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| Headline | Electricity tariff hike credit positive for TNB, says Moodys | | |
| MediaTitle | The Edge Financial Daily | | |
| Date | 06 Dec 2013 | Language | English |
| Circulation | 15,000 | Readership | 50,000 |
| Section | Home Business | Page No | 8 |
| ArticleSize | 151 cm ² | Journalist | Charlotte Chong |
| PR Value | RM 3,486 | | |
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Electricity tariff hike credit positive for TNB, says Moody's

by **Charlotte Chong**

KUALA LUMPUR: Tenaga Nasional Bhd (TNB), the largest electricity utility in Malaysia, will benefit from the average electricity tariff hike of 14.89% starting Jan 1, says Moody's Investors Service.

"The tariff hike is credit positive for Tenaga because it demonstrates the government's commitment to implementing fuel cost pass-throughs for Tenaga. Although the changes will not materially improve key financial metrics, they add predictability and stability to financial performance.

"In addition, the tariff hike marks a significant step forward in the implementation of Malaysia's proposed incentive-based regulation (IBR), which would increase the transparency of the regulatory regime," Moody's said in a note yesterday.

Moody's said the tariff hike signals that the Energy Commission's year-long IBR trial period, slated to start on Jan 1, 2014, will proceed as

planned.

The IBR facilitates regular tariff resets and allows TNB to recover costs not in its control, such as fuel. It also provides incentives to the company to seek efficiencies, such as for maintenance while meeting operational performance targets.

"The trial will allow the Energy Commission to refine its approach and implement the IBR framework over three-year regulatory periods after the trial ends. According to the regulator's timeline, the first regulatory period will run from January 2015 to December 2017. After each regulatory period, there will be regular tariff resets that will add more certainty than the current ad hoc tariff increases."

Moody's said the base tariff increase accounts for 18% of the tariff hike, and will allow TNB to recover projected cost increases during the IBR period. The base tariff allows cost recovery for depreciation, re-

turn on capital, taxes, and operating expenditures such as maintenance and labour.

"One of the critical features of the IBR is an automatic fuel cost pass-through. The ability to pass through fuel cost changes insulates TNB's financial performance from factors beyond its control. This protection from fuel cost volatility is a positive development given that fuel costs accounted for a significant 46.5% of TNB's consolidated operating expenses in the fiscal year ended August 2013."

Moody's said the higher cost of liquefied natural gas (LNG), which is 2.74 times that of domestic subsidised gas, will be fully passed through to consumers, ending speculation on how TNB will recover the costs of burning the fuel. The increased LNG cost accounts for 68% of the tariff hike, the ratings agency noted.