Tariff hike in the offing

But MyPower Corp proposes that impact from higher electricity tariff be cushioned by the hundreds of millions saved from revised PPAs

By GURMEET KAUR and LEONG HUNG YEE

KUALA LUMPUR: Just six months after the nation saw a tariff hike in electricity rates, consumers may see another rate rise.

But the agency given the mandate to restructure and reform the country’s power sector has proposed that the Government utilise some RM500m in savings derived from the renegotiations of the power purchase agreements (PPAs) with independent power producers (IPPs) to mitigate the potential impact on the people.

At a briefing yesterday, MyPower Corp Bhd stated that it would recommend to the Cabinet to stay on course with the implementation of the fuel cost pass-through (FCPT) mechanism, whereby the tariff will be adjusted based on the international gas price every six months. The first adjustment is scheduled for next month, which could result in a tariff hike, as domestic gas prices are lower than international prices.

The last revision was done in January at a 15% hike to 38.53 sen per kilowatt-hour (kWh). But this was an increase in base tariff and not due to the FCPT mechanism.

“We have accrued a little bit, amounting to some RM500m, slightly over a year when the first-generation IPPs reduced their capacity payment following a renegotiation of terms when their contracts were extended for another 10 years,” said Datuk Abdul Razak Abdul Majid, the chairman of the Energy Commission (EC) and the adviser of MyPower.

“This is savings that was derived from March 2013 after the PPAs were renegotiated for three IPPs,” said Abdul Razak at a briefing for select media.

According to him, the proceeds from the savings, amounting to RM500m, are held in trust with Tenaga Nasional Bhd (TNB).

Two first-generation IPPs whose PPAs were renegotiated with an extension of 10 years were Genting Sanyen Power Sdn Bhd and Segari Energy Ventures Sdn Bhd, a subsidiary of Malakoff Corp Bhd.

A third IPP, TNB Pasir Gudang, has been awarded a five-year extension to its PPA, TNB Pasir Gudang, which is currently operating as a unit of TNB, will operate as an IPP after 2017.

It was previously reported that the rate for Genting Sanyen’s 675MW plant is 35.3 sen per kWh, while the rate for Segari’s 1,303MW plant is 36.3 sen per kWh. The rate for TNB Pasir Gudang’s 275MW plant is 37.4 sen per kWh. Gas used to power up these stations will no longer be subsidised under the renegotiated PPAs.

The savings came from the capacity payments that TNB used to pay the concessionaires because they no longer incurred the construction cost of building the power plant.

However, Abdul Razak said the decision to tap into the savings from the renegotiated PPAs rested with the Government.

“Since the government’s complete recommendations were put forward to the Cabinet, but the end decision lies with the Government,” said Abdul Razak, who was previously the chief executive officer of MyPower until his recent appointment as EC chairman on April 1.
LNG price to determine tariff

> FROM PAGE 1

Without giving away any information on the possible rate hike, Abdul Razak said there was an increase in the price of gas.

"All I can tell you is that the price of liquefied natural gas (LNG) has increased. There's a quantum that's going up and there's a quantum that's going down."

Apart from LNG, the other fuel components that determine the tariff under the FCPT mechanism are the market price of coal and distillates.

Another MyPower senior officer, Azimah Abdul Aziz, noted that between January and June, the price of LNG had gone up by 10%-25% but the price of coal was 10%-15% lower during the period.

She explained that a potential hike was needed to close the gap between the true cost of generating power and current subsidised tariffs.

“The true cost of power without subsidies is around 42 sen per kWh as opposed to the current tariff of 38.53 sen per kWh. As the fuel cost is expected to increase, the gap between the true cost and the current tariff is expected to widen.” Azimah noted that to maintain the current tariff rate, total subsidies could reach as much as RM12bn to RM14bn this year.

She added that the FCPT has to be implemented to avoid a steep hike in the future.

Countries such as the Philippines, Singapore and Australia had adopted a market-based pricing mechanism, she said.

Separately, Azimah said MyPower, which was set up in 2011, would be dissolved in September.

On another issue, Abdul Razak declined to comment on the status of Project 4A, following the withdrawal of YTL Power International Bhd from the consortium that had been invited along with SPP Energy Sdn Bhd and TNB to undertake the building of a new power plant in Pasir Gudang in Johor.

“We will wait until the deadline of July 25 given to the parties before we look at the next course of action” was all he said.

Apart from LNG, the other fuel components that determine the tariff under the FCPT mechanism are the market price of coal and distillates.