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Power rate hikes may trigger inflation

TNB given go-ahead to raise electricity tariff by 15% from Jan 1, 2014

by P VIJIAN & PREM KUMAR PANJAMORTHY

THE government has allowed Tenaga Nasional Bhd (TNB) to raise electricity tariff by about 15% from January, which may trigger imminent inflationary pressure on the economy and hit manufacturers like glove producers and steel mill players.

Putrajaya announced yesterday that average electricity tariff will be raised from 33.54 sen per kWh to 38 sen per kWh effective Jan 1, 2014, the first such move in the last 30 months despite several times deferring its plans to review power and natural gas rates every six months.

Average domestic tariff will be revised from the current 28.63 sen per kWh to 31.66 sen per kWh (a 10.6% hike), average commercial rates from

41.01 sen per kWh to 47.92 sen per kWh (16.85%) while average industrial tariff from 30.94 sen per kWh to 36.15 per kWh (16.85%).

This subsidy cut is the third such move this year announced by Prime Minister Datuk Seri Mohd Najib Razak's government as it strives to contain Malaysia's fiscal deficit to about 4% of gross domestic product.

In September, Najib lowered fuel subsidy by 20 sen, followed by sugar subsidy by 34 sen in Budget 2014 in October, as part of his administration's efforts to curb rising subsidies that cost the government some RM24 billion annually. Subsidy to the power sector amounted to some RM12 billion last year.

The new tariff will certainly fan inflation, currently at about 3%, after key subsidies were reduced in the last four months but the government said price rise will be under control.

"Inflation will rise whenever there is an increase in prices of goods, but will be under the government's benchmark of 3%.

"If there is an increase in electricity tariffs, inflation rate will be below the benchmark, just like the 2.6% inflation increase registered after fuel subsidy reduction," Minister in the Prime Minister's Department in charge of the Economic Planning Unit Datuk Seri Abdul Wahid Omar told the media in Putrajaya yesterday after the announcement.

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FROM P1 Power rates hike

Abdul Wahid also stressed the government will ensure financial handouts are given to marginalised communities to mitigate escalating household expenses.

The government last raised the electricity rate in June 2011 by about 7%. After much hesitation, policymakers finally allowed TNB, the sole power supplier, to raise electricity rates.

"As an ongoing programme, subsidy rationalisation and the

move towards a market-reflective gas pricing mechanism have been considered as measures to strengthen the country's financial position," Energy, Green Technology and Water Minister Datuk Seri Dr Maximus Ongkili said after announcing the new pricing in Parliament.

He says the government will save about RM4 billion in subsidies for the energy sector next year following the electricity subsidy review, which can be channelled towards improving

infrastructure, schools and public facilities for the people.

Under the new tariff regime, domestic consumers using 300kWh per month and below will not be affected, which is 70.67% or 4.56 million consumers out of the total 6.45 million domestic users.

But the industrial sector and those enjoying Special Industrial Tariff will see a 19% rise and are likely to bear the brunt of the new electricity pricing.

Analysts cautioned the rise will hurt high electricity de-

pendent industries such as glove and steel producers.

"They have benefitted from cheap electricity for too long and the 19% rise will increase their production costs. It will impact their competitiveness. Malaysia will not be a low-cost manufacturing centre anymore," said a power sector analyst.

For consumers in Sabah and Labuan, average tariff will be up five sen per kWh or 16.9% from the current average rate of 29.52 sen per kWh to 34.52 sen per kWh.

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