

Client Alert

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Malaysia Electricity Supply Industry 2.0

As part of the ongoing effort to make the power industry more efficient and competitive, the Malaysian Cabinet had last month approved a 10-year masterplan known as Malaysia Electricity Supply Industry 2.0 (MESI 2.0) to reform the power industry.

For further information, please contact:



Mark Lim
Partner
+603 2298 7960
Mark.Lim@WongPartners.com



Siaw Wan Lim
Partner
+603 2299 6405
SiawWan.Lim@WongPartners.com



Faez Abdul Razak
Senior Associate
Faez.AbdulRazak@WongPartners.com

MESI 2.0 aims to liberalise the generation to distribution components of the power industry in Peninsular Malaysia as well as to better promote the use of green energy in Malaysia. The reforms include:

- **New breed of Power Purchase Agreements (PPAs)**

In efforts to drive down electricity tariffs, the Minister of Energy, Technology, Science, Climate Change and Environment (the Minister) stated that the government is doing away with the guaranteed capacity and energy payments that are commonly found in Malaysian PPAs. In addition, developers will be looking at PPAs with shorter tenures as opposed to the current 21-25 years fixed period.

While the current trend for issuance of PPAs is by way of tender (i.e. large scale solar or LSS projects¹), future PPAs may be issued by way of capacity auction. However, given Peninsular Malaysia's current high reserve margin (over 30%), new PPAs will unlikely be issued in the next 3-5 years.

- **Sourcing of own fuel**

Historically, conventional independent power producers (IPPs) were only able to source for fuel from TNB Fuel Services (for coal) and PETRONAS (for gas) as required under the terms of the relevant PPAs. According to the Minister, this concept does not incentivise IPPs to source for cheaper fuel as the cost of fuel will ultimately be passed on to end consumers.

The introduction of this independent sourcing mechanism will hopefully allow for any cost-savings to be shared between IPPs and end consumers. The Minister had also stated that IPPs are free to source for their own fuel on their own or even form a consortium. Recently, TNB Fuel Services, which is not an IPP, had secured gas from Shell Malaysia at a price which is below the regulated price. The gas will be used as fuel for TNB's Tuanku Jaafar Power Station in Port Dickson and TNB Connaught Bridge Power Station in Klang. Whilst the exact mechanism is still unclear, this does seem to open up the possibility that any party (and not necessarily an IPP) might be able to provide fuel to IPPs, thus creating a new market for IPP fuel providers in Malaysia.

¹ In the latest round of LSS projects, the lowers tariff proposed was RM0.1778/kWh. It is also worth noting that the PPAs for the latest round of LSS will still be for 21 years based on the terms of the request for proposal.



- **3rd party grid access**

The transmission grid and distribution lines will be opened for third-party access (TPA) by non-renewable producers. To promote the increase of renewable energy in Malaysia's energy mix, there will also be a quota of 100MW for renewable energy generators to directly sell the electricity generated to end buyers while Tenaga Nasional Berhad (TNB), being the owner of the grid, will be entitled to payment of certain access charges. The TPA framework is expected to be issued by end-2022 but, at the time of writing, the Ministry has not provided a specific date to enable TPA.

The abovementioned reforms will be scrutinised closely by both local and foreign investors with further details to be revealed over time. Overall, the gist of the reforms should be seen as a positive indication that the energy industry in Malaysia will continue to be a viable source of business opportunity.

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Wong & Partners
Level 21
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

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