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ELECTRICITY COSTS

IBR framework, ICPT mechanism at a glance

ICPT RATES FROM 2015 TO 2018

ICPT Implementation Period	Mar 2015	Jul 2015	Jan 2016	Jul 2016	Jan 2017	Jul 2017	Jan 2018	Jul 2018
ICPT Rates (in sen/kWh) (Rebates) / surcharges	(2.25)	(2.25)	(1.52)	(1.52)	(1.52)	(1.52)	(1.52)	1.35

INFOGRAPHIC NST

KUALA LUMPUR: Incentive-based regulation (IBR) and Imbalance Cost Pass-Through (ICPT) come to mind every six months when the review on the latter is announced.

The most recent was by the Energy Commission with regards to ICPT surcharge, the first ever imposed in the peninsula since IBR was implemented in 2014.

Thankfully, the surcharge applies only on commercial and industrial electricity users.

Now, what are IBR and ICPT and how do they affect my electricity bill? These are the questions that most of us would be asking.

We start with IBR. It was implemented by the commission in 2014 as part of the reform of the Malaysian Electricity Supply Industry.

Among others, IBR was introduced to enable transparency in regulating Tenaga Nasional Bhd (TNB), as well as to promote efficiency for the industry.

IBR involves "unbundling" of the accounts of entities within TNB to establish a transparent and accountable process.

Single Buyer, formerly a department in TNB, was placed in the macro structure of generation, transmission and distribution (and retail).

Single Buyer, which buys electricity from TNB and independent power producers (IPPs) on the basis of least-cost dispatch schedule, was carved out of TNB to prevent potential conflict of interest and perceived favouritism. Obviously, it gives priority to generators with the cheapest price.

Thus, under the IBR framework there are now five entities of TNB – Generation, Transmission, Single Buyer, Grid System Operator and Distribution Network, plus Customer Service.

According to sources, similar to Single Buyer, Grid System Operator has also been carved out of TNB. Both report to the commission.

It's time for us users to reflect back on our energy consumption and practise efficient energy usage.

With the individual regulatory accounts, the commission gets to break up components in the tariff for a more transparent electricity rates that are derived from a "bundled tariff".

The IBR also features the ICPT mechanism that allows adjustments to be made in consumers' electricity bills every six months.

ICPT kicks off with its first regulatory period (RP) starting from January 2015 to December last year. We are now in the second regulatory period (RP2), another three years from this year to 2020.

Under ICPT's half yearly review, there is a varying rates of a rebate or surcharge to reflect changes in prices of fuel for electricity generation.

Movements in the prices of imported gas and coal prices, as well as domestic gas in the previous six months will be reflected as surcharge or rebate in the following six months.

Eight cycles of ICPT were announced from the period of March 2015 to December this year, with the first seven ICPT cycles involved rebates. Rebates of 2.25 sen/kWh was announced in 2015, 1.52 sen/kWh in 2016, last year and January to June this year. From last month to December, a surcharge is imposed.

Many may ask why a surcharge is imposed this time around, and why not continue with the rebate.

Before getting into that, we need to digest some background information as follows:

Firstly, all consumers are affected by the ICPT mechanism, but exemption is given to domestic consumers using less than 300kWh of electricity monthly, equivalent to RM77.

In addition, in the recent ICPT revision, domestic users with bills more than RM77 do not have to pay surcharge as they are financed by Kumpulan Wang Industri Elektrik (KWIE). However, the balance of this fund is fast depleting.

Secondly, under the IBR, the base tariff is fixed for every RP. The base tariff covers all the electricity operations, such as fuel and generation costs, distribution costs, transmission costs, and Single Buyer and Grid System costs.

In its most recent announcement on ICPT, the commission said the base tariff was fixed at 39.45 sen/kWh for RP2 ending 2020.

Thirdly, the IBR provides six-monthly adjustments due to changes in the power plants fuel costs via the ICPT mechanism.

And fourthly, Penisular Malaysia's power generation is highly dependent on fossil fuel with 53 per cent coal, 42 per cent natural gas and five per cent hydro together with other forms of renewable energy.

Coal is 100 per cent imported, making is susceptible to market volatility. It is imported mainly from four countries – Indonesia (63 per cent), Australia (24 per cent), Russia (11 per cent) and South Africa (two per cent).

Gas is sourced from the east coast of the peninsula as well as imported as liquefied natural gas.

In essence, electricity cost components have fixed and variable elements with the latter influenced by global demand for coal and gas, fluctuation of the ringgit and gas subsidy rationalisation programme.

In its recent announcement of ICPT, the commission said coal price had risen by more than 20 per cent to US$91.66 (RM369.39) per tonne against US$75 in the forecast to calculate base tariff.

When converted to the ringgit, the local currency has depreciated to 4.0409 versus the greenback, which means the price of imported coal has soared to more than RM370 a tonne from more than RM250 in January 2014.

The implementation of gas price subsidy rationalisation has caused a gradual increment in the price of gas at the rate of RM1.50 per million British thermal units (mmbtu) every six months.

For the past four years, it had increased by a whopping 69 per cent to RM25.70/mmbtu last month, from RM15.20/mmbtu in January 2014.

So far, RM6.3 billion in rebate has been passed through to customers, a part of it funded by KWIE. Surely the imposition of a surcharge this time is an indication of depleting KWIE funds. It's time for us users to reflect back on our energy consumption and practise efficient energy usage. **Bernama**