

Gov't told to bite the bullet on power tariffs hike
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Malaysia can move faster towards the much sought target of a high-income economy under the New Economic Model if current cheap electricity rates, linked to subsidised gas, can come to an end, analysts said.

They said a prolonged dependency on inexpensive power will do more harm than good as domestic industries are relying too heavily on low production cost, made possible by subsidised gas, so as to compete in the world market.

With the country's gas reserves reportedly to deplete by 2016-2019, there was a more compelling reason for a gradual removal of subsidy on gas as soon as possible.

"There is no escape from winding down the subsidies as we have limited resources which need to be preserved and maximised for future generations," said Jupiter Securities' Head of Research Pong Teng Siew.

Another analyst opined that low tariff rates made possible by subsidised gas prices do not reflect the country's true competitiveness.

"Just picture ourselves nine years down the road when we have to depend on imported gas.

"That is why there has to be a commitment to move domestic gas price to the market price and raise electric tariff rates accordingly," he told Bernama recently.

Power tariffs reviewed every six months

Domestic electricity tariffs are currently reviewed every six months.

In the last tariff adjustment in March 2009, the average electricity tariff was cut by 3.7 percent in line with a 25 percent reduction in gas price to RM10.70 from RM14.31 per MMBTU.

In July 2008, the government implemented a 24 percent hike in tariff as a result of a 123 per cent increase in gas price.

OSK Research's Head of Research Chris Eng said if Malaysia was to be viewed in the context of a trading country in a globalised world, "one cannot expect the subsidies to last forever. We need to discard the subsidy mentality."

Pong believed pressure groups lobbying to keep cost artificially low through cheap power would always be around but this needs to be handled delicately so as to ensure the best interest of the country going forward.

"Private entrepreneurs, particularly the bigger ones who employ inexpensive foreign labour to produce goods using cheap imported materials, frequently oppose tariff hikes as they benefitted substantially from cheap power.

"That basically means that they continue to make extraordinary profits at the expense of future generations," he said.

As to the possible repercussions of higher power tariff on manufacturers, Eng said if tariffs were increased by five percent, their earnings would not be affected.

However, should the government decide to raise tariffs by 20 percent, the impact on earnings would be substantial.

"But then again, why are we subsidising industries at the expense of public interest?" he asked.

Need for clarity

A senior analyst, who requested anonymity, said the delayed tariff increase did not augur well for the local bourse and shares of utility service providers, especially Tenaga Nasional Berhad.

Prices of TNB shares had been weekly traded over the past few weeks, as market investors were disappointed by the deferment of a decision on tariff hikes.

She pointed out that foreign investors holding stakes in Tenaga currently stands at only nine percent compared with a peak of 28 per cent sometime back.

"There is a need for clarity in the electricity tariff through a more transparent tariff pass-through formula.

"With the economy gradually recovering, uncertainty (in the market) is the last thing that investors want to deal with," she added.

She noted that coal prices have somewhat stabilised at the moment but gas prices were trending upwards.

Gas price in Malaysia is tied to Medium Fuel Oil (MFO).

The daily average price of MFO in Singapore has risen to around US\$72 per barrel in December 2009 from US\$37 per barrel in March 2009.

At present, the power sector's fuel mix comprise of 65 percent gas, 28 percent coal, almost seven per cent hydro and less than 0.1 per cent diesel.

Consumers to pay more

Should the government decide on a cut in subsidy for gas prices, the national utility company has no choice but to pass the extra costs to consumers.

"Tenaga is already heavily burdened by high capacity payments to independent power producers (IPPs) and rising costs of supply. It cannot absorb additional cost," said the analyst.

Total IPP and fuel costs represent 65 percent of TNB's total operating costs for the financial year ended Aug 31, 2009.

The national utility corporation paid over RM14 billion to IPPs for the 2009 financial year.

Eng added compared with its global peers, Tenaga's return on assets was very low.

"If you want to make Tenaga more attractive and viable to investors a tariff hike is very important," he said.

Pong believed the best time to review tariffs was when the economy was on a strong footing but a strong political will was also necessary to institute change.

"Equally important is for Malaysians to willingly accept a mindset change. Bite the bullet for the removal of gas subsidy and correspondingly for higher tariff rates.

Although this would surely cause "a hole in our pockets" everyone needs to sacrifice for the long-term benefits of future generations, added Pong.

- Bernama

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