

# A Shock to the System

The proposed review of electricity tariffs has sent shockwaves throughout the industry.

By Bhupinder Singh

**T**HE WRITING was on the wall. After the Government raised prices of diesel, petrol and gas to stop the swell in subsidies that reached about RM4 billion for the first nine months of the year, businesses became more vocal in their quest for a review of prices.

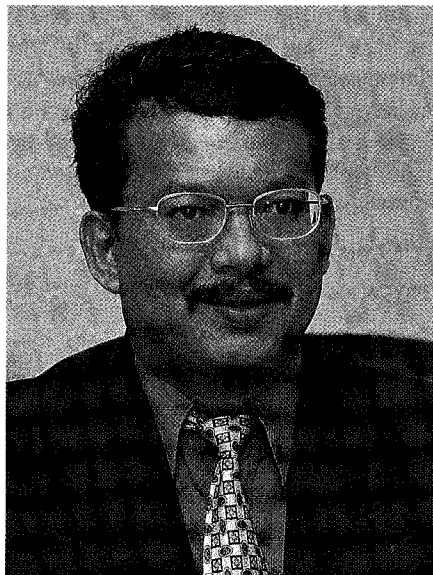
Now, Datuk Che Khalib Mohamed Noh, Tenaga Nasional Bhd (TNB)'s president and chief executive officer, has declared his intent to request a review of electricity tariffs due to rising fuel and import costs.

Barely four months since assuming his new position, the timing could not have been worse. The news made headlines nationwide. However, bureaucrats were quick to water down the review proposal, worried of the impact it may have on inflation and incomes.

Energy, Water and Communications (ECW) Minister, Datuk Seri Dr Lim Keng Yaik said the government will not approve a hike as the government has fixed fuel costs to promote price stability, although it has left the window open for a review based on consumption patterns down the road.

Finance Minister II Tan Sri Nor Mohamed Yakcop said the government would continue to protect consumer interests, while considering stakeholders' interests to ensure that government-linked companies are healthy and viable.

'Raising electricity tariffs would be a



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politically difficult decision to make at this time. Furthermore, TNB is profitable, and only about 5% of its generated capacity uses oil and diesel as fuel. Any review will more likely coincide with a review of natural gas tariff changes,' says an analyst with a local brokerage.

The government has fixed supplies of natural gas from Petroliam Nasional Bhd (Petronas) to TNB at RM6.40 per mmbtu, which is about half the market price. The price of gas procured by TNB from Petronas is reviewed every three years, with the next review scheduled for the end



of next year. TNB has a 20-year contract for gas supplies from Petronas.

This arrangement has significantly reduced TNB's exposure to fuel price volatility and allowed the Government to keep electricity tariff rates steady over the past few years.

In addition, the successful rebalancing of fuel mix from oil as the country's primary energy supply from 87% in the 1980s to 42% by 2002 has served as further insulation from fuel price volatility. Now, about 70% of power generated by TNB uses gas as fuel, while coal accounts for 24% and hydro the remaining 6%. The strategic push is towards increasing coal-based generations to about 30%.

Electricity tariffs were last increased in May 1997, from 21 sen/kWh to 23.5 sen/kWh. The request to review the rate is nothing new, as former TNB CEOs have unsuccessfully put in similar proposals over the years. The final say on any change of electricity tariff lies with the Cabinet.

A tier tariff system could be a workable solution. 'I don't see a need for a

Implementation for the Supply of Electricity and Tariffs (CPISSET).

The committee is chaired by the ECW minister, and members include representatives from TNB, Petronas, the ECW, the energy planning unit of the Prime Minister's department, the Ministry of Finance, the Ministry of International Trade and Industry and the Malaysian Industrial Development Authority.

A review is forwarded to the EC, which deliberates over it at the committee level. According to an EC official, CPISSET meets at least twice a year to review supply plans, tariff rates, service standards and other sector issues.

Electricity tariff adjustment is an opaque exercise in Malaysia, as there is no rate-setting mechanism. A rate setting formula was implemented in March 1994, but suspended in 1995 over fears of price volatility with regular rate adjustments.

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Some may think that Che Khalib is opting for a quick fix, but he has inherited a company with some RM30 billion in debts. Its cash flows are stretched to meet RM4 billion-RM4.5 billion in annual capital expenditure (capex), financing and manpower costs. But its customers owe it over RM800 million.

substantial increase in tariff rates ... a quantum not more than 3%-8% of the current rate,' says Pankaj Kumar, head of research at OSK Securities Bhd, adding that every one sen rise in tariff would increase TNB's revenue by about RM700 million.

The industry is now regulated by ECW through the Energy Commission (EC).

The EC's role comprises regulating the electricity sector, implementing the sector's governing statutes and advising the government on power policies. The body is also responsible for tariff setting and supply planning through the Committee for Planning and

RM4 billion-RM4.5 billion in annual capital expenditure (capex), financing and manpower costs. But its customers owe it over RM800 million.

Better known for his successes at companies like KUB (Malaysia) Bhd and PLUS Expressways Bhd, the 39-year-old will have to work all his magic to see big changes at TNB.

The current rigid electricity tariff regime leaves Che Khalib, analysts believe, with little room to maneuver.

'The fuel charges and purchase of power from independent power producers (IPPs) account for about two thirds of TNB's cost base. There is little

## FACT FILE

### TENAGA NASIONAL BHD

**Paid-up capital:**

RM3.16 billion

**Board of directors:**

Datuk Amar Leo Moggie (chairman)  
Datuk Che Khalib Mohamad Noh (president & chief executive officer)  
Senator Datuk Lau Yin Pin @ Lau Yen Beng  
Tan Sri Hari Narayanan Govindasamy  
Datin Husniarti Tamin  
Kamariah Hussain  
Datuk Zainal Abidin Putih  
Datuk Azman Mokhtar  
Datuk Zaid Ibrahim

**Highest-paid director:**

RM556,286

**Substantial shareholders:**

Khazanah Nasional Bhd	- 34.63%
Minister Of Finance Inc	- 17.07%
Employees' Provident Fund Board	- 11.55%
Bank Negara Malaysia	- 11.32%
Skim Amanah Saham Bumiputera	- 6.16%

**Latest results:**

RM336.6 million net profit for the third quarter ended May 31, 2004

room to renegotiate. There is a limit to improving productivity and efficiency, as he won't be able to carry out a retrenchment exercise as was done at Telekom Malaysia Bhd. It's a delicate matter, and the workers' union is strong,' says a research head.

So far, Che Khalib has stuck to the plans of former president and CEO, Datuk Pian Sukro, - divesting interest in IPPs, delaying further new generation capacity, and undertaking the T7 plan instituted to prepare the company for further changes in the industry - that have been on hold for the past two years.

The only positive factor in the last quarter was the fact that the strong 7%-8% growth in electricity demand allowed operating profits to grow by 29% on a year-to-year basis. Forex exposure losses and provision for staff benefits dragged profits lower, but brokerage firm K& N Kenanga Bhd believes the strong economy will see a good year for TNB. Che Khalib might need to bide his time before he sees a rise in the electricity tariff rate. **mb**