

Increasing Electricity Tariffs Without Restructuring The Power Industry Is Akin To An Attempt To Right A Wrong With Another Wrong.

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The Najib administration announced that it will raise electricity prices by an average 7.12 per cent from June 1 this year.

According to Reuters, the price charged by Petronas for the sale of natural gas to electricity companies would rise to RM13.70 per mmBtu from RM10.70, and increase by RM3.00 every month.

The industrial and commercial consumers will bear the brunt of the tariff hike with an average increase of 8.35 per cent in their power bills. This will inevitably fuel further inflation and reduce the competitiveness of our goods and services.

The Government has employed the excuse of the need to reduce subsidy bills as the basis for the tariff hike in order to reduce the "misallocation of resources", which leads to declining competitiveness. However the Government has at the same time conveniently ignored the fact that the source of the "misallocation of resources" lies with the unbelievably lucrative Independent Power Producers (IPPs) power purchasing agreements (PPAs) with Tenaga Nasional Bhd (TNB).

As a comparison, the power industry structure in Malaysia and Thailand are highly similar, with a little more than 70% of the fuel-mix for electricity generation being natural gas. However despite the fact that natural gas prices are more than double that of Malaysia's at RM23.10 mmBtu, commercial electricity tariff in Thailand is only 0.4% higher at RM38.01 kWh, compared to Malaysia's 37.85 mmBtu..

In fact after the latest revision, it has become stark clear that electricity rates for our commercial sector will be significant higher than that in Thailand, despite the fact that natural gas prices for the sector in Malaysia will still be 68.6% cheaper.

Using Thailand as a benchmark, Malaysian electricity prices should be 16.9% cheaper based on existing subsidy rates. Instead, the BN Government does the exact opposite to raise the electricity tariffs.

This shows clearly that our problem with electricity industry "distortions" as described by Minister in Prime Minister's office, Nor Mohd Yakcop is not with its prices, but with our highly "inefficient" power producing sector which charges high prices despite lower cost of production. And the key reason for that is the unfair PPAs which results in ridiculously high levels of electricity reserve margins.

According to TNB, our reserve margin is 54.6% in 2008 and 52.6% in 2010, which is double that of Thailand and Java, Indonesia, at 25.4% and 26% respectively. The net effect is TNB is forced to purchase electricity which it does not need to the IPPs, resulting in inflated costs for TNB and correspondingly inflated profits for the IPPs.

The Government's decision to reduce the subsidies to the electricity sector is a clear attempt to right an existing "wrong" with another "wrong", which will only lead to further distortions in our market, and not reduce it. Our export industries which are already affected by the strong ringgit will be dealt with a bigger blow due to higher electricity prices compared to

the region as a result of an inefficient and distorted power sector which profits only the IPPs.

The only and proper way to correct the distortions in our power sector is to restructure the lopsided PPAs. In fact by doing so, the Government can kill two birds with one stone, reducing its subsidies and correcting the inefficiencies in the power sector as a result of our super-high reserve margins, while at the same time maintaining our existing electricity rates.

The fact that the Government chooses to punish our consumers and industries, without laying a finger on the IPPs only serves to prove that the Najib administration has no political will to carry out the necessary reforms to our economy, contrary to the rhetoric we hear every day.

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