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RM929m electricity tariff rebate won't be from taxpayers' money, says EC 5 HOME BUSINESS

Tariff rebate not from taxpayers — EC

The commission clarifies that the RM929.37 million will be borne by TNB

BY CHESTER TAY

KUALA LUMPUR: The Energy Commission (EC) clarified yesterday that the announced RM929.37 million rebate that the government will provide to maintain current electricity tariffs in Peninsular Malaysia will be borne by Tenaga Nasional Bhd (TNB).

"If you ask me whether the money is coming from the government treasury, the answer is no," EC chairman Datuk Abdul Razak Abdul Majid said at a press briefing. "It is coming from the electricity supply system."

In December, Energy, Green Technology and Water Minister Datuk Seri Dr Maximus Johny Ongkili said the government had agreed to keep the current electricity tariff base rate in Peninsular Malaysia for the second regulatory period (RP2) from January 2018 to December 2020 under the incentive-based regulation mechanism.

Additionally, Ongkili said the government would come up with RM929.37 million to maintain the

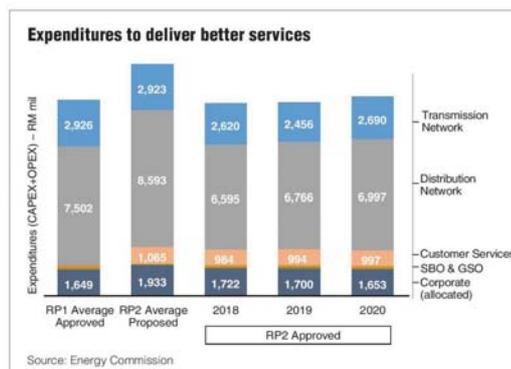
1.52 sen per kWh of rebate and absorb 0.28 sen per kWh of coal surcharge in the first half of this year to ensure no changes to end-consumers' electricity bills.

EC acting chief executive officer Azhar Omar explained that the sum, or the imbalance cost pass-through (ICPT) rebate, will in fact be absorbed by TNB, as the utility giant's cost of capital for RP1 from January 2015 to December 2017 was not as high as projected.

During RP1, Azhar said the approved capital expenditure (capex) was RM18.5 billion, while approved operating expenditure (opex) was RM18.4 billion, but TNB only used RM17 billion as capex and RM17.5 billion opex.

"They (TNB) were allowed to spend up to this [approved] amount. So, during this period, they will find ways to source the funds they needed, but capped at this amount. Since the actual capex and opex they needed were below of what was approved, their cost of capital should be lower as well.

"But when we calculated the tariff, it was based on the cost of



capital for the approved amount. So, they have earned more from there, and now the money earned could be used to maintain [the] end-user tariff rate," he added.

In RP1, EC's approved tariff for TNB to charge on end users was derived based on a weighted average cost of capital (WACC) of 7.5%. "From WACC, we determine the

rate of return that is reasonable for TNB's investment. But moving forward, in RP2, the WACC we use is 7.3% because there are more certainties and the utility industry is getting more stable," Azhar said.

Azhar also shared that the approved capex and opex for TNB in RP2 are RM36.84 billion in total, equivalent to about RM12.2

billion per annum.

"This is slightly lower or almost the same as RP1, when the approved capex and opex totalled RM36.96 billion. When we set the tariff in 2014, the forecast of sales was based on [a] 4% growth per annum. However, the highest sales growth recorded in this period was only 2.5% a year," he said.

Although the EC's projected power demand growth is slower in RP2, Azhar said the cost of building power plants is increasing, hence the approved capex and opex for TNB are almost the same as in RP1.

By the end of RP2, Azhar said the installed power generating capacity in Peninsular Malaysia should be around 27,007MW, with 61% of it generated from coal-fired power plants, 33% from gas-fired power plants, 4% from hydropower plants and the remaining from renewables and other sources.

Currently, Azhar said the installed capacity in the peninsula is 48% from gas-fired power plants, 42% from coal-fired power plants, and 10% from hydropower and other sources.