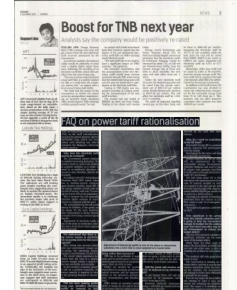


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FAQ on power tariff rationalisation

HERE are frequently asked questions (FAQ) on the tariff rationalisation, prepared by special purpose agency, MyPOWER Corp, which has been tasked with detailing key reform initiatives for Malaysia's electricity supply industry.

Why does the electricity tariff need to be reviewed?

The Government cannot continue to subsidise increasing fuel prices. The country needs to move from blanket to targeted subsidies as it tends to result in an inefficient allocation of resources and, therefore, distorts the economy.

According to the 2011 International Monetary Fund (IMF) report, when low to medium-income countries apply blanket subsidies, about 46% of the energy subsidies benefit only the top 20% of society, with only 7% reaching the lowest 20% of the population.

This is because the rich generally consume higher volumes of scarce resources compared with the poor.

The consumption by the rich could almost be limitless, if the goods are too cheap. For the poor, however, their consumption is always limited, no matter how cheap a resource/good may be.

Adjustment of electricity tariffs is one of the steps to restructure subsidies into a form that is more targeted and sustainable.

We understand that there is a big reserve margin in electricity. Are we paying more for this excess capacity?

After taking into account scheduled and unscheduled outages and de-rating, the operating reserve margin is now between 5% and 21%.

The recent Sabah experience has shown that the lack of a healthy reserve margin entails a system to become unreliable and unstable.

As the country's economic growth

is still on a positive trajectory, the excess capacity is required to cater to the growing demand of consumers.

TNB has been making profits every year, shouldn't electricity tariffs be lowered to help Malaysians deal with high costs of living, rather than increase it?

TNB has to be profitable. It pays taxes and its performance is benchmarked against both local and global peers. There are KPIs to meet.

Profits are needed for capital expenditure to maintain an efficient capital structure and for improvements in the network's performance (transmission and distribution).

TNB's return on invested capital (ROIC) is below its cost and its profits are lower than its capital expenditure.

In other words, if TNB's profits does not grow – in line with its debt and assets – it will not be able to effectively serve future customers.

Will the goods and services tax (GST) be imposed on my electricity bill?

As per Budget 2014, GST will be imposed on all consumers with effect from April 2015.

However, domestic consumers using 1-200 kWh per month will not be subject to the GST.

Furthermore, they will not be affected by the tariff hike from January.

Why do I need to contribute to the RE fund?

Renewable Energy (RE) is a national agenda requiring full participation from the people.

Developing the RE sector will help us to diversify our fuel mix.

Monies collected for the RE Fund will be administered by the Sustainable Energy Development Authority Malaysia and used to pay RE players who generate electricity from RE sources through the Feed-in-Tariff (FiT) mechanism.

The best thing about FiT is that individuals who generate power from solar PV systems installed on roofs can connect to the grid and get paid from the fund through TNB (approximately RM400-RM500 per month for 21 years for a 4kWp system).

Currently, the amount of electricity generated from RE sources is 121 MW, which is only 1% of total generated power.

The target is to generate 2,080 MW by 2020.

How significant is the saving from this subsidy reduction and is it going to help the Government manage its budget for the coming year? Isn't there any other way for the Government to reduce the budget deficit?

The size of Government subsidies is significant. Subsidies are the main cause of the budget deficit.

While there are other ways to reduce the fiscal deficit, to forfeit this and look into other ways is akin to avoiding one problem to solve another.

The problem will only grow more severe in time.

The Government is running on a budget deficit, and this is an issue that requires immediate action. By reducing the subsidies, the Government can manage its funds more efficiently to provide for the needy.

If we do not target the fiscal deficit and attempt to solve it now and instead just sweeping the problems under the carpet, it is definitely not helping the country to move forward.

— Bernama

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