AUTHOR: No author available SECTION: NATION PAGE: 6 PRINTED SIZE: 605.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 3,214.00 ITEM ID: MY0063178109

05 APR, 2025

Subsidies and sustainability for Sabah Electricity

Daily Express (KK), Malaysia

Subsidies and sustainability for Sabah Electricity

THE day-to-day operations of Sabah Electricity Sdn Bhd (Sabah Electricity), as a power utility company, depend on federal government subsidies as its financial lifeline for sustainability.

These federal subsidies, paid through the Ministry of Finance (MOF), are critical in keeping electricity bills within the government-set tariffs for residential consumers, commercial consumers, and industrial players.

Additionally, with these subsidies, the people of Sabah and Labuan are not only assured of electricity supply, but more importantly, without federal subsidies, Sabah Electricity, as a corporate entity, would have become insolvent.

Be that as it may, federal subsidies are only provided after Sabah Electricity has used its own funds to cover essential payments critical for maintaining continuous operations in the electricity supply chain. One such example is purchasing power from Independent Power Producers (IPPs).

That is why, from the electricity tariff standpoint, we refer to the federal subsidy as a Tariff Recovery Subsidy (TRS). In certain cases, it may come in the form of Incentives Cost Pass Through (ICPT) when Sabah Electricity purchases fuel at a price higher than the subsidized rate due to market fluctuations.

This situation affected us in the financial year 2024. The budget for 2024 was approved by Parliament in November 2023, but calamities struck the 66MW Tenom Pangi Hydro on October 22, 2023.

Consequently, it was not possible for the federal subsidy to be included in the 2024 budget. As it stands, we are still waiting for a payment of more than RM400 million from the federal government. At present, we are using whatever cash flow we have, sustaining operations on a hand-to-mouth basis.

The worst-case scenario would be if Sabah Electricity were forced to use consumer deposits to pay for power from the IPP—a situation that must be avoided at all costs. It is crucial that stakeholders, especially key officers from the federal MOF, understand this urgency.

Rural electrification and federal support

In terms of development, particularly in rural electrification, the federal government has played a pivotal role in ensuring that even the most remote areas—such as islands and villages deep in Sabah's interior—can access electricity at a highly subsidized tariff.

In at least 44 villages, including 13 islands in Sabah, the federal government provides tariff subsidies as low as 22 sen per unit of electricity, paid through the Federal Ministry of Rural and Regional Development (KKDW). In these areas, all infrastructure, including power generation—whether in the form of solar hybrid systems or diesel-powered generators—was funded by the federal government but is handed over to Sabah Electricity for smooth operation.

However, the overhead costs of rural electricity supply operations are borne by Sabah Electricity itself. This means that although Sabah Electricity is fulfilling a socio-economic role, it remains a corporate entity subject to corporate tax, like any other business corporation.

Federal loans and financial obligations

It is also notable that when it comes to infrastructure development, such as the construction, installation, and upgrading of grid systems, Sabah Electricity has relied on federal loans over the years.

To date, the total loan payable to the federal government stands at RM2.3 billion at a 4% interest rate, with an annual repayment of RM210 million. However, last year, due to cash flow constraints, Sabah Electricity could only pay RM145 million, leaving RM65 million in arrears.

This shortfall was due to the company not receiving the RM400 million tariff support recovery allocated for 2024.

Had it not been for the RM162 million ICPT payment by the federal government just before Christmas 2024, Sabah would have faced severe power disruptions.

The federal government has since approved a moratorium, allowing Sabah Electricity to settle the remaining RM65 million by the end of 2025.

Revenue collection and expenditures

Sabah Electricity's total annual revenue collection is approximately RM2.28 billion. When subsidy receipts are included, the total available funds amount to around RM3 billion. However, a substantial portion of this revenue is allocated to purchasing power from IPPs.

Last year, Sabah Electricity spent RM1.675 billion on IPP power purchases, out of a total generation cost of RM2.295 billion. The remaining RM620 million was used to cover other expenses, including salaries, maintenance, and the operation of Sabah Electricity-owned power generation, particularly diesel-powered genset rentals.

Therefore, contrary to popular belief, revenue collected does not simply sit in the bank account of Sabah Electricity; rather, it is used to keep power stations running and ensure a continuous power supply. Without these funds, the entire electricity supply chain would be under severe financial strain.

Increasing self-generation capacity

I have previously stated in this column that 80% of our power generation comes from IPPs, while only 20% is self-generated. In this context, the 66MW Tenom Pangi Hydro Plant is extremely valuable to Sabah Electricity, as its generation cost is zero.

However, we incur significant expenses in genset rentals—not only in terms of fuel costs but also in maintenance and operation.

There is, therefore, an urgent need to increase Sabah Electricity's self-generation capacity from the current 20% to 60%. This shift would help reduce reliance on external power producers and mitigate electricity theft.

Electricity theft and system losses

Electricity theft remains a critical concern. Last year, total system losses stood at 15.8%, an improvement from 16.8% the previous year.

Of this 15.8% loss:

- 11% was due to technical losses, which were comparable to neighbouring state.
- 5.8% (or RM192 million) was categorized as non technical losses or commercial losses.
- 3.2% of the 4.8% (or RM106 million) was lost due to meter tampering and illegal bypassing by customers.

The remaining 1.6% (or RM53 million) was lost to theft by squatters in approximately 300 settlements around Sabah.

Transitioning to financial independence

Recognizing that relying on subsidies indefinitely is not sustainable, Sabah Electricity is taking steps to become more financially independent. This is where subsidiaries play a crucial role.

The company is now establishing its own business arms for projects such as:

- Battery Energy Storage Systems (BESS)
- Solar energy
- Combined Cycle Gas Turbines (CCGT)

Currently, the corporation is constrained by fixed cost structures and limited flexibility due to its reliance on IPPs for power procurement. However, by expanding its own power generation assets, reliance on external suppliers can be reduced, and costs can be better managed through direct ownership of generation assets.

A long-term strategy for stability

The establishment of in-house subsidiaries is not merely a strategic choice but a critical step toward long-term stability. Sabah Electricity's dependence on external sources is unsustainable, and developing more efficient, in-house solutions is essential for its future.

However, consumers must understand the bigger picture. While subsidies are important, they are not an infinite resource. They serve as necessary financial support but also come with financial responsibilities.

As Sabah Electricity works to reduce its dependence on subsidies and strengthen its financial foundation, the ultimate goal is to ensure that electricity remains both reliable and affordable for everyone in Sabah.

Provided for client's internal research purposes only. May not be further copied, distributed, sold or published in any form without the prior consent of the copyright owner.