OPENING SPEECH BY

YB DATUK SERI PANGLIMA DR MAXIMUS JOHNITY ONGKILI

MINISTER OF ENERGY, GREEN TECHNOLOGY AND WATER

AT THE 6th NATIONAL ENERGY FORUM 2015

10 March 2015, 9.00 a.m.

Intercontinental Hotel, Kuala Lumpur

YBhg. Dato Abdul Razak Majid
Chairman of Suruhanjaya Tenaga and Energy Council of Malaysia

YBhg. Dato Dr. Nadzri Yahaya,
Deputy Secretary General (Energy)
Ministry of Energy, Green Technology and Water

YBhg. Datuk Ir Ahmad Fauzi Hasan
Chief Executive Officer of Suruhanjaya Tenaga

Ir Pramod Kumar Karunakaran
President of Malaysia Gas Association (MGA)

Mr Nobuo Tanaka
Global Associate for Energy Security and Sustainability,
Institute of Energy Economics Japan (IEEJ)
and Former Executive Director of International Energy Agency (IEA)

Dr Dejan Ostojic
Lead Energy Specialist, World Bank

Dato-Dato, Datin-Datin

Heads of Government Agencies and Corporate Organizations

Distinguished Guests and Participants

Ladies and Gentlemen,

A Very Good Morning, Salam Sejahtera and Salam 1 Malaysia

1. I would like to take this opportunity to express my sincere appreciation to the organisers, namely, Suruhanjaya Tenaga, Malaysian Gas Association and the Energy Council of Malaysia for inviting me to deliver the opening address at this 6th National Energy Forum 2015. The hosting of this Forum is timely and relevant in view of the dynamic changes that are currently taking place, globally and locally, in the energy industry.

2. Since its inception, this Forum has been able to bring together annually energy sector policymakers and industry players to a common platform to deliberate on current issues and challenges facing the industry and explore possible solutions for us to move forward. I have been made to understand that the participants this year have greater expectations as we shall be looking forward to the presentations by Mr. Nobuo Tanaka, Global Associate for Energy Security and Sustainability, Institute of Energy Economics Japan (IEEJ) who was the Former Executive Director of the International Energy Agency (IEA) and also Dr Dejan Ostojic, Lead Energy Specialist World Bank.

LADIES AND GENTLEMEN,

3. In the past decade, the tightening of the supply situation in the global energy markets had resulted in unpredictably high and volatile fuel prices. In many countries, such volatility had worsened supply security and price subsidy situation, especially in those countries which depend heavily on oil, gas and coal as fuels for their power generation.

4. Nevertheless, towards the end of 2014, the global energy market underwent some dramatic changes in a new direction. The international crude oil market saw an end to the "high price equilibrium" that had prevailed since 2009. Outside our shores, the massive production of shale oil in the United States has changed the oil and gas supply equilibrium. The US, which used to be among the world's biggest energy consumers, has today become a major oil producer with an ample supply of shale oil, which can be termed as unconventional fuel.

5. As the geopolitical tensions in oil-producing countries eased, the world's oil production rose, resulting in an oversupply of crude oil, sending its prices on a downward path, as demand grew at a slower pace. Oil prices sunk to five-year lows, with a recorded drastic drop of 49% in six months in 2014. The price of the International Brent Crude was at its peak in June 2014 at US$115 a barrel, and has fallen to around US$50 recently. Currently the market is transitioning to reach a new equilibrium.

6. The future world supply-demand balance will see the oversupply likely to continue during 2015 as long as OPEC maintains its daily production of 30 million barrels based on its November 2014 decision. The supply is projected to exhibit a continuously weakened supply-demand balance, exceeding demand by a staggering 1 million to 2 million barrels per day for the first quarter of 2015.

LADIES AND GENTLEMEN,

7. Today, we are in the first quarter of 2015 and our nation has just about 5 years on the last leg of our journey towards attaining a high income nation status by 2020. We are all faced with situations that have consequences for years – and even decades – into the future. The perspective for the near future which is characterised by a weak ringgit, low oil revenue, budget deficit, rising cost of living and depressed consumer sentiment pursuant to the implementation of the Goods and Services Tax come April, and the high level of household indebtedness - will all result in a very challenging year.

8. Although the big picture looks rather depressing, nevertheless, we believe that this is quite likely to be a temporary situation for the country. Much of the underlying fundamentals that have been driving the local markets have not changed. While the short-term ringgit weakness is expected, a repeat of the financial crisis that earlier ravaged Asia is unlikely, as Malaysia’s economic fundamentals remains intact. Latest economic data suggest that the much feared

ramifications of lower oil prices on growth and current account surplus has yet to materialise, due to steps taken to diversify our economy, our exports and our revenue base. All these efforts have paid off and domestic demand is now the anchor and driver of growth.

LADIES AND GENTLEMEN,

9. The country will soon be rolling out the 11th Malaysia Plan (11MP) for the 2016 to 2020 period. The 11th MP is expected to propel Malaysia towards achieving high income status by 2020, as most indicators are suggesting that we are on the right track. In line with such aspirations, we have to strive towards ensuring a sustainable energy future for the nation that encompasses three elements namely, i.e. adequacy of supply, security of supply and affordable energy.

10. In the electricity sector, Peninsular Malaysia recorded its maximum demand at 16,901 MW on 11 June 2014, representing a 2.05 percent increase over the 16,562 MW achieved in 2013. With an installed capacity of 21,060 MW, this is adequate to cater for the demand, with a reserve of about 25 percent. For Sabah, the demand rose by 3.6 percent from 874.4 MW in 2013 to 907.5 MW in 2014.

11. As we are all aware, in meeting our energy supply needs, Malaysia is fortunate of being quite well endowed with energy resources, and has achieved considerable progress in developing

the resources in line with its National Energy Policy Objectives. Nevertheless, moving forward, there is an urgent need for an effective multi-pronged policy response by all stakeholders in the industry to deal with the vulnerability of severe supply disruption situations and of economic uncertainties induced by extreme fuel price volatilities. On its part, the Government will continue to give high priority to ensure greater security and sustainability of our energy supply, focusing on the diversification of our energy mix with the view to maintaining self-sufficiency and optimum efficiency in the utilisation of the nation's indigenous resources.

12. Under the current market sentiment of sluggish demand, there will not be a problem of ensuring adequate energy in terms of LNG cargoes or coal arriving at our shores. However, will it be sustainable in the future? As said earlier, this is seen as a temporary situation, until the market finds a new equilibrium. The future is understandably neither completely predictable nor completely random. Any meaningful exploration of possible future landscapes inevitably highlights alternative features or patterns.

13. For certain, Malaysia will continue to face complex choices and challenges in the process of expanding and optimising its fuel mix. For the year 2014, the electricity generation mix in Peninsular Malaysia consisted of natural gas at 51.8 percent, coal at 42.3 percent, hydro at 3.6 percent, oil at 1.8 percent and others at 0.5 percent. For Sabah, the mix natural gas at 75.7 percent, oil at 14.9 percent, hydro at 5.7 percent and biomass at 3.6 percent. Long term

measures to increase energy security will include reducing dependence on imported fuel, such as coal and LNG, increasing the number of suppliers and reducing overall demand through energy efficiency and conservation measures.

14. Ultimately, these measures might involve entering into international agreements for cross-border energy supply. In this respect, we are fortunate that ASEAN has a master plan in place and has already made progress towards having an integrated ASEAN gas and power supply infrastructure networks in the near future. The first proposed multilateral power trade known as the Laos-Thailand-Malaysia-Singapore Power Integration Project (LTMS-PIP) will be a significant milestone in the ASEAN power agenda when it is realised in 2018 and will pave the way for future interconnections between ASEAN countries and towards realising the ASEAN Power Grid.

LADIES AND GENTLEMEN,

15. It has been said time and again that Energy Efficiency should the first and primary lever to ensure energy security. A more aggressive programme should be instituted to realise the benefits of energy efficiency practices. At present, the Ministry is reviewing and finalising the National Energy Efficiency Action Plan which is expected to be released soon. We have implemented various energy efficiency initiatives and have embarked on more ambitious initiatives like the Energy Procurement Contracting (EPC) to bring

about quantum changes. As you are aware, EPC targets at reducing energy bills and the savings pay for the investments required to bring about that reduction in energy consumption.

16. On Renewable Energy (RE), Malaysia has already implemented the Feed-in Tariff (FiT) system and this has contributed towards promoting RE in Malaysia. In fact, we are now exploring ways and means to make the RE fund to be spent in more cost effective ways because public scrutiny of the FiT system is getting more intense. This is another area where we could cooperate to exchange information and ideas on other innovative ways to continuously promote RE. I strongly believe that the FiT should not be the only way to promote RE. The initiative by the Suruhanjaya Tenaga and Sustainable Energy Development Authority (SEDA) to develop guidelines for net metering and own consumption of solar PV energy, and the guidelines for utility scale solar, will help to spur significant growth in solar PV sector, particularly the use of solar PV energy for self consumption.

17. As nuclear is also a viable and sustainable fuel choice for power generation, the Government has not ruled it out as a possible solution for our long term energy security. In the 1980s, we decided to defer the nuclear option for Malaysia, subject to periodic review. The establishment of the Malaysia Nuclear Power Corporation (MNPC) to spearhead nuclear related programme is the first step towards the “big picture”. Public acceptance will be a critical issue that needs our urgent attention.

18. The Government is also looking into developing a New Enhanced Despatch Arrangement (NEDA) for the electricity sector. This initiative that will be spearheaded by the Suruhanjaya Tenaga will improve dispatch efficiency through short-run competition in generation. It will also enable energy-efficient options, particularly the use of efficient technology e.g. co-generation based plants, to provide an opportunity for generators such as co-generation, embedded generation and expiring/expired IPPs to maximise use of their assets for the benefit of the electricity supply industry and to enable the procurement of reserve capacity to manage short-term system requirements.

19. Incentive-Based Regulation (IBR) has been implemented from early 2014 with a mechanism for imbalance cost pass through (ICPT) in place. It allows for a structured way of tariff setting that introduces an incentive for the utility to save cost without jeopardising its service quality to consumers. The announcement by the Government on 11th February 2015 that the tariff will be reduced by 2.25 sen per kilowatt hour from 1st Mac 2015 until 30th June 2015 is based on the ICPT measure.

LADIES AND GENTLEMEN,

20. In view of the future import of fuel resources, particularly LNG and the need to rationalise the subsidy for the price of piped gas, it is imperative to balance the affordability of the power sector against the need to ensure security. As such, future power development in

Peninsular Malaysia will mostly rely on coal as the fuel of choice until 2025. Under this scenario, more than 40 million tonnes of coal is needed in the next five years, which is a 50 percent increase from the present requirements. Managing the risks of importing such quantities will be a huge challenge to the power sector, and new ways of managing and procuring coal has to be thought of.

21. Invariably, capital flows to the power sector will need to rise substantially over the coming decades to build new power stations and add sufficient transmission and distribution capacities. Under investment is going to be potentially disruptive for the industry.

LADIES AND GENTLEMEN,

22. In conclusion, what I would like to reiterate is that the global energy sector is currently facing a number of tough challenges. In addressing these challenges, it is vital that policy makers, regulators and industry players collaborate and strategise to arrive at a win-win solution for all. In managing this risk, we must take all necessary measures to conserve our resources for the future survival of our economy. In short, we have to be more efficient, effective and use our energy resources in an optimal manner.

23. I hope that today's presentations and discussions will be valuable to all participants in their roles as stakeholders in the energy industry. Last but not least, I would like to take this

opportunity to thank the speakers and forum panelists who have agreed to share their expertise and knowledge and not forgetting also, to each and every one of you for taking the time off to attend this Forum to share your valuable experience and insights with all of us today.

24. On that note, I have the pleasure to officially open the 6th National Energy Forum 2015.

Thank you.

Ministry of Energy, Green Technology and Water
10 March 2015