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Time for reflection on IBR and ICPT

Surely, the imposition of an ICPT surcharge is an indication of depleting KWIE funds

by M SARASWATHI

INCENTIVE-BASED Regulation (IBR) and Imbalance Cost Pass-Through (ICPT) are two acronyms that come to mind every six months when the review on the latter is announced.

The most recent was by the Energy Commission (EC) with regard to the ICPT surcharge, the first ever imposed in Peninsular Malaysia since IBR was implemented in 2014.

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

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

For the uninitiated, I am sharing what I have gathered based on websites of the EC, Malaysia's electricity regulator; Tenaga Nasional Bhd (TNB), the national electric utility company; and news portals including *www.energywatch.com.my.*

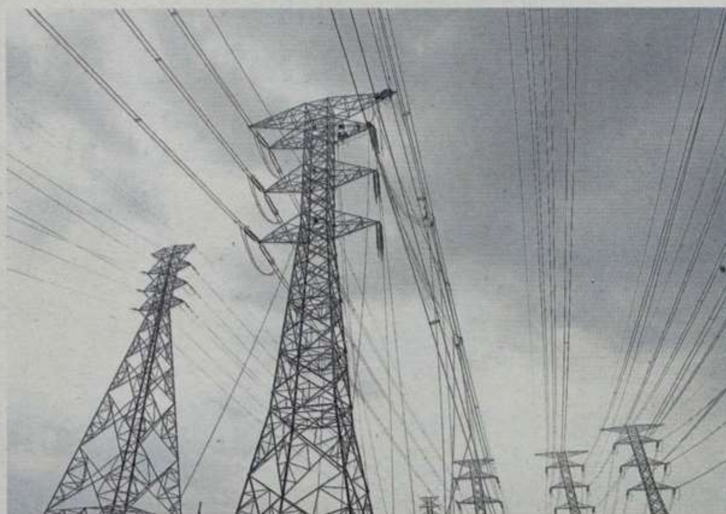
We start with IBR, which was implemented by the EC in 2014 as part of the reform of the Malaysian Electricity Supply Industry (MESI).

Among others, IBR was introduced to enable transparency in regulating 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 macrostructure of generation, transmission and distribution (and retail).

Single Buyer, which buys electricity from TNB and independent power producers on the basis of the 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.



Pic by Muhd Amin Naharul

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Thus, under the IBR framework, there are now five entities of TNB. The five are 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 EC.

With the individual regulatory accounts, the EC gets to break up components in the tariff for 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 kicked off with its first regulatory period (RP) starting from January 2015 to December 2017. We are now in the second regulatory period (RP2), another three years starting from 2018 to 2020.

Under ICPT's half-yearly review, there is a varying rate 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 a surcharge or rebate in the following six months.

Eight cycles of ICPT were announced from the period of March 2015 to December 2018, with the first seven ICPT cycles involving rebates. Rebates of 2.25 sen/kWh was announced in 2015, and 1.52 sen/kWh in 2016, 2017 and January to June 2018.

From July to December 2018, 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 an exemption is given for domestic consumers using less than 300kWh of electricity monthly, equivalent to RM77.

In addition, in the recent ICPT revision, domestic users with bills exceeding RM77 do not have to pay a surcharge as theirs are financed by Kumpulan Wang Industri Elektrik (KWIE).

However, the balance of the KWIE fund is fast depleting.

Secondly, under the IBR, the base tariff is fixed for every RP. The base tariff covers all the electricity operations, ie fuel and generation costs, distribution costs, transmission costs, and Single Buyer and Grid System Operator costs. The EC, in its most recent announcement on ICPT, said for the RP2 ending 2020, the base tariff is fixed at 39.45 sen/kWh.

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

And lastly, Peninsular Malaysia's power generation is highly dependent on fossil fuel with 53% from coal, 42% natural gas and 5% hydro, together with other forms of renewable energy.

Coal is 100% imported, making it susceptible to market volatility. It comes from Indonesia (63%), Australia (24%), Russia (11%) and South Africa (2%). Meanwhile, gas is sourced from the East Coast of Peninsular Malaysia, as well as imported as liquefied natural gas.

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

The EC in its recent announcement on ICPT stated that the coal price has risen by more than 20% to US$91.66 (RM370.31)/metric tonne (MT) against US$75/MT used in the forecast to calculate the base tariff.

The local currency has depreciated to 4.0409 versus the greenback, which means the price of imported coal in ringgit has soared to more than RM370/MT from over RM250/MT 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/million British thermal units (mmbtu) every six months. For the past four years, it had increased by a whopping 69% to RM25.70/mmbtu in July 2018 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.

Perhaps it's time for us, the users, to reflect back on our energy consumption and practise efficient energy usage. — *Bernama*

The views expressed are of the writer and do not necessarily reflect the views of the newspaper's owner and its editorial board.