TENAGA NASIONAL

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Electricity rates up by 15%

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Not applicable to domestic consumers using less than 300kWh per month

by **Cynthia Blemin**

KUALA LUMPUR: As speculated, the government will raise average electricity rates by 14.98% or 4.99 sen per kWh in Peninsular Malaysia, and 16.9% or 5 sen per kWh for Sabah and Labuan effective Jan 1, 2014.

This move is expected to benefit Tenaga Nasional Bhd (TNB) and the Sabah Electricity Board (SEB). TNB's base tariff will be raised by 2.69%, or 0.90 sen per kWh, and regulated through a mechanism called the Incentive-Based Regulation (IBR) to be administered by the Energy Commission.

Energy, Green Technology and Water Minister Datuk Seri Dr Maximus Ongkili, announcing the new electricity rates yesterday, said the new average electricity rate for Peninsular Malaysia is 38.53 sen per kWh, while the new average rate for Sabah and Labuan is 34.52 sen per kWh.

Rebates for lower-income group continue

FROM PAGE 1 >>

To protect consumers, especially from the low-income group, the new rates will not be revised for domestic consumers who use 300kWh per month and below. This covers 4.56 million consumers or 70.67% of a total of 6.45 million domestic consumers in the peninsula.

For Sabah and Labuan, 260,000 consumers or 62% of a total of 418,000 domestic consumers will benefit in the same way.

The government will continue to give rebates to consumers nationwide whose electricity bills amount to RM20 and below until Dec 31, 2014.

The minister said the government will also promote renewable energy (RE) by revising collection from consumers for the RE fund from 1% to 1.6% effective next year. Currently, gas constitutes 51.5% of the fuel mix in Peninsular Malaysia, followed by coal (43.3%), hydro (4.2%) and RE sources (1%).

Ongkili said the revised electricity tariff is expected to result in an average increase of 3.03 sen/kWh for domestic consumers; 6.91 sen/kWh for commercial customers, and 5.21 sen/kWh for industrial customers.

"This is a subsidy rationalisation exercise because the government cannot continue to subsidise increasing fuel prices," he added.

According to the ministry's fact sheet, subsidies touched RM15.578 billion in 2012. As at Dec 31, 2012, the total revenue foregone by Petroliam Nasional Bhd from the power and non-power sectors since 1997 has amounted to RM182.8 billion.

Despite the new electricity tariff, Ongkili said the government will still need to bear a subsidy of RM14 billion annually in foregone revenue from natural gas. Of this amount, RM2.4 billion a year is subsidy given to domestic consumers using below 300kWh per month.

For Sabah and Labuan, the total amount of subsidy for fuel oil is RM570 million per year, of which RM155 million a year is attributed to the similar category of consumers.

Alliance Research analyst Jeremy Goh said in a note that TNB will benefit from a base tariff hike as this would be earnings positive for the national utility company. The last two base tariff hikes took place in May 2011 and June 2006.

"Recent developments suggest that structural reforms in the power sector are panning out as expected. We reckon that this will lower the overall cost of equity for TNB in the long run.

"With this, we lower our weighted average cost of capital from 8% to 7.5%, which raises our target price from RM10.42 to RM11.86. This implies FY14 [financial year 2014] and FY15 price-earnings ratio of 15.8 times and 13.5 times respectively," said Goh, who has maintained a "trading buy" on TNB.

For the SEB, the new tariff structure will close the increasing gap between generation costs and current tariff rates. The current average electricity tariff of 29.52 sen per kWh is only able to cover 80% of SEB's operation costs. This does not reflect SESB's true cost of electricity generation, which is 43.46 sen per kWh.

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