

IFGE2018 Conference in Malaysia

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On February 13, the International Forum on Global Energy Landscape: Electricity and Gas Market Liberalization and Its Implication to Malaysian Economy (IFGE 2018) took place in Malaysia's Putrajaya. The forum was sponsored by Universiti Tenaga Nasional (UNITEN) and its Institute of Energy Policy and Research (IERPe) with support from the Malaysian Energy Commission and Malaysian state-run utility Tenaga Nasional Berhad. It was the second such conference following IFGE 2016 in December 2016.

I have served as international adviser to the Energy Commission at UNITEN and cooperated with the Malaysian sponsors in making arrangements, including program planning, for IFGE2018 as well as for IFGE2016. As indicated by the title, the conference focused on electricity and gas market liberalization and reform in the changing global energy situation and dealt with how to interpret relevant moves in the world, what implications these moves have for Malaysia and how Malaysia should respond to them.

In addition to high-level Malaysian participants including the Energy Commission chairman and acting CEO, foreign experts attended the conference, including Patrick Heather from the British Oxford Institute for Energy Studies, James Alan from Singapore's Frontier Economics, Yenfei Li from Indonesia's Economic Research Institute for ASEAN and East Asia and Suthee Travivatana from Thailand's Chulalongkorn University. I was given an opportunity to deliver a keynote address at the outset of the forum. Highlighting the conference were very interesting presentations and discussions by these foreign experts and Malaysian electricity and gas business stakeholders on electricity and gas market liberalization and reform as the topic for the forum. In the following, I would like to summarize their key points.

First, I felt that Malaysia and other Asian emerging countries are highly interested in what they should learn from preceding electricity and gas market liberalization and reform initiatives in Europe, the United States and Japan. The theme for the forum reflects that interest. The Malaysian energy market, where state-run companies are dominant under government regulations and control, contrasts with the deregulated and competitive markets in Europe, the United States and Japan. However, Malaysia has already been implementing electricity and gas market reform initiatives. A Malaysian speaker explained some ongoing initiatives including the introduction of third-party access to key gas market infrastructure such as LNG terminals. These initiatives have just started and indicate that Malaysians are exploring how to liberalize energy markets in consideration of the unique Malaysian conditions (including energy subsidies for low-income people) and are willing to learn lessons from developments in the world.

Second, electricity and gas market reform is not necessarily easy but rather challenging not

only for Malaysia attempting to learn lessons from earlier reform cases but also for Western countries that have implemented such reform and for Japan that is now tackling such reform. In discussions at the conference, one participant gave a view that the introduction of competition and the utilization of market mechanisms and market pricing would be essentially important and should be pursued. Another pointed out that market liberalization and maturation would take 10 or more years as indicated by Western experiences. Interestingly, participants noted that political or policy commitments would be required to maintain such a long reform process and that market participants would play key roles in producing bottom-up changes in which market pricing would be selected in response to deregulation. They also pointed out that the principle of self-responsibility should be retained culturally for market liberalization and competition promotion.

Market liberalization is naturally expected to push down electricity and gas sales prices through competition pressure and its cost reduction and rationalization promotion effects. It could also increase consumer utility by expanding the range of options for consumers. Liberalization could create new business opportunities and lead to economic and social vitalization. Participants in the conference noted that new energy technologies expanding in the global energy market at a remarkably high speed, including those for electricity storage and renewable energy, could be combined with artificial intelligence and Internet of Things technologies to explore new business horizons and be utilized in a liberalized world.

However, it must be noted that changes in energy prices for final consumers in a liberalized market depend not only on the effect of competition but also on other (occasionally more influential) factors including crude oil price fluctuations and renewable energy surcharges, making it difficult to identify the effect of competition. Just after liberalization and competition introduction, many players may enter into the market to vitalize competition. As competition essentially represents a world for winners and losers, however, a small number of strong companies may eventually survive to cause a market power problem. In addition to the classic “missing money” problem regarding the recovery of capital investment in a competitive wholesale electricity market, we now see a new “missing money” problem arising from renewable energy’s massive inflow into the electricity market. At the conference, it was pointed out that a capacity market or mechanism and other measures would have to be taken to secure capital investment recovery and necessary capital investment. Furthermore, we must understand that it is not easy to realize the future picture of energy pursued to address market externalities including energy security and environmental measures in a liberalized, competition-dominated market. The United Kingdom’s introduction of feed-in tariff and contract for difference (FIT/CfD) programs, U.S. liberalized-market states’ adoption of the zero-emission credit system and the consideration of how to introduce the value of baseload electricity sources on a federal basis in the United States indicate that political initiatives are indispensable for addressing market externalities.

In my keynote address at the forum, I pointed out that market liberalization would be a grand social test in a sense. As far as liberalization is a social test, it can be turned out to be successful or not. Depending on specific developments, liberalization may have to be reviewed and adjusted. Any country must balance its pursuit of advantages gained through liberalization and competition with its response to energy security and environmental problems. It will be important for Malaysia, Japan or any other country to have a strategic control tower based on a broad, high perspective to balance the so-called 3E’s – energy security, economic efficiency and environmental protection – which could occasionally trade off with each other.

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