

Headline	EC's new base tariff raise 'will not affect Tenaga's profitability'		
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EC's new base tariff raise 'will not affect Tenaga's profitability'

KUALA LUMPUR: The Energy Commission's (EC) new base tariff raise will not affect Tenaga Nasional Bhd's (Tenaga) profitability, analysts observe.

The research arm of Kenanga Investment Bank Bhd (Kenanga Research) was surprised that the new base tariff was raised to 39.45 sen per kWh in Regulatory Period 2 (RP2) from 38.53 sen per kWh previously for Regulatory Period 1 (RP1) for 2015-2017.

"This is contrary to Tenaga's announcement in end-December 2017 that the tariff structure is to be maintained in RP2," Kenanga Research said.

"In addition, the regulated return to Tenaga, namely weighted average cost of capital (WACC) was reduced to 7.3 per cent in RP2 from 7.5 per cent in RP1."

According to Kenanga Research, the new base tariff will not affect Tenaga's profitability as the fuel costs are passed through to end-user under the Imbalance Cost Pass-through (ICPT) mechanism.

"In fact, the reduced WACC is unlikely to affect earnings as well as its asset base will grow over time as the Incentive-based Regulation (IBR) encourages capex to improve efficiency.

"In RP2, the assumption of asset base is RM57 billion on average as



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opposed to the average of RM42 billion in RP1. As such, the asset return is circa RM4.1 billion a year for Tenaga."

The research arm added that the total subsidy of RM929 million to maintain tariff of 38.53 sen per kilowatt hour (kWh) in the first half of 2018 (1H18) will be borne by Tenaga which will offset the saving of actual capital expenditure (capex) and operating expenditure (opex) spent of RM17 billion and RM17.5 billion against the approved numbers of

RM18.5 billion and RM18.4 billion, respectively.

Kenanga Research highlighted that given the limited funds available, such as PPA Saving Fund, to offset subsidies, question remains on whether the government will allow Tenaga to raise tariff rates in the future should the ICPT rebate situation persist.

"Nonetheless, in the principle of ICPT framework, fuel cost risk is passed through to end consumer, thus with neutral impact to Tenaga's earnings," it said.