



**TENAGA
NASIONAL**

26TH ANNUAL GENERAL MEETING

MINORITY SHAREHOLDER WATCHDOG GROUP

15th December 2016

**A BRIGHTER
TOMORROW
BEGINS WITH A
BETTER TODAY.**



Q1

The Chairman's Letter to Shareholders and the CEO's Strategic & Operational Review reported that the Imbalance Cost Pass-Through ("ICPT") mechanism as part of a wider regulatory framework called the Incentive Based Regulation ("IBR") would ensure and sustain a stable financial performance for the Company.

With ICPT, the electricity consumers in the Peninsular Malaysia would continue to enjoy ICPT rebates in their monthly electricity bills as a result of savings in fuel and generation costs.

Q1a

Given the impact of ICPT implementation is neutral on TNB's earnings with no effect to its business operations and financial position, how would the Board rationalise its choice as compared with the Fuel Cost Pass-Through (FCPT) mechanism which would allow it to increase tariffs every six months?

Answer:

- ICPT is a mechanism under the IBR framework which allows TNB, as the utility, to reflect changes (either an increase or reduction) of the uncontrollable fuel costs in the electricity tariff every 6 months.
- There are two components under ICPT, namely the FCPT and GSCPT as following definition:
 - i. FCPT is the Fuel Cost Pass-Through component, which captures any variation in fuel costs mainly as a result of changes in the fuel prices, fuel quantity and generation mix.
 - ii. GSCPT is Generation Specific Cost Pass-Through component, which captures any variation in other generation specific costs as a result of changes in other costs mainly associated with the Power Purchase and Service Level Agreements (PPAs & SLAs).

Q1a

Given the impact of ICPT implementation is neutral on TNB's earnings with no effect to its business operations and financial position, how would the Board rationalise its choice as compared with the Fuel Cost Pass-Through (FCPT) mechanism which would allow it to increase tariffs every six months? *Con't*

Answer:

- The main objective of ICPT is to ensure that TNB is kept financially neutral, thus:
 - i. any **savings** from the generation costs will be passed through to customers as a **rebate**, and
 - ii. any **additional costs** of generation is allowed to be passed-through to customers as a **surcharge**.
- The ICPT is reviewed every 6 month period and its **subject to Government's approval**.
- As ICPT ensures that TNB earnings remain neutral, the Board rationalisation for any **decision is independent** from ICPT considerations.

Q1b

Despite the positive impacts from IBR and ICPT to the Company, what would be the long term implications and how would the Board assess their impact to the Company upon the Government's decision to stop the fuel subsidies completely under rationalisation plan?

Answer:

- As long as the Government allow for the ICPT mechanism to be implemented, the Company will be protected and will remain neutral against the uncontrollable fuel price volatility and variance in the generation costs.
- Under the current ICPT mechanism, the fuel subsidy rationalisation plan by the Government will have neutral impact to the Company, as the removal of the fuel subsidy will be passed-through.

Q1c

What would be the Board's perspectives when reviewing ICPT rebates through managing fuel cost imbalance as compared to possible savings that could be earned via the Company's Power Purchase Agreements with various independent parties over the longer term?

Answer:

- Any possible savings earned via the Company PPA with various independent parties over the long term will be reflected in the electricity base tariff charged to the customers. This base tariff is being set for every Regulatory Period (currently on a 3-years term).
- Any variance in the fuel and generation cost from the base tariff, will be passed-through to the customers via the ICPT mechanism on a 6 monthly review.

Q1d

Are there any fuel-efficient technologies and renewable energies/renewable fuels that the Board could have envisioned in its Strategic Plan (2015-2025) as part of the Group's material sustainability issues amid its current mixed portfolio of coal-fired power plants and gas-fired power plants?
What are the likely options in the event of a displacement of such fuels?

Answer:

- The Generation Development Plan is approved by the Planning and Implementation Committee for Electricity Supply and Tariff (JPPPET). This will into consideration the overall fuel mix including renewable energy and fuel supply security to ensure a reliable electricity supply to the nation.
- For participation in generation development, the Energy Commission (EC) will take into consideration competitive bidding exercise and conditional award to potential power plant developers. TNB as a player in the Malaysian generation market will aim to participate in any generation opportunity as sought by the EC.

Q1d

Are there any fuel-efficient technologies and renewable energies/renewable fuels that the Board could have envisioned in its Strategic Plan (2015-2025) as part of the Group's material sustainability issues amid its current mixed portfolio of coal-fired power plants and gas-fired power plants? What are the likely options in the event of a displacement of such fuels? *Con't*

Answer:

- In adopting fuel efficient and clean technologies, TNB is improving the efficiencies of its thermal power plants by deploying the **latest ultra-supercritical (USC) technology** for new coal power plants and more efficient large combined cycle gas turbine (CCGT) plants. In 2015, TNB adopted and implemented the first USC plant in South East Asia known as Manjung 4 with the capacity of 1,010MW.
- Recently, we have committed to three additional USC plants namely:
 - i. 1,000MW Manjung 5 plant to be commissioned in 2017
 - ii. 2,000MW Jimah East plant to be commissioned in 2019
- TNB is also phasing out inefficient and ageing open cycle gas turbine (OCGT) and CCGT plants. More efficient and economical CCGT power plants, such as Prai and Connaught Bridge power stations have replaced decommissioned first generation power plants which were less efficient.

Q1d

Are there any fuel-efficient technologies and renewable energies/renewable fuels that the Board could have envisioned in its Strategic Plan (2015-2025) as part of the Group's material sustainability issues amid its current mixed portfolio of coal-fired power plants and gas-fired power plants? What are the likely options in the event of a displacement of such fuels? *Con't*

Answer:

- In medium to long term, TNB generation portfolio will be **in tandem with the nation generation mix**. This will include **coal, gas, hydro and renewable energy (RE) primarily from solar and biomass**. This is in line with government policy to achieve **balance in sustainability elements of Economic, Energy and Environment**. Towards this, TNB is proactively expanding its generation portfolio to include significant generation from renewable energy sources.
- In balancing the nation power generation mix and ensuring reliable power supply, TNB had added new major hydro plants such as Ulu Jelai (186MW) and Hulu Terengganu (250MW). We are also working with relevant stakeholders to build new hydro power plants, namely Nenggiri, Lebir and Telom. These plants will have the dual-purpose of flood mitigation capabilities.
- In addition, TNB via its subsidiary TNB Energy Services (TNBES) had also implemented various low carbon projects such as biomass and biogas pilot projects in joint venture with large plantation partners e.g. Felda for 10MW biomass project in Jengka, Pahang.

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Answer:

- TNB also supports the government initiatives in driving RE adoption in Malaysia through the introduction of various programs such as Feed-in Tariff (FiT) and Net Energy Metering (NEM).
- The FiT, which started in 2012, has led to the commissioning of 5,777 RE projects in Peninsular Malaysia with an installed capacity of about 326MW, as at mid 2016.
- We are actively pursuing local and international opportunities towards a target of total renewable energy generation portfolio of 1,700MW by 2025 under Reimagining TNB plan.

Q2

On page 179, Note 5 to the financial statements, it was reported that the allowance for impairment of the Group's receivables had increased to RM686.6 mn in 2016 from RM178.8 mn last year.

It was also reported on pages 242-243, Note 47 (b) (i) that the ageing of the Group's trade receivables past due more than 240 days rose up to RM2,490.8 mn (gross) and RM1,327.8 mn (net) in 2016 (2015: RM1,125.4 mn (gross) and RM381.0 mn (net)).

Q2a

What were the reasons for the increase in the impairment and increased amount of trade receivables past due more than 240 days?

Answer:

- The increase in impairment is primarily due to provision made for Megasteel of RM371.0 million, due to default in the Consent Order. The account has since been disconnected.
- The increase in past due more than 240 days is mainly from large power customers of steel and utility industry. Legal actions have been taken for settlement of these accounts.

Q2b

What are the Board's actions to mitigate the impairment and to reduce past due receivables?

Answer:

- Enhancement of Disconnection process through standardisation on the terms and conditions of Disconnection contract.
- Appointment of Credit Reporting Agencies.
- Issuance of mass Letter of Demand.
- Implementation of Outbound Call by Contact Centre.