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Opinions on topical issues from thought leaders, columnists and editors.

By: Energy Commission

The oil and gas industry is recognised as one of the most progressive industries in the world, with natural gas being the single largest source of energy to power up our country.

Malaysia's consumption of natural gas has its beginnings in Sarawak with the introduction of domestic and commercial piped gas in the early 1960s. This was followed by Peninsular Malaysia in the 1980s, when the Gas Master Plan (GMP) study was implemented, which set the stage and roadmap for the development of the natural gas industry in the country. One of the more important recommendations from the GMP was the implementation of a project that puts in place the transmission pipeline grid for the Peninsular Malaysia, known as the Peninsular Gas Utilisation (PGU) project. Today, the PGU boasts an impressive 2,623-kilometre high-pressure transmission pipeline network that connects to the 2,465-kilometre Natural Gas Distribution System (NGDS) network of distribution and feeder pipelines which, collectively provide reliable access of natural gas to the consumers throughout Peninsular Malaysia.

Over the past few decades, Malaysia has enjoyed unprecedented economic growth and natural gas played a key role in providing a clean and reliable source of generating electricity for the country. This has indirectly spurred the development of by-products derived from natural gas processing and spawned a petrochemical industry that is today an important contributor to the country's Gross Domestic Product (GDP).

Natural gas has consistently been the country's leading source of energy since 1997. At its peak in 2006, natural gas accounted for almost 53 percent of Malaysia's primary energy supply. Furthermore, as the world shifts towards energy transition, natural gas continues to be a prominent driver to the country's economic growth. Given that natural gas is the cleanest burning fossil fuel, its inherent characteristic as a flexible and reliable fuel makes natural gas the perfect partner to renewables in ensuring that the country achieves its commitment in carbon emission reduction.

Moving from a low-income nation to a developing country, the Malaysian natural gas market has been subsidised. This has created a business environment that had allowed local businesses and industries to grow and thrive. However, continuing the subsidised environment may lead to price distortion in the economy, as the true costs of production are not being reflected.

The Ministry that is responsible for the economic planning of the gas market is the Prime Minister's Department (Economic Planning Unit). It is responsible for formulating policies for the nation's medium and long-term development plans. Under the Gas Supply Act 1993 purview, the Energy Commission (Suruhanjaya Tenaga or ST) is the agency responsible to regulate and oversee the economic, safety, and technical aspects of the gas sector. As for the natural gas processes from upstream to downstream for both physical infrastructure and supply chain, they are governed by multiple entities.

As complicated as the process may be, we have to wean ourselves from an over-reliance on price subsidies and find new ways to allow the natural gas price to naturally be determined by the forces of supply and demand. The subsidy-centric economic model that has enabled Malaysia to grow from a low income to middle-income economy would not be sufficient to address the challenges of becoming a high-income nation, whilst transitioning into a sustainable low-carbon economy. In the journey towards that, the energy sector needs to transform to ensure its sustainability over the long term. Reforms in relation to the natural gas market have to be seen in that context. It entails changes in the following areas:

- Introducing market efficiency and flexibility through the removal of monopolies;
- Ensuring security of supply in the face of rising demand by increasing supply diversity;
- Ensuring ease and fair access to the relevant gas supply infrastructures to third parties

Understanding the need to better manage our natural resources for the future, the Government is working towards liberalising the natural gas market in Peninsular Malaysia to allow market forces to determine the natural gas price. The first step towards natural gas market liberalisation is with the introduction of the Third-Party Access (TPA) regime. As its name suggests, the TPA regime allows third parties, access to the natural gas market infrastructure to deliver gas to consumers.

To enable TPA to take place, the Government has in 2016, amended the Gas Supply Act 1993. The Gas Supply (Amendment) Bill 2016 which was gazetted on 9 September 2016 introduced the following main objectives:

- To allow third-party suppliers to gain fair access within the gas value chain,
- To promote healthy competition in the natural gas supply industry, and
- To enable natural gas consumers to benefit from competitive prices, better services, and enhanced sustainability and security of supply

The amendment of the Gas Supply Act 1993 effectively allows for new players, particularly shippers to supply natural gas to the consumers and importers to procure Liquefied Natural Gas (LNG) from the international market and import it into Malaysia, thus strengthening their supply source portfolio.

By allowing access to the infrastructure in a transparent, fair, and non-discriminatory manner, the legislation paved the way for the introduction of the TPA regime in Peninsular Malaysia. As part of the subsidy rationalisation effort, the TPA regime acts as the first step by the Government to move from regulated subsidised pricing to market-based pricing, be it higher or lower.

However, the effect of the change will not take place in the immediate future. For many countries who have already gone through this process and succeeded, their journey varies in timelines and challenges. Malaysia's journey towards full liberalisation of its natural gas market will be similar, if not the same. However, it cannot be denied that by undertaking market transformation of this magnitude, great strides will have to be taken to ensure sustainability of supply, to create a level playing field that promotes healthy competition, and to provide more options at competitive prices to consumers. The TPA regime contributes towards making the country's foundations for stronger energy security, and at the same time fosters economic security, prosperity, and well-being.

-- BERNAMA

This is the first instalment of five awareness series on Malaysia's journey towards liberalising its natural gas market by the Energy Commission (Suruhanjaya Tenaga or ST), a regulatory body responsible of ensuring that the supply of electricity and piped gas to consumers is secure, reliable, safe, and affordable.

The Natural Gas Market Liberalisation initiative is led by the Economic Planning Unit under the Prime Minister's Department, with the Energy Commission as the regulator, and supported by PETRONAS, Gas Malaysia Berhad, and Malaysian Gas Association.

(The views expressed in this article are those of the author and do not reflect the official policy or position of BERNAMA)

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