

Food for Thought

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PRESS RELEASE: GOVERNMENT MUST BE TRANSPARENT IN ELECTRICITY TARIFF SETTING

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PRESS RELEASE - 26 JUNE 2016 (SUNDAY)

GOVERNMENT MUST BE TRANSPARENT IN ELECTRICITY TARIFF SETTING

Association of Water and Energy Research Malaysia (AWER) would like to reiterate the importance of transparency in electricity tariff structure and fuel cost pricing. The piped gas was priced at RM 15.20 per mmBTU for the electricity tariff setting period of 1st January 2014 to 31st December 2017. The government has decided to increase piped gas price for electricity generation by RM 3.00 per mmBTU to reach RM 18.20 per mmBTU effective from 1st January 2016. This will incur additional RM 560 million in fuel cost to electricity tariff for a 6 months period (January 2016 - Jun 2016).

Now, it is time for the government to review the fuel cost component in electricity tariff. However, what will the new cost of fuel between July 2016 and December 2016? Will the tariff setting be transparent?

1. MALAYSIANS WANTS TRANSPARENCY IN ELECTRICITY TARIFF AND FUEL PRICES

The silence from KeTTHA and Energy Commission with regards to piped gas and Liquefied Natural Gas (LNG) detailed cost breakdown is well known within the industry. KeTTHA and Energy Commission benchmark piped gas price with LNG price. However, this is a flawed move as piped gas does not incur additional costs (such as cost of converting natural gas to liquid, transportation cost from port to port and regasification cost) like LNG. AWER has made the point very clear to KeTTHA and Energy Commission on this matter numerous times.

Unfortunately, they are still using the same flawed mechanism. Based on AWER's National Energy Security Survey (NESS) data, **69.94% of Malaysian would like to know how electricity tariff and fuel cost is determined and a majority of 73.87% of Malaysians opined that the government is NOT transparent in determining the electricity tariff and fuel cost.** Therefore, it is evident that Malaysians are seeking more information and transparency on how prices are fixed for electricity and fuel cost.

2. WILL THERE BE A REBATE FOR ELECTRICITY TARIFF BETWEEN JULY AND DECEMBER 2016?

Piped gas was priced at RM 15.20 per mmBTU, Liquefied Natural Gas (LNG) was priced at RM 41.68 per mmBTU and coal was priced at USD 87.50 per metric tonne for tariff setting period from 1st January 2014 until 31st December 2017.

Under Energy Commission's Imbalanced Cost Pass Through (ICPT) mechanism, after every 6 months (January to June and July to December) additional cost or savings will be passed back to electricity tariff. If there is savings, it will be reflected as rebate and if there is additional cost, it will be reflected as surcharge. So far, due to the reference prices of LNG and coal (which were set on 1st January 2014) have been set higher than the current market prices, rebates have been given. However, this may not last!

For every RM 1.50 per mmBTU increase in piped gas price, additional fuel cost for 6 months is approximately RM 280 million. If government increases the piped gas price between July and December 2016 by another RM 1.50 per mmBTU, the new piped gas price will reach to RM 19.70 per mmBTU. This will take up RM 840 million from the fuel cost savings if we refer back to the benchmark piped gas price for tariff setting which is RM 15.20 per mmBTU. Rebate that will be taken away due to RM 4.50 per mmBTU piped gas price increase (compared to RM 15.20 per mmBTU reference price) between July and December 2016 is 1.68 sen/kWh.

Even though the government increases piped gas price, there is a possibility the current rebate (1.52 sen/kWh) can be retained. However, this step will basically "eat" into the savings. If government decides not to utilise the savings, then the rebate amount will reduce further.

Therefore, AWER urges KeTTHA and Energy Commission to disclose all the saving collected between January and June 2016. Any forward costing, for example additional cost that will be incurred by increase in piped gas price must be accounted separately and not directly deducted from the savings. They must also publish savings from Power Purchase Agreement renegotiation as well. These are costs that have been paid by consumers via tariff. KeTTHA and Energy Commission must disclose the information fully.

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