**SUBSIDY RATIONALISATION:** Bulk of increase is to cater for higher gas cost, says chief financial officer

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SOME may expect the new tariff hike to hugely benefit Tenaga Nasional Bhd (TNB), but the utility giant said the event should be neutral to its financial performance.

This is because the bulk of the 15 per cent tariff jump, effective January 1, is to cater for increased gas cost.

TNB chief financial officer Fazlur Rahman Zainuddin said 78.6 per cent of the tariff increase – 3.92 sen per kilowatt hour (kWh) of 4.99 sen/kWh – is to cater for increased gas cost following the government’s subsidy rationalisation programme.

The regulated price of gas supplied by Petronas is RM15.20 per million metric British Thermal Units (mmBTU) compared with RM13.70/mmBTU previously.

Additionally, TNB has to purchase imported liquefied natural gas (as domestic supply is insufficient), at reference cost at a tariff of RM41.68/mmBTU when its consumption goes beyond 1,000 units a day.

TNB uses about 1,300 units of gas per day.

However, under the Fuel Cost Pass Through principle implemented recently, cost changes for fuel will be neutral to TNB.

“This provides certainty of earnings for future investment sustainability,” Fazlur told reporters, here, last week.

TNB recently announced stronger-than-expected first-quarter results in the 2014 financial year, with net profit jumping 23 per cent year-on-year to RM1.7 billion from RM1.4 billion in the first quarter of 2013, due to foreign exchange translation and tax movements.

Despite revenue and bottom line growth, the group’s operating profit fell 13 per cent year-on-year.

Fazlur said some may view TNB’s earnings as high but the fact is the utility giant invests in capital expenditure (capex) more than it earns to ensure that the country’s electricity supply is secure.

“To attract investments, the country has to offer excellent infrastructure, including electricity supply. We cannot have frequent power disruptions as these will not be conducive for investments.”

Fazlur said TNB’s historical net profit after tax (PAT) has been below the total capex spent.

“For the financial year ended August 31 2013, PAT was RM4.6 billion versus capex of RM8.5 billion.”

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‘Most of TNB’s capex used to strengthen power supply’

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“Almost all of our capex is spent to strengthen electricity supply in Malaysia. For this reason, TNB needs to earn sufficient profits to be able to sustain capex investment.

“Of course, the PAT-versus-capex comparison is an oversimplification because it ignores non-cash items like depreciation and gains on forex translations and does not include other cash movements such as payment of debt principle and dividends, etc.

“But the idea is to give a layman view based on easily accessed reported numbers that the public will read in the media,” he added.

Fazlur said the base tariff review under the recently implemented Incentive Based Regulation (IBR) framework will tie TNB to meet performance standards.

Under IBR and the tariff adjustment, TNB was given a 2.69 per cent increase in the base tariff, or 0.9 sen/kWh, to cater for its expected future capex investments and cost to operate the electricity supply network and serve customers.

“This increase covers our expected returns on regulated assets and future costs for transmission and distribution.

“TNB will not get any further base tariff increase until 2017 and will have to control costs as inflation is expected to put increased pressure.

“In return, TNB will be required to meet various performance expectations through an incentive and penalty scheme. Clearly, this base tariff review is not without strict performance obligations,” he added.