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SPEECH BY GEORGE YEO, MINISTER FOR TRADE & INDUSTRY, AT TUAS POWER STATION OPENING CEREMONY ON 20 SEP 2000 AT 11.00 AM

Mr Goh Geok Ling, Chairman of Tuas Power
Distinguished Guests
Ladies and Gentlemen

1. I am delighted to join all of you this morning for the official opening of Tuas Power Station. Tuas Power marks a significant milestone in our efforts to liberalise the electricity industry. It was the first major generation company established in 1995 to compete with the existing generation companies owned by Singapore Power. Since then, Tuas Power has progressed rapidly to become a significant player in Singapore's electricity market.

Significant Milestone

2. The planning of Tuas Power Station started in 1994 as part of the old Public Utilities Board's (PUB) plan to meet the long-term electricity needs of Singapore. When PUB's electricity and piped gas undertakings were corporatised in October 1995, Tuas Power Ltd was formed as an independent power station competing in

electricity generation.

3. The first stage of Tuas Power Station comprised two 600-megawatt generating sets which were commissioned in 1999. Since then, Tuas Power has been an active player trading in the Singapore Electricity Pool. The Pool, which started operation in Apr 1998, operates as a wholesale electricity market for the sale and purchase of electricity. The market turnover has grown to about \$2 billion per year. I am happy that Tuas Power has been able to hold its own in the market so far.

4. To prepare for the challenges ahead, Tuas Power has decided to make use of the arrival of natural gas from Indonesia to expand its capacity by installing four units of 365-megawatt combined-cycle gas turbines. This shows Tuas Power's determination to stay competitive in a rapidly evolving electricity market.

Restructuring of the Electricity industry

5. All over the world, electricity markets are being liberalised and made more competitive. In Singapore, we have to keep pace with this global development. In March this year, I announced in Parliament that the Government would further open up our electricity and gas markets. Our objective is to create a regulatory framework and a market structure that promote competition in the electricity industry while ensuring that reliability and security of supply are maintained. Let me take this opportunity to give an update on some of the changes being put in place.

Wholesale Market National Archives of Singapore

6. One of the important objectives of industry restructuring is healthy competition in electricity generation. Singapore Power will divest its generating companies and operate the grid as a regulated monopoly. We will liberalise the market for the sale of electricity. At present, generation companies can only sell electricity through the wholesale market. By the middle of next year, they can choose to sell electricity either through the wholesale market or directly to power supply companies and consumers. Generation and power supply companies will also be free to offer cheaper electricity to consumers who are prepared to accept interruptible supply. In addition, we will also create a separate market for spinning reserve to optimize system efficiency.

Retail Market

7. On the consumer side, we need a competitive retail sector so that the productivity gains in the generation sector are passed on to consumers. Consumers will have a choice of retailers and services. In 1996, we allowed retail competition for consumers with demand exceeding 5 megawatts. However, because of the dominant position of Power Supply, no new supply companies have come in to challenge the incumbent. This should change with the restructuring of the retail market.

8. In the new retail market, Power Supply will remain part of Singapore Power. Power Supply will continue to sell electricity to non-contestable consumers, including all domestic households, for the time being. Being non-contestable, this sector will be tightly regulated by PUB until it is liberalised. Power Supply will be free to offer to contestable consumers market support services such as metering, billing and the connection and disconnection of supply. Such services can also be offered by other companies. As for contestable consumers, Power Supply will stop supplying them from the middle of next year. Instead, they will be able to choose between at least 2 new suppliers. They can also buy electricity directly from the wholesale spot market through Power Supply and take the risk of pool price fluctuations. For such direct purchase, Power Supply will only provide a pass-through service at a fee which PUB will regulate. We can expect the new supply companies to compete hard for the accounts of contestable consumers by the offer of better services, new products and competitive prices.

9. PUB has recently issued two public licenses for the electricity retail business to Keppel Fels Energy Supply and SembCorp Power. More will be issued in the future as new players are drawn in. We can therefore look forward to increased retail competition for large industrial and commercial consumers by the middle of next year. However, retail competition in the electricity industry for smaller customers will take longer because all households are affected and a detailed study must first be done. We expect the entire exercise to be completed by the year 2003. At that point, Power Supply will cease being a retailer of electricity completely. Instead, it will concentrate on the supply of market support services which are likely to cover other industries as well.

Concluding Remarks

10. Tuas Power is entering the market at an exciting time, when Singapore's

electricity and gas industries are in the midst of being fully liberalised. While there are many challenges ahead of us, there are also new opportunities to be seized. Once the first phase of the new energy structure is in place next year, there will be much more scope for product innovation, better customer service and competitive pricing. I wish Tuas Power every success in the new game.

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