

Headline	Increase in power tariff a necessity		
MediaTitle	New Straits Times		
Date	04 Dec 2013	Language	English
Circulation	95,860	Readership	236,000
Section	Business Times	Page No	B5
ArticleSize	482 cm <sup>2</sup>	Journalist	N/A
PR Value	RM 23,490		



# Increase in power tariff a necessity

Following the revised electricity tariff announced by Energy, Green Technology and Water Ministry on Monday, below are the most frequently asked questions regarding the tariff rationalisation prepared by MyPOWER Corp, which has been tasked with detailing out key reform initiatives for Malaysia's electricity supply industry

**Question: Why does the electricity tariff need to be reviewed?**

**Answer:** The government cannot continue to subsidise increasing fuel prices. The country needs to move from blanket to targeted subsidies as subsidies tend to result in inefficient allocation of resources and, therefore, distorts the economy.

According to the International Monetary Fund (IMF) report in 2011, when low- to medium-income countries apply blanket subsidies, about 46 per cent of the energy subsidies benefit only the top 20 per cent of society with only seven per cent of it reaching the lowest 20 per cent of the population. This is because the rich generally consume higher volumes of scarce resources compared to the poor. The consumption by the rich could almost be limitless, if the goods are too cheap.

For the poor, however, consumption is always limited no matter how cheap a resource/good may be.

Adjustment of electricity tariffs is one of the steps to restructure subsidies into a form that is more targeted and sustainable. This subsidy rationalisation exercise has been discussed since 2010 by Pemandu through its subsidy labs and public engagement initiatives.

**Question: We understand that there is a big reserve margin in electricity. Are we paying more for this excess capacity?**

**Answer:** After taking into account scheduled and unscheduled outages and derating, the operating reserve margin is now between five and 21 per cent.

The recent Sabah experience has shown that the lack of a healthy reserve margin entails a system to become unreliable and unstable.

As the country's economic growth is still on a positive trajectory, the excess capacity is required to cater for the growing demands of consumers. Plants take years to build

and a comfortable buffer is required to maintain reliable supply of energy, without disruption to our future economic growth.

According to the Peninsular Malaysia Power Development Plan, the projected reserve margins over the next 10 years will decline to 16.4 per cent in 2023, despite the new plants.

Tenaga Nasional Bhd (TNB) will always have a prudent reserve margin to cater for scheduled and unscheduled outages in order to minimise blackouts and any other emergencies, in line with other Asean utility companies.

**Question: TNB has been making profit every year, shouldn't electricity tariffs be lowered to help Malaysians deal with high costs of living, rather than increased?**

**Answer:** TNB has to be profitable. It pays taxes and its performance is benchmarked against both local and global peers.

There are key performance indicators (KPIs) to meet. Profits are needed for capital expenditure to maintain an efficient capital structure and for improvements in the network's performance (transmission and distribution).

TNB's return on invested capital is below its cost and its profits are lower than its capital expenditure.

In other words, if TNB's profit does not grow in line with its debt and assets, it will not be able to effectively serve future customers.

**Question: Will GST be imposed on my electricity bill?**

**Answer:** As per the 2014 Budget, GST will be imposed on all consumers with effect from April 2015. However, domestic consumers using 1-200 kilowatt per hour (kWh) per month will not be subjected to GST. Furthermore, they will not be affected by the tariff hike which will take effect January 1 2014.

**Question: Why do I need to contribute to the RE fund?**

**Answer:** Renewable Energy (RE) is a national agenda requiring full participation from the rakyat.

Developing the RE sector will help us to diversify our fuel mix. Monies collected for the RE Fund will be administered by the Sustainable Energy Development Authority Malaysia and will be used to pay RE players who generate electricity from RE sources through the Feed-in-Tariff (FiT) mechanism.

The best thing about FiT is that individuals who generate power from solar PV systems installed on roofs, can connect to the grid and get paid from the fund through TNB (about RM400-RM500 per month for 21 years for a 4kWp system).

Currently, the amount of electricity generated from RE sources is 121MW, which is only one per cent of total generated power. The target is to generate 2,080MW by 2020.

**Question: There are allegations that independent power producers (IPPs) are raking in huge profits while enjoying gas subsidies. Is this true?**

**Answer:** No, this is not true as IPPs do not benefit from any subsidies. Electricity consumers are the beneficiaries of gas subsidies via subsidised electricity tariffs. IPPs' and TNB's profits are indifferent to gas price, as this is a pass-through cost.

**Question: The opposition and people often ask why IPPs are allowed to buy liquefied natural gas (LNG) at an 80 per cent discount, but people still have to buy petrol at increased prices?**

**Answer:** IPPs do not benefit from any gas subsidies. Electricity consumers are the beneficiaries of the controlled gas price set by the government, which is much lower than the market price.

As for LNG, it is all purchased at international market price.

The diagram (pictured above) depicts the chain of beneficiaries of the

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controlled gas price.

**Question: How significant is the saving from this subsidy reduction and is it going to help the government manage its budget for the coming year? Isn't there any other way for the government to reduce the budget deficit?**

**Answer:** The size of government

subsidies is significant. Subsidies are the main cause of the budget deficit.

While there are other ways to reduce the fiscal deficit, to forfeit this and look into other ways is akin to avoiding one problem to solve another. The problem will only grow more severe in time.

The government is running on a budget deficit and this is an issue

that requires immediate action. By reducing the subsidies, the government can manage its funds more efficiently.

If we do not target the fiscal deficit and attempt to solve it now and instead just sweep the problems under the carpet, it is definitely not helping the country to move forward.

