

ABSTRACT

Over the past decade, a number of nations have restructured their electricity industries. Several nations have also significantly reduced the government's role in the ownership and management of the electricity industries both at the state and national level. The wave of changes is driven by the forces of competition; the need to make the industry more efficient and allowing customers to have choices in deciding their electricity supplier, the package of services and the associated prices that best meet their needs. A crucial element of the deregulation and reform in the electric industry is the creation of a wholesale electricity market, commonly known as power pool.

The objective of this study is to determine how a competitive electricity market can be established in Malaysia.

To achieve this objective, this study will review the current structure of the electrical industry in Malaysia and the progress so far in terms of restructuring. The recent electricity reform in other countries (Australia, United Kingdom and California, United States) and ASEAN Member Countries will be assessed in order to gain important lessons. The recent power crisis in California highlights the dangerous pitfall of restructuring if the market design is adopted in haste. In setting up a wholesale electricity market, there are several types of power pool models that Malaysia can choose from. In order for the chosen power pool to be effective in promoting competition, this study reviews some of the basic elements that need to be considered in the market design stage. This study also introduces some of the financial derivatives that can be used to hedge against risk in a competitive electricity market.