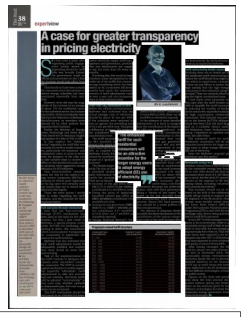
Suruhanjaya Tenaga

Headline	A case for greater transparency in pricing electricity		
MediaTitle	The Heat		
Date	07 Dec 2013	Color	Full Color
Section	NEWS	Circulation	20,000
Page No	38	Readership	60,000
Language	English	ArticleSize	734 cm²
Journalist	BY G. LALCHAND	AdValue	RM 12,442
Frequency	Weekly	PR Value	RM 37,326



A case for greater transparency in pricing electricity

So it has come to pass: after organising public engagement events where an impending electricity tariff hike was broadly hinted, the government made an official announcement on Dec 2 that the increase would take effect from Jan 1.

This should not have been a shock for consumers since the intention to reduce energy subsidies had been mentioned repeatedly from mid-2010.

However, what did was the magnitude of the increase of an average of about 15% for residential users. For the industrial sector, the increase was 16.85%, which immediately drew flak from the Federation of Malaysian Manufacturers, as members were already hit by other policies that impacted their business.

Earlier, the Minister of Energy, Green Technology and Water (KeTTHA) Datuk Seri Dr Maximus Ongkili had spoken of a hike of 10% to 20%.

In this respect, the "advance notice" regarding the tariff hike was certainly too short to enable consumers, particularly the industrial and commercial users, to come to terms with the prospect of the hike and to take suitable steps to counter its effect on their production costs, such as adopting more aggressive energy efficiency (or EE) initiatives.

This announcement certainly paves the way for the nation's energy service companies (ESCOs) to promote EE efforts more vigorously as the big users will certainly seek any means they can to reduce their electricity bills legally.

There are some points I would like to make regarding the tariff revision, and the rationale for their implementation.

Fuel cost pass through mechanism

I note that the fuel-cost-pass-through (FCPT) mechanism has been used as the basis for the tariff revision. For this, I give credit to MyPower, a special-purpose entity under KeTTHA, for promising, and putting in place, this mechanism which ensures greater transparency for consumers to appreciate the reasons for tariff revisions.

MyPower had also indicated that such tariff adjustments would be adequately justified and implied that there would be some tariff restructuring.

Talk of the implementation of the FCPT formula in Malaysia had created some unjustified concern for consumers. The FCPT is actually a good mechanism to enable regular, but hopefully "affordable", tariff adjustments to take into account fuel cost volatility. Electricity tariffs will be adjusted "automatically" as fuel costs vary, whether upwards or downwards (yes, fuel cost can go down too on occasions).

The FCPT mechanism should be welcomed as an initiative for transparent electricity supply tariff management and governance, provided that any adjustments are capped at say, not more than 2% every six months.

If nothing else, this would at least introduce some transparency in the make-up of the tariffs that consumers pay, something which has been absent so far. Consumers will know exactly how much the maximum amount of tariff adjustments could be over a year and can incorporate them in their business plans.

Poser over LNG contribution to tariff

Before the official announcement, MyPower had indicated that the actual average cost of electricity should be about 42 sen per kWh if the subsidies were removed in toto as against the prevailing rate of 33.5 sen per kWh now. This gives a difference of about 28% between the subsidised and unsubsidised rates.

The tariff increase to 38.5 sen/kWh is almost 15%, which is more than half of the 28% as implied by MyPower. Surely this cannot be considered as part of a "gradual" increase?

The details reported by *The Star* on Dec 3 provided incomplete information to justify the increase. They are as follows:

- Increase of the gas price from RM13.70 to RM15.20 per MMBtu contributes 0.51 sen/kWh (1.52%)
- Fixing the price of imported liquefied natural gas (LNG) at RM41.68/MMBtu contributes 3.41 sen/kWh (10.17%).
- Increase in coal price from US$85 (RM272) to US$87.5 (RM280) per ton contributes 0.17 sen/kWh (0.51%) *[Note: not 17 sen/kWh as mistakenly reported]*.
- Tenaga Nasional Berhad's "essential tariff review" contributes 0.9 sen/kWh (2.69%) *[Note: not 90 sen/kWh as mistakenly reported]*.

In the absence of more detailed information, it is hard to imagine how the contribution of the imported LNG can be so significant. An Energy Commission presentation in 2012 showed that coal and gas generated about 46% and 44% respectively of the energy generated as at October 2012.

So how much energy generation is expected from LNG that its contribution to the tariff increase becomes 3.41 sen/kWh (or about 68% of the increase)? On an economic despatch basis, coal-fired generation becomes the preferred option, with LNG-fired generation being a "choice of last resort" to make up for any shortfall from

Suruhanjaya Tenaga

Headline	A case for greater transparency in pricing electricity		
MediaTitle	The Heat		
Date	07 Dec 2013	Color	Full Color
Section	NEWS	Circulation	20,000
Page No	38	Readership	60,000
Language	English	ArticleSize	734 cm²
Journalist	BY G. LALCHAND	AdValue	RM 12,442
Frequency	Weekly	PR Value	RM 37,326

the economically more attractive sources. Hence LNG fired generation should be a small portion of the total generation.

The absence of adequate details to justify the above declaration of the contribution of the various component costs to the tariff increase does not demonstrate the declared transparency, as implied by MyPower.

Tariff restructuring details needed

Similarly, there are no details yet of the residential tariff restructuring to reduce the tariff blocks from eight to five, which is a good move. I wonder if there are any efforts to reduce the high subsidy that the high energy consumers in the residential category enjoy? They can certainly afford to pay the higher unsubsidised rates.

I had made some proposals on this topic after the tariff revision in 2008 to simplify the tariff structure by reducing the number of blocks and to reduce the unjustified subsidy for high consumption residential consumers. This material was posted on the former KeTTHA Minister Datuk Seri Peter Chin Fah Kui's blog and on a Linkedin thread under the Malaysian Green Professionals Group. I reproduce an updated one here. (*See table below*)

The enhanced tariff for such residential consumers will be an attractive incentive for the larger energy users to adopt energy efficient (EE) use of electricity.

Does the MyPower proposal go anywhere near this option?

Renewable energy levy

Another critical issue is the increase in the renewable energy levy from 1% to 1.6%. Why should this levy be increased when most of it will likely go to enrich the few (rich) PV system owners at the expense of the levy paying rakyat, including industrial and commercial entities?

This increase should not be allowed as the bulk of the additional funds will go mainly to support the PV segment of the RE projects. This is even more socially unjust since the Entry Point Project (EPP)-10 under the Economic Transformation Programme (ETP) in mid-2010 did not envisage solar farms being granted feed-in tariff (FiT) payments.

In fact, EPP-10 only envisaged solar farms to be economically viable at a renewable energy tariff of RM0.50 per kWH in 2010 with the rate dropping exponentially from then on. Thus the solar farms were expected to be developed only after 2017 or 2018 when they were expected to have achieved grid-parity at around 30 sen.kWh.

After having managed the RE Fund for almost two years (December 2011 to November 2013), the Sustainable Energy Development Authority (Seda) has yet to provide detailed statistics on the amount of FiT top-up tariff values that have been disbursed to the RE developers for the different technologies, at least for public access.

Figures on the Seda web portal only show the total amount disbursed without giving any breakdown on the amounts given for the different technologies but show the respective energy generation from these technologies.

"The enhanced tariff for such residential consumers will be an attractive incentive for the larger energy users to adopt energy efficient (EE) use of electricity.

Headline	A case for greater transparency in pricing electricity		
MediaTitle	The Heat		
Date	07 Dec 2013	Color	Full Color
Section	NEWS	Circulation	20,000
Page No	38	Readership	60,000
Language	English	ArticleSize	734 cm²
Journalist	BY G. LALCHAND	AdValue	RM 12,442
Frequency	Weekly	PR Value	RM 37,326

Besides being an electricity supply engineer for half a century, the writer was involved in the following:
➤ *Engaged on the UNDP/GEF supported MBIPV (precursor to Seda project) January 2006 to December 2010; part of the team that formulated the Renewable Energy Act and its FiT mechanism.*
➤ *As KeTTHA rep for the National Key Economic Area (NKEA)'s Oil, Gas & Energy Lab, with involvement on the EPP-9 (June and July 2010).*

BY G. LALCHAND

Proposed revised tariff structure

CONSUMPTION KWH/MONTH	PRESENT TARIFF (2013) RM/KWH	PROPOSED TARIFF REVISION RM/KWH
0 - 200	21.80	21.80
201 - 300	33.40	33.40
301 - 400	40.00	40.00
401 - 500	40.20	40.00
501 - 600	41.60	40.00
601 - 700	42.60	45.00
701 - 800	43.70	45.00
801 - 900	45.30	45.00
901 - 1000	45.40	50.00
1001 - 1200	45.40	50.00
1201 - 1500	45.40	55.00
1501 - 2000	45.40	55.00
2001 - 2500	45.40	60.00
2501 - 3000	45.40	60.00
3001 - 3500	45.40	65.00
3501 - 4000	45.40	65.00
4001 – 4500	45.40	65.00
4501 - 5000	45.40	65.00
> 5000	45.40	70.00