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Power sector boosted by better demand for electricity

KUALA LUMPUR, Dec 15 — The government's aggressive vaccine rollout to tackle the pandemic and the economic reopening on full swing augur well for the country's power sector amid higher utilisation from the manufacturing and commercial sectors.

Despite the emergence of the Omicron variant, Malaysia is on track to achieve the targeted gross domestic product (GDP) growth of 3 to 4 per cent this year, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said recently.

The country's largest utility company Tenaga Nasional Bhd (TNB) saw its net profit rise 17 per cent to RM2.78 billion for the nine months ended September 30, 2021, compared with RM2.38 billion for the same period in 2020, on the back of RM36.89 billion revenue, up 9.64 per cent from RM33.65 billion.

TNB had said demand for electricity has started to show improvement, growing at 0.6 per cent against a contraction of 6.2 per cent in the same period last financial year.

It foresees a stable performance for the fourth quarter of the year.

According to the **Department of Statistics Malaysia (DOSM)**, the utility index posted a higher growth of 0.7 per cent for the electricity and gas supply index in October compared to a year ago.

Electricity demand

Analysts opined that the demand for electricity has now shown some recovery compared with last year, underpinned by the higher utilisation from manufacturing and commercial sectors.

"The electricity demand is expected to improve by year-end and into next year in tandem with the economic reopening under the National Recovery Plan (NRP)," they said.

The generation reserve margin is expected to be at 52 per cent by year-end and to drop below 25 per cent in 2030 before settling at 21 per cent by 2039.

"Demand for electricity in Malaysia is always growing in tandem with its GDP.

"With the maintained 2021 full-year GDP growth target of 3 to 4 per cent, supported by an increase in economic activity as virus containment measures are progressively relaxed amid continued policy support, the power utility sector would also be tracking the economic performance and see some growth," they added.

Higher fuel prices influence electricity tariffs

Although the world this year is facing an energy crisis where the demand for energy commodities exceeds supply and this is causing volatility in short-term pricing with global spot prices for natural gas soaring, the impact on Malaysia has not been alarming.

Minister in the Prime Minister's Department (Economy) Datuk Seri Mustapa Mohamed has assured that Malaysia is managing its energy security despite the increase in energy commodities, namely coal and liquefied natural gas.

Natural gas and coal are used to generate nearly 95 per cent of Peninsular Malaysia's electricity, the costs of which make up nearly 42 per cent of base electricity tariff presently. He said the government through the Economic Planning Unit (EPU) and agencies such as Petronas have undertaken measures including the liberalisation of the gas market to further strengthen the nation's energy security.

The costs of commodities such as oil, coal and natural gas have a major impact on the cost of electricity generation. Therefore, the volatility in terms of pricing coupled with the shortage of supply would create a knock-on effect on electricity tariffs. Swings in fuel costs after the adjustments will be incorporated as surcharge or rebate to the imbalance cost pass-through (ICPT) mechanism every six months.

The next change is scheduled for the start of 2022. As a government-linked company, TNB has provided electricity bill discounts to end-users throughout much of the Covid-19 pandemic period as part of the government's aid package to households and businesses.

According to TNB, some RM2.67 billion worth of electricity bill discounts has been disbursed to its customers in the April-December 2020 period. The discounts will add up to RM3.31 billion by the end of 2021.

The average base tariff stood at 39.45 sen/kWh in 2018-2021, of which 16.5 sen was for fuel costs. In the second half of 2021, an ICPT surcharge of 0.87 sen/kWh that amounted to RM493 million was borne by the Electricity Industry Fund (KWIE), which was given as rebates to consumers.

Clean energy opportunity

Energy transition will remain as one of the key priorities as more corporates, as well as utility players, continue expanding their renewable energy (RE) exposure.

Malaysia has a target of RE to grow to 31 per cent of the generation mix by 2025 and 40 per cent by 2035. At the moment, RE contributes to 18 per cent of Malaysia's energy mix, dominated by hydropower technologies, which account for 86 per cent of renewable capacity.

By way of illustration, the installed capacity for RE is presently at 7,995 MW. By the year 2035, the projected installed capacity for RE is approximately 18,000 MW – which is more than double the present installed capacity.

The Ministry of Energy and Natural Resources (KETSA) has stated that with the above RE targets, the carbon emission intensity from the power sector is set to be reduced by 45 per cent in 2030, and by 60 per cent in 2035. This will be consistent with Malaysia's targets under the Paris Agreement.

Solar energy has been identified as being the RE with the highest potential in sunny Malaysia. With that in mind, Malaysia intends to introduce battery energy storage systems with a total capacity of 500MW from 2030 to 2034. These battery energy storage systems will enable the storing of excess energy generated by solar panels for later use.

The announcement by Prime Minister Datuk Seri Ismail Sabri Yaakob that Malaysia will not construct any new coal power plants while delivering the 12th Malaysia Plan in Parliament would also pave the way for non-hydro power renewables to meet an increasing power demand amid retiring thermal power plants.

The introduced Green Electricity Tariff (GET) programme in November 2021 to replace the current myGreen+ scheme will also spur the growth of renewables as it gains interest from multinational companies. The main objective is to enable consumers to reduce their carbon emissions by purchasing renewable energy, with the target of 4,500GWh of renewable electricity to be distributed for the GET programme.

TNB, HSBC, Nestlé Malaysia and CIMB Bank are among the companies that showed interest in the scheme and additionally, the Energy Commission, Sustainable Energy Development Authority (SEDA) and MyPower Corp, all governmental bodies, have committed to purchase all their electricity from the GET programme.

On the corporate front, Nestle Malaysia for example said it would fully transition to RE across all its operations in Malaysia as of Jan 1, 2022, allowing it to reduce emissions by 75,000 tonnes of carbon dioxide equivalent every year.

TNB said it planned to invest RM22 billion in 2022-2024 under the Incentive-Based Regulation (IBR) framework to continue developing the grid of the future into a key enabler of the energy transition, supporting the country's goal to shift from using fuel to 31 per cent of RE by 2025.

KETSA Minister Datuk Seri Takiyuddin Hassan also expressed his ministry's commitment in pursuing its agenda to ensure that the country's natural resources are safeguarded, and managed sustainably and responsibly for future generations.

Takiyuddin said that in line with the agenda to address the country's climate change, KeTSA is also committed to increasing electricity generation from renewable energy sources through the Electricity Supply Generation Development Plan 2021-2039.

Electricity outlook

After falling about one per cent in 2020 due to Covid-19 pandemic impacts, global electricity demand is set to grow by close to five per cent in 2021 and four per cent in 2022 driven by the global economic recovery, according to the International Energy Agency (IEA).

In its semi-annual electricity market report, it said the majority increase in electricity demand is expected to come from the Asia-Pacific region, particularly China and India.

"Based on current policy settings and economic trends, electricity generation from renewables – including hydropower, wind and solar photovoltaic is on track to grow strongly worldwide the next two years – by eight per cent in 2021 and by more than six per cent in 2022.

"But even with this strong growth, renewables will only be able to meet around half the projected increase in global electricity demand over those two years," said the IEA report.

Meanwhile, according to MIDF Research, electricity demand saw a gradual recovery in the first half of 2021, rising 4.4 per cent year-on-year (y-o-y) in line with the recovery in macro conditions.

However, the third quarter (Q3) saw an interruption in this recovery momentum with demand registering a contraction of 6.7 per cent y-o-y to 26,830GWh following the re-imposition of strict lockdowns between June and mid-August.

"While we now expect tepid growth for 2021 given the hiccup in Q3, in the absence of further lockdowns, we expect 2022 demand growth of 2.8 per cent y-o-y to 114.8 TWh, backed by an expected six per cent GDP growth," it said in a note.

— Bernama

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