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Power generation firms to face more competition

HLIB says more companies bidding for LSS projects now

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PETALING JAYA: With the government's push towards renewable energy, large power generation companies, including Tenaga Nasional Bhd (TNB), would be affected as they face increasing risk of capacity replacement.

This is because, each large-scale solar (LSS) capacity is only up to 100MW for their expiring power purchase agreements (PPAs), while each player is only allowed to bid up to three LSS for every tender program.

According to HLIB Research, the bid for LSS projects have also seen an increasing number of participations, including from non-conventional power companies.

This has come about due to the lower capital upfront requirement; easy operation and maintenance; and the no fuel requirements as opposed to conventional power plants.

"Therefore, existing power generation companies are likely to face increasing competitions with lower rates of returns," it said in a report on the power sector outlook yesterday.

The research firm pointed out that no large power generation companies – Tenaga, Malakoff Corp Bhd and Edra group – were successful in the bidding for the recent LSS3 program, which saw the award of 490MW capacity under LSS3 for 2020-2021.

HLIB Research said it believes that rates for this were well below 25sen/kWh, which lower than 27sen/kWh assumptions of the base tariff rate under Regulatory Period 2 (RP2). This indicated the significant drop in solar project development costs as well as the acceptable rate of returns.

Another round of tender for 500- 600MW capacity under LSS4 is expected in 2020.

The government targets to have 20% of power generation capacity from RE by 2025 through initiatives such as feed-in-tariff, self consumption) and net energy metering, besides LSS.

HLIB Research also sees rising earnings risks for the power sector, especially towards power generation independent power producers (IPPs) following reforms announced under MESI 2.0.

With the liberalisation across the utility industry from fuel sources, IPPS would inherit the uncertainty of securing the supply and prices of fuel such as coal and gas and subsequently uncertainty in its ability to sell their capacity/energy generation and the selling prices under the auction mechanism.

Nevertheless, the research firm does not anticipate similar situation to Singapore where competitive pressure on the power generation sector dragged the whole sector into the red.

"Unlike Singapore, Malaysia power sector does not face the issue of severe power gener-

ation overcapacity of in the system with long term take-or-pay LNG contracts.," the report noted.

As for the coming RP3 that will run from 2021-2023, the research firm said that the Energy Commission (EC) and TNB are expected to finalise the new structure of regulated asset base by the second half of the year.

"Similar to RP2, we believe there would be further scrutiny to the structure and potentially lower allowable rate of return under RP3.

"Compare to RP1, EC has reduced the allowable rate of return to 7.3% and introduced annual revenue adjustments for revenue cap price setting business entities under RP2," it said.

For the first half of the year, TNB is allowed to charge an imbalance cost pass through (ICPT) of +2.0sen/kWh (on top of 39.45sen/kWh) to industry and commercial users to cover the higher coal cost in the 2H19 and increase in piped gas price of RM1.50/kWh in 1H20.

On the other hand, domestic users will continued be charged at base tariff 39.45sen/kWh with ICPT being subsidised through KWIE fund.

HLIB Research has a neutral call on the power sector with a hold on TNB and YTL Power International Bhd given that both stocks "are fairly valued at current pricings."