

Headline	Tariff adjustment explained		
MediaTitle	New Straits Times		
Date	03 Aug 2017	Color	Full Color
Section	Local News	Circulation	74,711
Page No	22,23	Readership	240,000
Language	English	ArticleSize	1629 cm <sup>2</sup>
Journalist	N/A	AdValue	RM 55,938
Frequency	Daily	PR Value	RM 167,814



ENERGY COMMISSION

# Tariff adjustment explained

IBR allows EC to check actual cost of generating electricity every six months

KUALA LUMPUR

**T**HE following is the transcript of an interview with Energy Commission Electricity Pricing Unit, Energy Development and Market Regulatory Department head Marlinda Mohd Rosli on Radio Televisyen Malaysia TV1's *Nadi Seri Pagi* programme.

The interview, titled, "Electricity Tariff Rebate Adjustment" was aired on July 19.

**Q: What are the main functions of the Energy Commission (EC).**

**A:** In a nutshell, the EC has three main functions. Firstly, we need to ensure that electricity supply is guaranteed and reliable at all times. This means it is always avail-



*Marlinda Mohd Rosli*

able. Secondly, the supply is done in a cost effective manner while the tariff is set at a reasonable rate. And thirdly, the safe supply of electricity.

In addition, we advise the government on the development of the electricity supply industry, as well as promote the use of smart energy among consumers.

**Q: The tariff rate adjustment will be reviewed under the Imbalance Cost Pass-Through (ICPT) mechanism every six months. During this period,**

**what are the factors that will be considered to determine or set the adjustment?**

**A:** The mechanism that we are discussing today is known as the ICPT mechanism.

It is part of the New Electricity Policy Appraisal Framework known as the Incentive-Based Regulation (IBR), which was approved by the government and implemented since January 2014.

Through the IBR mechanism, we examine the actual cost of generating electricity every six months.

However, this time around, the Minister [of Energy, Green Technology and Water] announced on June 30 that the government would spend RM1.3 billion to ensure that the current tariff rate remains unchanged.

Hence, what we will review in the next six months is the actual cost compared with the base tariff cost that was set in January 2014.

From this perspective, there has been an increase in fuel prices that we should pass on to consumers, but the government had absorbed it.

In addition, under the second component, the government has

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agreed to maintain the current rebate rate of 1.52 sen/kWh (kiloWatt hour) per unit. In short, what we can say is that consumers will not see any increase in electricity bills by using the same amount of kilowatts.

We use the appropriate fund (power purchase agreement (PPA) savings fund) to cover these expenses.

**Q Previously, the rebate was 1.52 sen/kWh per unit. However, the rebate now is higher at 2.54 sen sen/kWh per unit. Why is this adjustment higher?**

**A:** Let me sum up the components. The first component is called surcharge.

The surcharge is imposed due to higher coal prices and the depreciation of the ringgit.

That means, when we set the base tariff in January 2014, we fixed the coal price at US\$87 (RM373) per tonne, but now with the depreciation of the ringgit, the cost of coal has increased, compared with the currency exchange at RM3.1 previously (first component).

In addition, we carried out a revision of gas prices — a subsidy

rationalisation plan. We reviewed the gas price of RM1.50 (per mmB-TU) every six months, so that resulted in the cost of energy supply to increase between January and June this year.

Secondly, we maintained the rebate. We retained the 1.52 sen rebate and it costs RM780 million. So, with these two components (surcharge and maintaining the rebate), that is amounted to an entire rebate of 2.54 sen/kWh per unit.

**Q: And, this rebate is fully borne by the fund (PPA savings fund) as a result of the power purchase agreement (PPA) with the first generation independent power producers (IPPs) and PPA savings. Please elaborate.**

**A:** We have been negotiating with IPPs. When we negotiate, there are savings we can take back because at the time, we know that most of the first generation IPPs were earning slightly higher profits. Based on this concept, we used the money to offset the costs.

**Q: What is this special industry**

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## 'Adjustments will allow real costs to be passed on to consumers'

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### tariff?

**A:** This industrial tariff was introduced from 1995 (during the 1995-1997 economic downturn). During the recession, the government introduced the tariff to assist industries (energy-intensive industries) using electricity, such as the cement and iron industries. These industries obtained between eight and ten per cent discounts. However, this special tariff is being revised and may end in 2020.

**Q: Although adjustments have been made from time to time, rebates and subsidies are provided, consumers are still after lower prices. This may be due to rising cost of living. Since electricity is a basic necessity, how can we balance this demand in the current situation?**

**A:** The government is concerned about this. That is why we have maintained the existing rebates since March 2015. Overall, the rebates extended to consumers amounted to RM5.4 billion.

And, to balance consumer demand and power generation costs which are beyond our control, the government has set up a fund, namely the PPA savings fund. In addition, we encourage consumers to reduce their electricity consumption.

**Q: Can you explain how the tariff is fixed in the peninsula?**

**A:** To understand this concept of electric tariff setting, we need to know how it is done. Electricity tariffs are divided into three components.

Firstly, the supply costs involving fuel, capital and others. Secondly, how these costs are incurred. For example, we need infrastructure development, delivery, distribution and so forth. Thirdly, we must ensure that the imposition of this electricity tariff meets the performance standards needed. This means the users are satisfied — "Ok, we are paying a lot, this is the

service that we get."

These are the costs that we will determine efficiently and transparently, and this will be done through the IBR mechanism. The mechanism will be reviewed every three years. The objective is to ensure that the electricity tariff is fixed at a reasonable rate and at the same time we get reasonable returns for utility companies, such as Tenaga Nasional Bhd or Sabah Electricity Sdn Bhd in Sabah.

**Q: While focusing on Peninsular Malaysia, is there a big difference between the peninsula and Sabah and Sarawak?**

**A:** Actually, they are similar. Only the tariff rates are not the same. Here [the peninsula] it is 38.53 sen and (in Sabah and Sarawak) it is 34.52 sen.

**Q: What is the benefit of the tariff adjustment to consumers when it is reviewed every six months through ICPT?**

**A:** When we set the 2014 tariff base, we based it on cost projections (we assume that fuel prices will go up), but, since we started (fixing the tariff), coal prices decreased except during this period. But over the last three years, fuel prices have declined.

Another fuel that we are studying is liquefied natural gas as the price has also decreased.

So, these real costs (falling fuel costs) can be passed on to consumers.

And for consumers, they know they are paying the cost of electricity tariffs based on actual costs formulated transparently and systematically.

**Q: Currently, many buildings are using the Green Building Index. So, they are designed more wisely. How can this help reduce dependency on energy?**

**A:** The Energy Commission's building adopts the Green Building Index and we use more direct light from outside, and the concept is such that (a building) does not consume

much light, except at night.

The building itself has elements that generates less interior heat, it means less usage of air conditioners. In fact, many buildings in Kuala Lumpur are already adopting the Green Building Index.

**Q: What is the best channel for consumers to file their complaints to the EC?**

**A:** Consumers can direct their complaints to the Energy Commission's mobile app or website at [www.st.gov.my](http://www.st.gov.my).

**Q: What is the EC's advice on the use of smart electrical appliances?**

**A:** The EC has star-rated energy-efficient appliances, such as refrigerators, fans and lights, which can be purchased from electrical shops.

These products, which are labelled energy-efficient products, are a slightly expensive, but are cost-saving in the long-run. **Berna-**

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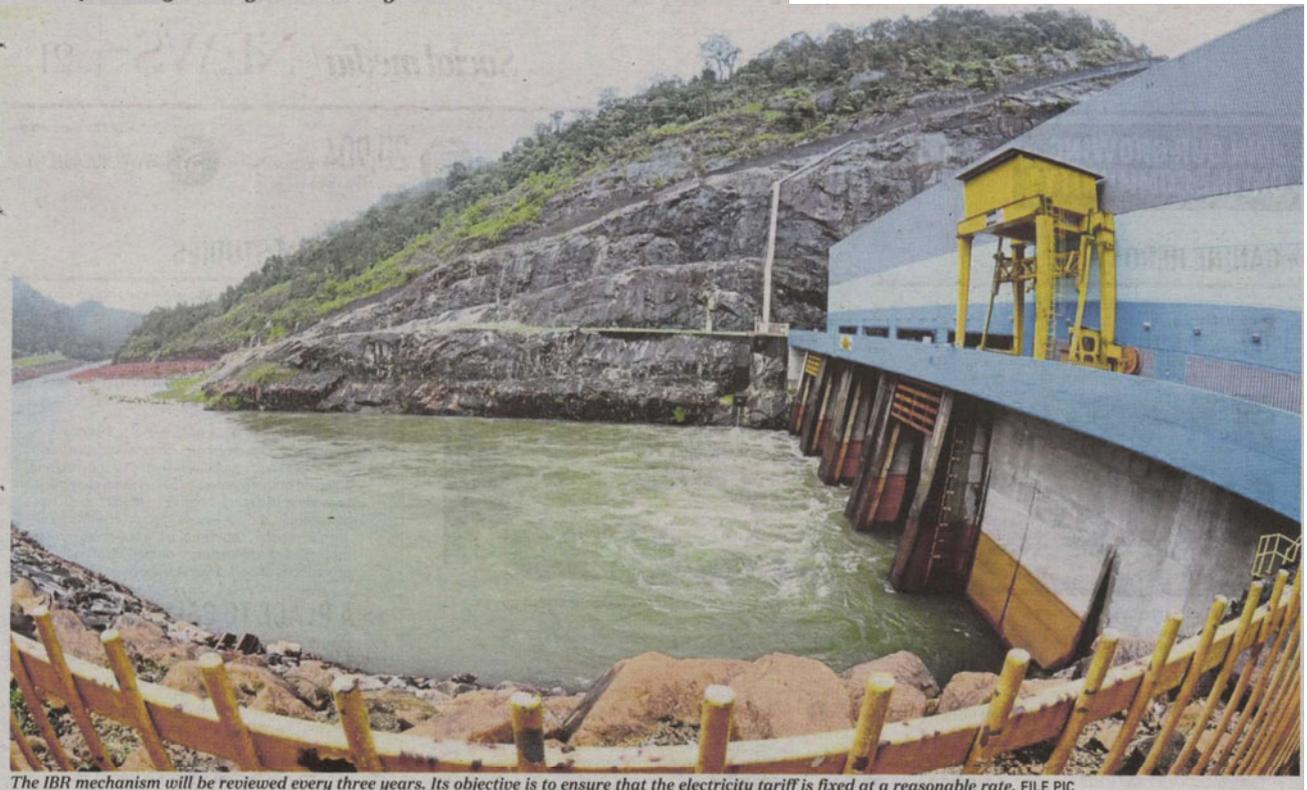


*To balance consumer demand and power generation costs which are beyond the Energy Commission's control, the government has set up the power purchase agreement savings fund. FILE PIX*

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