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SUBSIDY RATIONALISATION: Electricity prices in Malaysia are distorted and do not reflect true cost, say industry observers

ZAIDI ISHAM ISMAIL

THE government's plan to hike power tariffs by as much as 20 per cent next year is timely as it needs to reduce subsidies in its quest to become a developed nation by 2020.

Industry observers said the subsidy rationalisation programme sends the right signal to the international community as power tariffs in Malaysia are distorted and do not reflect the true cost of power generation, and are not in sync with the international market.

Universiti Kebangsaan Malaysia Graduate School of Business visiting professor of management Datuk Dr John Anthony Xavier said from an economic point of view, the prices of electricity are heavily distorted and due to the high subsidies, consumers tend to be wasteful.

"By increasing tariffs, consumers

will use electricity prudently," Xavier told Business Times in a telephone interview yesterday.

Energy, Green Technology and Water Minister Datuk Seri Dr Maximus Ongkili said in Parliament on Wednesday that consumers should brace for a 10 to 20 per cent hike in electricity tariffs any time next year.

Malaysia's power sector has long been inefficient, with consumers and industries paying subsidised prices.

Petronas sells gas to Tenaga Nasional Bhd to generate electricity at a subsidised price of RM13.70 per MMBtu (million metric British thermal units), whereby the international market price is RM43 per MMBtu.

The current average cost of power generation is 30.9 sen per kilowatt hour (kWh). It is sold to users and industrial powerhouses at an aver-

age subsidised price of 33.5 sen per kWh. However, the actual cost of power generation, including transmission and distribution, is 42 sen per kWh.

In comparison, the Philippines and Thailand sell electricity at 58 sen per kWh and 48 sen per kWh, respectively.

Federation of Malaysian Manufacturers vice-president Datuk Saw Choo Boon agrees that the government has to rationalise subsidies but it will have to do so in stages.

"The government has to do it gradually, following a spate of increase in the cost of doing business, such as petrol price hikes, the minimum wage policy, extending the retirement age to 60 and the goods and services tax in 2015," he said.

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