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Malaysian Reserve

TNB upbeat on power plant issues in Pakistan

# Reforms for power sector?

**by P VIJIAN**

**MALAYSIA'S** power sector that thrives on 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 the grant.

For decades Malaysian homes and industries enjoyed cheap tariff, but this luxury could vanish if government withdraws its billion ringgit subsidy that has ballooned over the years.

Annual fuel subsidies total nearly RM12 billion, which analysts say has distorted prices, led to over usage of electricity and even created shortage of capacity.

Political critics argue these funds could be channelled prudently to more public-oriented projects

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# MyPower objective is to get the least cost, says CEO Abdul Razak

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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 Corp was tasked with making recommendations and oversee implementation of the entire supply chain to ensure industry runs efficiently, consumers pay fair tariff and the sector survives without subsidies.

A 62-year-old veteran, Datuk Abdul Razak Abdul Majid, an electrical engineer with some 40 years experience in the pow-

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er industry, was tasked with rejuvenating the industry as Mypower CEO.

"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," Abdul Razak told *The Malaysian Reserve* in an exclusive interview.

He had to resolve high-voltage woes plaguing the sector and introduce some unpopular changes, which irked few industry players.

For a start, MyPower set out to revise the controversial first-generation power purchase agreement (PPA) with independent power producers (IPPs), so that second- and third-generation producers 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 power purchase agreements expire.

MyPower also sought to release the power supply industry from legacy political connections by introducing open bidding for new power projects — something that was 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 producers 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 supposed to do. You can see some of the outcomes.

"For example, regulator procuring capacity through a bidding progamme, that is one of our earlier recommendations. We resolved the PPA issue, we went on a bid process for those who like to extend their services, it was not a negotiated format," Abdul Razak said.

Now, a bigger task for Abdul Razak, a former TNB corporate affairs senior VP, is to shape up his former employer TNB.

MyPower is looking at unbundling TNB — splitting power generation, distribution and transmission units — arguably even more politically sensitive than tariff revisions.

Abdul Razak's team has set new parameters for his old company to enhance efficiency and transparency.

"Internally we did some clean up, unbundling of TNB. TNB's accounts have been streamlined, we would like to separate regulated from the non-regulated components. We want TNB to be more transparent," added Abdul Razak.

Even these corrections are not shining enough in the sector, powering at 4% to 5% annually, as industry watchers gripe of uncertainties that can drive out investors and question on "political will" to push reform agenda.

"There has been very good progress now. Industry is directed towards a more sustainable (sector) and MyPower has done a good job. But decision makers need the political will to bring drastic changes," said a Kuala Lumpur-based analyst.

Delay in implementing the incentive based regulations (IBR) that includes fuel cost pass through (FCPT) mechanism, tariff revision and sector's subsidy withdrawal remain nagging issues.

"Lot of progress but uncertainties still there. When IBR and FCPT will be introduced, because this will impact tariffs and pass higher costs to consumers. Need to remove the risk of higher energy price.

"And who will monitor the implementation of IBR, government must be more transparent and give confidence to investors, especially foreign investors," added another power industry observer.