

Chapter 10

CONCLUSION

The same forces of competition that had transformed the transportation, financial and telecommunication industries in the past two decades are now reshaping the electricity supply industry. Consumers will now have a choice in determining their electricity supplier, the package of services and the associated prices that best meet their needs.

Many countries had or already in the process of restructuring the electricity industry. Often, this reformation will result in the separation of the vertically integrated state-owned utility into transmission, generation, distribution and supply functions. A crucial element of the restructuring program is the creation of a wholesale market, commonly known as power pool.

For Malaysia, several strides were achieved in the deregulation and privatization efforts. TNB was privatized in 1992 allowing private sector to own about 30% of TNB when the paid up capital was enlarged. This was followed by the entry of independent power producers (IPPs), majority owned by private sector, from late 1994.

The internal restructuring of TNB has also been completed with the subsidiarisation of its generation, transmission and distribution functions. A grid system management division was also formed by TNB to enhance the transparency and impartiality in dealing with power producers with respect to power procurement management and grid dispatch transactions. This division is planned for transformation into an independent grid system operator (IGSO). The Malaysian Government even went as far as appointing international consultants to undertake a detailed study on the practical design of a competitive electricity market in this country. Alas, recent events in California had resulted in TNB to

completely halting its earlier deregulation program. Instead, TNB has managed to convince the government to adopt the Managed Market Model (3M), which is basically a single buyer model in disguise. The 3M model allows only a limited form of competition.

The power crisis in California does not justify the conclusion taken by TNB. Many of the features in the California market have no immediate or even near term relevance to the electricity supply industry in Malaysia. Instead, lessons can be learned from the California crisis in terms of market design and risk management.

In addition to the single buyer model approach, there are many other type of power pool models that can be adopted by Malaysia. The net pool model, which allows for bilateral trading, is an example of a power pool that can be considered by the Malaysian government. The Singapore and Thailand authorities have already adopted this similar model. Bearing in mind the vision of an ASEAN Power Grid (as mandated by the ASEAN Head of States and Governments under the ASEAN Vision 2020), a common power pool model would ease transactions across borders.

However, having good attentions of setting up a power pool is not good enough. Any reform must pay close attention to the design of market structure, the particular problems that need to be solved and the appropriateness of the path selected for solving these problems. Issues such as the role and functional operational of the independent system operator, market power mitigation, design of wholesale market, transmission and distribution constraints and retail competition need to be ironed out prior to any attempts at reform. Like all human endeavors, power sector reform can be done well or done poorly.

Even when the reform program is put in motion, experiences from other develop countries (such as the United Kingdom and Australia) have demonstrated the

need for continuously "fine tuning" of policy in order to ensure that the benefits of competition are truly reaped. In a competitive market, risk management tools such as financial derivatives would also need to be developed.