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By GURMEET KAUR  
gurmeet@thestar.com.my

**PETALING JAYA:** The potential opening up of the power sector's retail space will give consumers more options to buy their electricity from, but it is likely to have limited earnings impact on Tenaga Nasional Bhd (TNB).

TNB, which has come under the spotlight due to looming regulatory changes, is currently Peninsular Malaysia's only retail electricity provider.

According to UOB Kay Hian, the liberalisation of the retail market would not hurt TNB, as it earns around 2% (0.96 sen/kWh of base electricity tariff of 39.45 sen/kWh) of revenue from the retail market.

"The incentive-based regulation (IBR) model is based on returns of regulated assets. The retail segment is asset-light and as such, TNB earns minimal profits as Peninsular Malaysia's only retail electricity provider," it said in a recent report.

Last Friday, it was reported that the government was conducting a study on whether to allow new energy suppliers to come into the market, with the results to be made known soon. The government is studying whether the move would make tariff rates more competitive for consumers.

The transformation of the local electricity industry is expected to come through the implementation of the Malaysia Electricity Supply Industry (MESI) 2.0 that aims to increase the industry's efficiency, as well as decentralise the electricity supply industry, among others.

It is expected to be launched later this month.

UOB Kay Hian said it understands that the aim of opening up the retail market is "to give consumers the opportunity to choose a greener route, for example, by buying electricity from environmentally-friendly players like Cypark Resources Bhd, which owns 30MW of renewable energy in Peninsular Malaysia."

Besides the retail segment, there is the wholesale segment.

However, analysts believe that the regulators will have to wait for the expiry of power purchase agreements (PPAs) and service-level agreements (SLAs) to be able to build a robust wholesale market.

More than half of Peninsular Malaysia's generation capacity (or 23,881MW) has long-dated PPAs expiring in 2030-40, noted UOB Kay Hian.

Drawing from the Singapore experience, AmResearch noted that the power producers there compete to generate and sell electricity

# TNB in the spotlight on looming market reforms

## However, analysts say liberalisation of the retail market is unlikely to hurt the utility's earnings



**Going strong:** TNB is expected to be a strong competitor if the retail segment is opened up due to its size and balance sheet.

in the wholesale electricity market (WEM) every half hour.

"The WEM is like a power exchange. Retailers buy electricity in bulk from the wholesale electricity market to sell to the customers."

Secondly, looking at the Singapore model, the research firm said that power pooling would result in power producers competing to sell electricity at the lowest rates to gain market share. This would result in lower operating profit margins.

"We believe that fuel costs would still be passed through, but operating profit margins would be thin. YTL Power International Bhd's power unit in Singapore recorded a pre-tax loss of RM149.1mil in the first nine months of financial year 2019 (FY19) (ex-impairment)," it said in its report on Friday.

That said, the research firm believes that TNB will be a strong competitor if the retail segment is opened up due to its size and balance sheet.

AmResearch reckons that if the independ-

ent power producers or IPPs are selling electricity directly to the consumers, then they would need to pay a fee to TNB for the transmission and distribution activities.

Currently, out of TNB's base tariff rate of 39.45 sen/kWh, about 11.58 sen/kWh is for transmission, distribution, customer service and grid system operations.

Another point AmResearch brought up in its report is the possibility that the imbalance cost pass-through mechanism might not be relevant if the retail segment is opened up.

"There may not be a need for the Electricity Industry Fund to subsidise rates for the domestic segment.

"This is because under the open system, retail electricity rates would fluctuate based on cost, demand and supply."

One other reform that could feature in the upcoming MESI 2.0 is the separation of the single buyer role from TNB. This is seen as positive for TNB as it eliminates the fuel risk from the equation. The government will likely take over this role, said some analysts.

According to TA Research, the segregation of the single buyer role would free up the company's working capital requirements significantly.

"Thus, this would provide a boost to TNB's free cash flow and result in dividend upside potential."

As single buyer, the company is responsible for coal procurement, which amounted to RM11.7bil in FY18, TA Research pointed out.

To facilitate the reforms, MyPower Corp was reactivated in September last year with the task to design and drive its implementation within three years. The current Regulatory Period 2 framework will end in 2021.

Shares in TNB closed 54 sen or 3.82% lower to RM13.60 last Friday.