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Power sector revamp soon

Electricity tariffs adjustment likely to cut RM12 billion annual government subsidy

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MALAYSIA'S power sector — which thrives on a generous government subsidy and offers low electricity tariffs to consumers, compared to its neighbours — is now bracing for major reforms as authorities plan to cut some of the cash flow.

Annual fuel subsidies of nearly RM12 billion, which analysts say has distorted price, has led to over-usage of electricity and even created shortage of capacity while political critics argue these funds could be channelled prudently to more public-oriented projects such as healthcare or schools.

Malaysia's electricity tariff remains lowest in the region at 28 sen per kWh, compared to Singapore's 65 sen or Thailand's 38 sen — but this has been achieved through subsidies, which is becoming a political hot potato in Malaysia with the government mindful of repercussions if it rolls back subsidies.

As a solution, the government set up an independent agency in 2009 to study the situation with a view of reforming the whole supply and demand structure of the power sector.

The MyPower Corporation was tasked with making recommendations and oversee implementation of the entire supply chain to ensure industry runs efficiently, consumers pay fair tariff and for the sector to survive without subsidies.

Mypower chief executive officer **Datuk Abdul Razak Abdul Majid,** an electrical engineer with some 40 years experience in the power industry, said: "Critically and objectively we are looking into these issues, there is no one solution to fit all. Our objective is to get the least cost."

The 62-year-old veteran has to resolve high-voltage woes plaguing the sector and also introduce some unpopular changes, which has irked industry players.

For a start, MyPower set out to revise the controversial first-generation power purchase agreements (PPAs) with independent power producers (IPPs) so that second and third generation producers will sell electricity with thinner margins to TNB in the future.

At the same time, first-generation IPPs are also asked to subscribe to the new rates as their PPAs expire.

MyPower also sought to release the power supply industry from legacy political connections by introducing open bidding for new power projects — something demonstrated recently with the Prai gas-fired power plant of 1,000MW to 1,400MW that was awarded to TNB.

To slash generation costs, MyPower has also recommended power producer use more coal to generate electricity, weaning the industry from highly-subsidised gas, which has become expensive due to supply disruption and pricing concerns.

"We have made some substantial progress in all these areas, we have done more than 80% of the work we are suppose to do. You can see some of the outcomes.

"For example, the regulator is procuring capacity through a bidding programme. That is one of our earlier recommendations. We resolved the PPA issue and we went on a bidding process for those who like to extend their services, it was no longer a negotiated format."
— The Malaysian Reserve