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Power sector more efficient with IBR

→B3

Power sector set to be more efficient

BETTER PERFORMANCE: Incentive-based regulations to ensure that TNB charges consumers a competitive rate

ZAIDI ISHAM ISMAIL

MALAYSIA'S power sector is set to be more efficient this year with the implementation of incentive-based regulations (IBR), apart from the ongoing move to wean off subsidies and the maturing of the competitive bidding process.

Introduced by the Energy Commission in 2012, the IBR, to be implemented, among others, at Tenaga Nasional Bhd (TNB) between 2014 and 2017, are set to weed out the inefficient components in the power sector, whip them back into shape and separate them from the underperforming power divisions.

Under the new rules, consumers who previously paid bills in a single bundled account need not pay as much for the underperforming power division, which spans across the generation, transmission and distribution of electricity.

The incentive-based regulations will ensure that the national utility company operates at its optimum efficiency and charges consumers a competitive rate.

Its performance will be gauged periodically under a framework that is based on incentives and penalties. If the quality of its services to consumers is maintained, TNB will be rewarded with incentives to further enhance its performance.

The regulation is the first of its kind in the country and is set to benefit some of those consumers who have to pay a 15 per cent hike in electricity tariff effective from January 1.

Energy Commission chief executive officer Datuk Ahmad Fauzi Hasan said in essence, the IBR will ensure that the inefficient cost of power is not be bundled together under one account.

Incentive-based regulation is a mechanism used all over the world to ensure the continuous supply of electricity by the power industry in a transparent manner to ensure maximum efficiency.

Incentive-based regulation can be defined as the conscious use of rewards and penalties to encourage good performance in the utility sector and is often used to regulate the overall price level of utilities.

TNB will benefit from the power tariff increase, which could see less strain on its yearly capital expenditure of between RM4 billion and RM6 billion to supply power to new homes, commercial premises and industrial areas.

However, TNB, which was the best performing stock on Bursa Malaysia last year, will still have to grapple with the vagaries of raw material costs, such as coal.

This year will also see the maturity of the competitive power bidding process, which is a price discovery mechanism.

It takes off from the moment tenders are submitted and then selects qualified parties who will be given the task to ensure that the country's future electricity requirements are met.

Construction of new power plants and extension of existing ones are selected through a competitive bidding process that allows for more transparency and better pricing and

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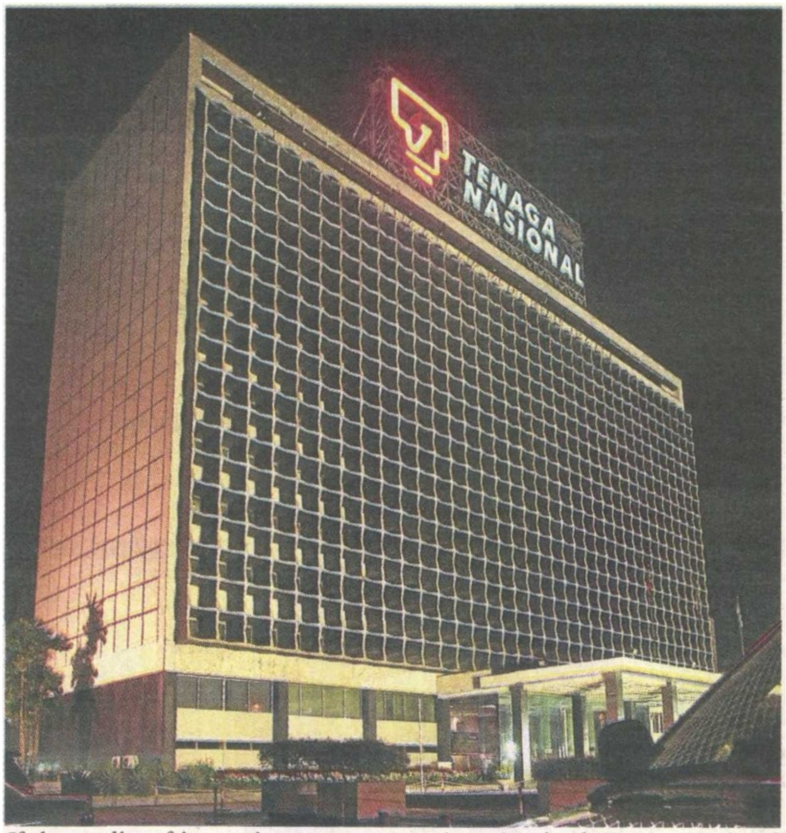
will lead to a more efficient power industry.

On power use, factories can either stay with their old "power guzzler" equipment and pay a higher electricity bill or invest a little bit more to buy a slightly expensive machinery and save a lot more in the long run.



If the quality of its services to consumers is maintained, Tenaga Nasional Bhd will be ***rewarded with incentives to further enhance its performance.*** Bloomberg pic