KEMENTERIAN TENAGA DAN SUMBER ASLI

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Electricity tariff review a concern for TNB

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Plain speaking

ELECTRICITY tariff rates in Peninsular Malaysia, which are reviewed every three years, will come up for review on Jan 1, 2022.

For Tenaga Nasional Bhd (TNB), ensuring fair returns will be critical under this third review period called Regulatory Period (RP) 3 from 2022 to 2024.

With fair and reasonable returns, TNB will be able to sustainably attract investments, maintain costs to produce electricity, deliver reliable service and continue to give back to the nation.

In view of the aspirations towards energy transition, TNB needs to undertake investments to address climate change issues as well as help stimulate and reshape the economic recovery.

The transition to a more sustainable sector has gained urgency as the energy landscape changes with greater emphasis on climate action.

There is thus, a need to invest in new technologies to ensure that the sector is future ready.

This will involve taking some risks on these new technologies, as they will likely not have the long proven track record that we are familiar with.

"Hence, fair returns that commensurate with these risks, is critical under RP3, to ensure that capital investments continue towards infrastructure readiness to support a new energy future," said TNB president and CEO Datuk Baharin Din.

TNB continues to support 4,500 vendors most of whom are bumiputra small and medium scale enterprises.

Under RP2 which was extended by a year (2018-2021), TNB had contributed RM200mil per annum on education and re-employment.

During the pandemic, TNB contributed RM21bil to the economy; RM400mil for Covid-19 relief, taxes and zakat (RM3.1bil), dividends to shareholders (RM9.9bil), vendor contracts (RM7.4bil), and education (RM500mil).

TNB is pursuing an ambitious growth agenda to be a leading provider of sustainable energy solutions in Malaysia and internationally, and achieve a net-zero emissions aspiration by 2050.

Currently, the Ministry of Energy and Natural Resources, Energy Commission and TNB are discussing the base tariff under RP3 (Jan 1, 2022 to Dec 31, 2024).

The current model for the Malaysian electricity supply industry ensures sustainability, drives efficiency and maintains affordable tariffs.

"As we have built market confidence, it is important for the incentive-based regulations (IBR) to be maintained, with TNB continuing to support the government's aspirations," said Baharin.

The government determines the price of electricity by using the IBR, which is a tariff setting framework – a combination of the rate of return, performance-based and cost-of-service methods.

These methods are designed to make tariffs transparent and fair.

The other part to the IBR is the imbalanced cost pass-through (ICPT), a mechanism which allows TNB to reflect an increase or reduction in fuel and other generation-related costs in tariffs every six months via a rebate or surcharge.

The cost of supplying electricity comprises 65% of generation cost, and 35% of TNB's operational costs.

RP3 will potentially help TNB to enhance its role in the National Recovery Plan, including aspects of tariff review and capital expenditure for the next three years.

TNB ranked fourth in the World Bank 'Ease of Getting Electricity 2019 and 2020' rankings ahead of the UK, France and Singapore.

At 44.95 minutes per customer per year, its system average interruption duration index is ahead of developed countries such as France and Italy.

Significant grid investments will help TNB achieve the nation's target of 31% of electricity generation mix from renewable sources by 2025.

A smart grid enables a higher proportion of renewable energy (RE) production and distribution; TNB needs to invest for the grid to be robust and resilient as well as to be more flexible in RE penetration.

From 2022 to 2024, TNB will invest RM7.4bil per annum with commensurate fair returns, to modernise the grid.

"This initiative allows our system to cope with greater renewables and decentralisation of energy, create open platforms for energy solutions and be resilient on cybersecurity and the impact of climate change," said Baharin.

Since the pandemic, TNB has experienced lower collections and bad debts, and the need to raise more funds to manage its working capital.

Electricity usage in the industrial and commercial sectors dropped between 25% to 50%; usage in the residential sector surged between 20% to 50%.

The demand for electricity in 2021 is stable, TNB's balance sheet remains strong and continuous working capital management will be observed.

Capital management has been consistent with gearing at 46.2%.

Performance in the first half of financial year 2021 remains robust but gradual recovery still lags behind pre-pandemic performance. A total of 7.4 million domestic customers will enjoy discounts of between 5% to 40%, while 1.6 million small and medium enterprises under the low voltage commercial, industrial and specific agricultural categories will receive a discount of 5%.

A discount of 10% will be given to 11,800 customers in six business sectors – hotels, theme parks, convention centers, shopping malls, local airline offices, and tour and travel agencies – under the Program Strategik Memperkasa Rakyat dan Ekonomi (Pemerkasa) Plus intiative.

These sectors continue to receive the 10% discount under the Pakej Perlindungan Rakyat dan Pemulihan Economi (Pemulih) package until Dec 31, 2021.

Customers in Peninsular Malaysia continue to get the ICPT rebate of 2.0 sen/kWh from July to December 2021.

In terms of discounts and rebates, about 10mil domestic and non-domestic customers in Peninsular Malaysia had benefited from the targeted electricity bill discounts under the Pemulih package.

With the pandemic, a fourth priority has emerged – the economic impact that includes the nature of investments in electricity infrastructure.

Before that, the "energy trilemma" had sought to strike a balance between affordability, security of supply and environmental sustainability. It is hoped that the government and regulator, in their base tariff review, will ensure the right balance of priorities for the nation.

Yap Leng Kuen is a former StarBiz editor. The views expressed here are the writer's own.