the industry would operate on a tender and offer basis in which TNB purchased power from the lowest bidder.

Then came the California energy crisis, which showed emphatically that a defective deregulation programme can be incredibly damaging (see accompanying story). Suddenly, power sector reforms did not look appealing at all. The main worry is that the free market mechanism may unleash the twin threats of fluctuating prices and market volatility.

`For a growing economy like Malaysia, reliability and security in electricity supply are important criteria. Price instability and unreliable supply are risks we cannot afford in our quest to industrialise,' explains Deputy Energy, Communications and Multimedia Minister Datuk Tan Chai Ho in a speech at a regional power generation conference in Kuala Lumpur last month.

`It is a trade-off between competitive pricing, and a stable and reliable supply. Any crisis that jeopardised the state of our energy industry could well set us back 20 years. This is something we cannot afford - not ever.'

Instead, Malaysia has opted to stick to the status quo. It is basically the `if it ain't broke, why fix it' argument. In a recent article he co-authored, Energy Commission chairman Datuk Mohamed Annas Mohamed Nor contends that the present structure is able to maintain stable and affordable prices, achieve the national socio-economic objectives, meet the challenges in funding power projects and sustain investor confidence.

Many consumers and businesses welcomed the policy reversal. They had feared that restructuring would mean paying higher electricity tariffs. To them, it is dangerous to tinker around with a strategic industry.

At the same time, there is no shortage of people who maintain that it is a mistake to shrink from restructuring. Some feel that the U-turn deters foreigners from investing in the Malaysian power generation business. In fact, it sends the wrong signals about our economic openness.

An industry insider cautions against using the California energy crisis as the basis for a blanket retreat from deregulation. `The California situation is a red herring. It's a flawed model to start with. You can't say deregulation is bad just because of this,' he adds. `What's important is to learn from the mistakes and come up with a better and more suitable approach.'

This is precisely what Malaysia is doing. Our way, according to TNB chairman Datuk Dr Jamaludin Jarjis in an interview in July, is to have the company continue as the sole utility, while the private sector becomes its strategic partner. `Yes, we are for competition. We should go down the path of free market, but it should be on the model which has been tried.'

Indeed, it is hard to find anybody who is willing to stand up and say with utter conviction that there is only one correct deregulation model. `No country can copy wholesale another country's privatisation programme. The concept is portable but the implementation has to be tailored. There are different drivers for each government's initiative,' says Robert McGregor of SG Barr Devlin, a consultancy specialising in utilities and power.

Now that it has abandoned the power pool proposal, Malaysia wants to inject more competition into generation by implementing an open bidding system for power plant construction projects after 2005. This will replace the current practice of awarding projects directly to companies.

But this too has its share of doubting Thomases. In the September issue of Asian Energy Infrastructure, a trade publication, managing editor Junior Isles wrote: `But with TNB currently owning about 65 per cent of grid connected capacity in Peninsular Malaysia, as well as a stake in most of the IPPs (independent power producers), the main issue will be market transparency to support the process of building new plants under a competitive bidding regime. This will be further complicated by the fact that system planning is also carried out by TNB.'

It is perhaps of some comfort that the goverment has established the Energy Commission as an independent regulatory agency. It is envisaged that the commission will have a strong role in the planning and monitoring of the power sector.

This is a critical time for the sector. The increasing emphasis on technology and industrialisation translates into a heavier reliance on electricity. The electricity peak demand is projected to grow by more than 117 per cent to 21,668 megawatts in the year 2010 compared to 3,447MW in 1990 and 9,948MW in 2001.

It is crucial that the country's generation capacity keeps up with this. Naturally, TNB is spearheading the expansion programme. According to one analyst, the utility will add another 4,530MW to its existing capacity of 7,510MW by 2005.

In addition, it was reported last August that local IPPs might spend up to RM40 billion on capital expenditure over the next five years, with the IPPs' total generation capacity being bumped up 15 per cent annually. However, some observers think this is too bullish an assessment. The introduction of the open bidding system and the fact that power purchase agreements are less generous these days, are likely to dampen the IPPs' enthusiasm.

In any case, there is always a compelling case for making more efficient use of our energy. It is a significant factor in a country's economic growth (see accompanying story). Prime Minister Datuk Seri Dr Mahathir Mohamad underscored this point when speaking at a forum in Kuala Lumpur last July, `With such huge demand growth expected in the future, it is imperative that we achieve greater energy efficiency. If we were to encourage our industrial and commercial sectors to improve their energy use efficiency by a mere 10 per cent, the resultant total national benefit will be more than RM5.8 billion over five years.'

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