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Coping with higher power tariffs

SUBSIDY RATIONALISATION: Public acceptance of new rates also depends on how the extra cost-saving revenues will be spent

“WHEN we say the word ‘reform’, no matter how you say it, the public will always come back to say, ‘So how much more do we have to pay?’” That was how Mustapha Kamil, NST managing editor Business and Lifestyle, summed up the public’s attitude towards electricity tariff revision at the Public Forum on Reforms in Peninsular Malaysia’s Electricity Sector held on Nov 7, this year, in Petaling Jaya.

The forum overviewed the regional experience in electricity sector reforms, discussed the initiative to reform the sector in Peninsular Malaysia, the need for tariff revision and its impact, and also the means of adapting to the new environment.

The forum revealed the main motivators of public acceptance of tariff revision to be more than just affordability, to include certainty, transparency and a positive net impact.

The case for tariff revision is compelling: gas supply for power production is heavily subsidised (to one-third of its export price), but domestic gas resources are depleting and the peninsula has to import gas at market prices to meet demand. This demand is growing and, if nothing changes, gas subsidy can total to between US\$38 and US\$52 billion (RM121.6 and RM166.4 billion between now and 2030 (in real terms). That is a lot of money, 60 per cent of which will be lost through generation and transmission processes, and wasted through inefficient consumption.

Representatives from industry and civil society are generally accepting of the fact that the gas subsidy is unsustainable but remain concerned over the affordability of electricity. In this regard, cross-subsidisation to maintain a lifeline band can protect poor households from tariff increases.

In order to restrain tariff increases the plan calls for a gradual removal of gas subsidy and increasing reliance on

coal, which is 60 per cent cheaper than gas at market prices. The lowest price for electricity will be sought through competitive bidding for electricity generation and an unbundling of Tenaga Nasional Berhad (TNB) accounts so that transmitters, retailers and consumers can buy at lowest cost.

Statistics show Malaysians consuming more energy per household and per unit of Gross Domestic Product than comparable countries, suggesting that we can cut some energy use without sacrificing comfort or productivity. This will not happen at current low levels of tariff. Nonetheless, middle class households and small and medium enterprises will probably require some assistance to cope with higher tariffs by investing in energy efficiency.

There is a general agreement at the forum that certainty is critical to public acceptance. Consumers must be certain that the proposed reforms will be followed through. The previous attempt to remove gas subsidy — halted after one increment — left many investors in energy efficiency unable to benefit from their investment. Any doubts sown by that failure must be removed in order to generate the correct response from consumers.

Transparency is also a demand put forward strongly in the forum. It stems largely from discontent over the overgenerosity of the first generation power purchase agreements.

Consumers want to know how and for what they are being charged. This requires itemised billing and publication of comprehensive statistics, including

items such as coal, liquefied natural gas and pipeline gas supply costs, generation costs of TNB and independent power producers, transmission and distribution costs. Suruhanjaya Tenaga (Energy Commission of Malaysia) has commendably improved its publication of statistics; greater clarity as to how tariffs are set would be helpful.

Although cutting the government budget is often cited as a reason to rationalise subsidies, the subsidy on gas is implicit. That is, no money is paid out to keep its price low. Rather, revenues are forgone by selling at lower prices. This means that reducing gas subsidies will not lower expenditures but will raise revenues. Public acceptance of subsidy rationalisation also depends on how the extra revenues will be spent.

There are at least three important areas that should be funded from the extra revenues for the reforms to have a positive net impact. One is to assist households and businesses improve their energy efficiency. Second is to fund reforestation and forest conservation to offset the carbon dioxide emissions arising from the burning of coal for power generation. Third, there should be investments to reduce petrol consumption in the transport sector, not only to reduce carbon dioxide emissions, but also to reduce the explicit subsidy on that fuel.

