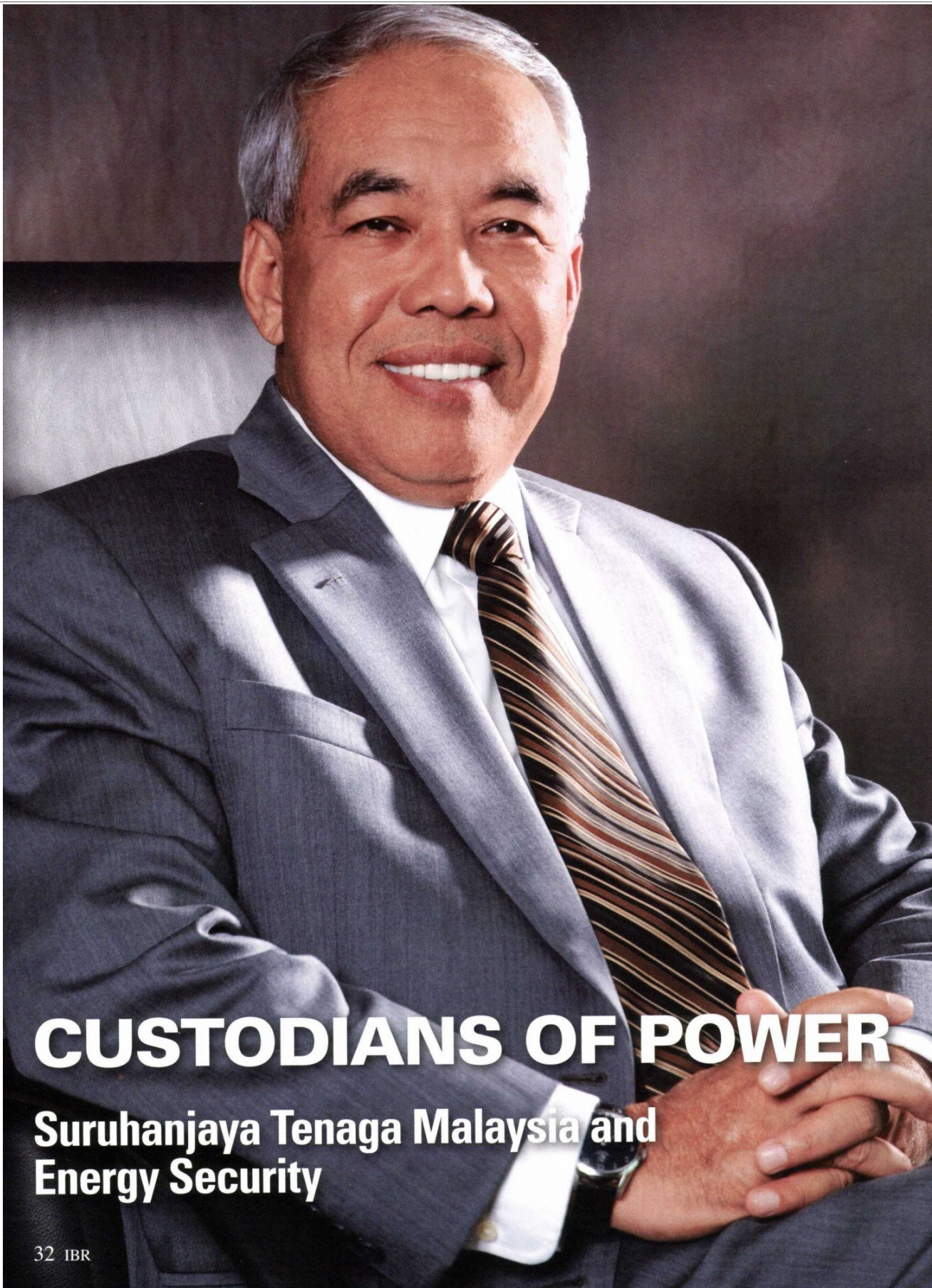
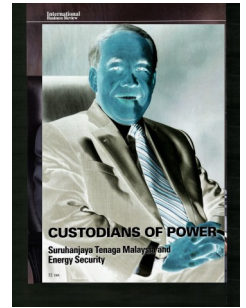


Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388



CUSTODIANS OF POWER

Suruhanjaya Tenaga Malaysia and
Energy Security

Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

Established on the 1st of May 2001 under the Energy Commission Act 2001 and made fully operational on the 1st of January 2002, *Suruhanjaya Tenaga Malaysia* (ST – The Energy Commission of Malaysia) is the statutory body entrusted with the regulation of the energy sector in Peninsular Malaysia and Sabah. It was the result of the Malaysian government’s realisation that the demands of an emerging economy required the performance of the energy supply industry to be enhanced.

ST has the responsibility of ensuring the secure, reliable, safe, adequate and reasonably priced supply of electricity and piped gas to consumers. In addition, it also aims – in line with the government’s drive – to improve efficiency and quality in utility (namely energy) service and increase private sector participation in infrastructure development.

At the helm are its Chairman and its CEO – who are Tan Sri Dr Ahmad Tajuddin Ali and Datuk Ir Ahmad Fauzi Hasan respectively. Speaking to *International Business Review*, Tan Sri Dr Ahmad explained that both he and Datuk Ir Ahmad Fauzi were appointed to their positions at the same time in April 2010. Previously, the Commission was headed by an Executive Chairman who had the responsibility of chairing the Board of Commissioners and also overseeing the daily operations of ST.

According to the Chairman, it was the then Minister of Energy, Green Technology and Water – Tan Sri Peter Chin, who offered him the opportunity to lead the Energy

Commission. Speaking on his role as the Non-Executive Chairman of ST, Tan Sri Dr Ahmad said, “I have been an executive chairman before, and during meetings everyone was waiting for me to talk first because I was the one leading from the front. As a non-executive chairman, my role is more advisory. Therefore in Board meetings, I invite everyone to speak first and then I summarise the points made and give my input.”

Input that is definitely inspired, just as Tan Sri Dr Ahmad was an inspired choice for the role of the Non-Executive Chairman of the Energy Commission, bringing to the table vast experience, in particular his past tenure as the Executive Chairman of the country’s largest utility Tenaga Nasional (TNB). He was, after all, the man who was called in to revive TNB’s reputation after it took a hit following the 1996 National Blackout.

He also holds other positions, most notably as the Chairman of the Malaysian Standards and Accreditation Council, Joint-

Previous page: Tan Sri Dr Ahmad Tajuddin Ali’s experience in the energy sector as well as his involvement in the field of sciences and innovation made him the ideal choice to be Chairman of the Energy Commission of Malaysia.

Chairman (Industry) of the Malaysian Industry-Government Group for High Technology (MIGHT), and President of the Academy of Sciences, Malaysia. These appointments have given him invaluable experience which has been key in helping the Commission realise its goals.

▲ A GOOD DYNAMIC

It is the Board that determines the overall direction of ST and the energy sector, after consultations with stakeholders, in particular the Ministry of Energy, Green Technology and Water (KeTTHA). The duty of executing these plans however falls on the shoulders of the CEO, together with and his team which comprises six departments and nine regional offices.

Thus the Chairman is of the strong opinion that transparency is a must in the relationship between them. As he told *International Business Review*, “I need him (Datuk Ir Dr Ahmad Fauzi) to be open with me and to tell me if a plan is not viable, because he will best know the situation on the ground. Because of this dynamic, we work well together to ensure that the ST achieves its goals.”

One of these goals is to enhance Malaysia’s energy security. As the country is a developing economy with the ambition of becoming a

Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388



“**Incentive-Based Regulation has been used to great effect internationally, and works by focusing on projections of future earnings by the utility. It looks at efficient operating expenditure, depreciation of assets, return on funds invested, and tax payable.**”

Datuk Ir Dr Ahmad Fauzi Hasan,
CEO The Energy Commission of Malaysia

fully industrialised nation by the year 2020, power consumption has been on the rise. To illustrate, in 2011, electricity demand stood at 107,331 gigawatt hours (GWh), compared to 104,519 GWh in 2010, 96,302 in 2009, and 92,815 in 2008.

ACHIEVING BALANCE

As Malaysia’s economy and industry is on a forward momentum, the last thing it needs is to hit a speed bump along the way, and this will happen if the energy supply is unable to meet demand. In addition,

other factors such as costs – including import, production and to the consumers – need to be taken into account.

It is ST that needs to juggle this rather precarious situation. As Tan Sri Dr Ahmad Tajuddin Ali explained, the Energy Commission needs be cognisant of several factors. For one thing, the two largest fuel sources for electricity in Malaysia are coal and gas (accounting for 33% and 58% respectively). Since Malaysia does not have an indigenous coal supply, it has to import it from Indonesia and Australia, and be subjected to the risk of price hikes in the commodities market.

As for gas, Tan Sri Dr Ahmad revealed that despite Malaysia being a net exporter, Peninsular Malaysia also imports about 30% of its natural gas. This is piped in from offshore and then mixed with locally produced gas. Of course, at the end of the day, the consumers are none the wiser as they still enjoy subsidised prices for natural gas. However, it still costs to import. In fact, the country started to import liquefied natural gas or LNG in May this year to meet a burgeoning demand for gas.

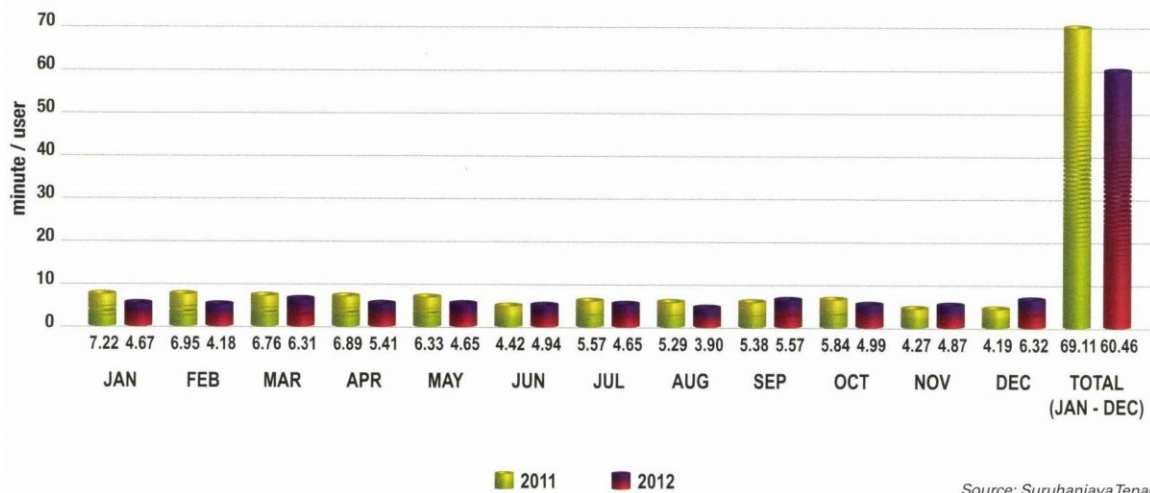
The ST Chairman admits that the current system of subsidising oil and gas is resulting in the country losing money as it pays market price for the fuel and then sells it at a discount. He believes though, that there is a bigger picture that needs to be looked at.

Owing to the subsidies, Malaysia is able to offer one of the lowest electricity tariffs in the region. This in turn has helped attract investors to start operations in the country. In addition, local SMEs are also dependent on the low costs of electricity to maintain their business, and without it, many will surely suffer, if not close down. Therefore, at present, the subsidies

Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

SAIDI (SYSTEM AVERAGE INTERRUPTION DURATION INDEX) FOR PENINSULAR MALAYSIA 2011 AND 2012

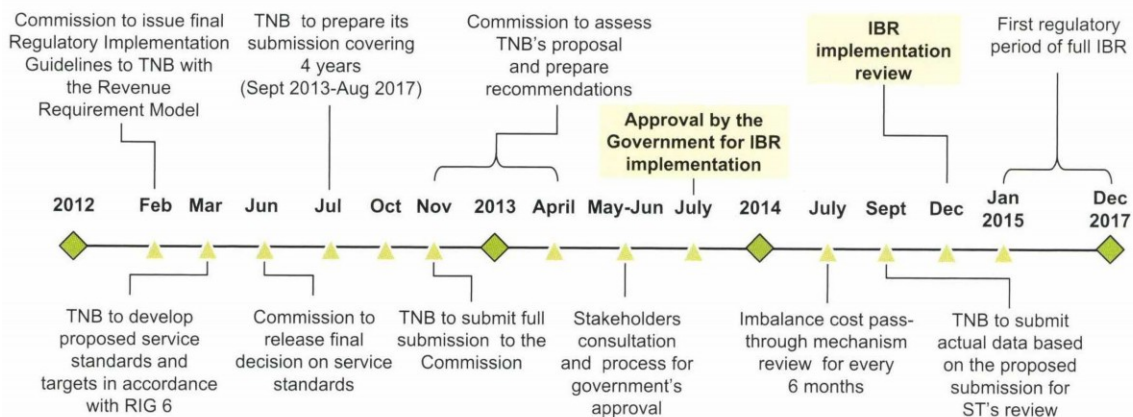
The chart shows the System Average Interruption Duration Index (SAIDI) for Peninsular Malaysia for 2011 and 2012, which is a calculation of the average outage duration per customer. As can be seen, the monthly SAIDI for 2012 has been lower in general than for 2011, which translates to more efficient power supply for consumers.



Source: Suruhanjaya Tenaga

INCENTIVE-BASED REGULATION TIMELINE FOR ELECTRICITY TARIFF SETTING

This diagram shows the timeline for Incentive-Based Regulation (IBR) for the electricity industry in Malaysia which is being introduced in the setting of electricity tariffs in Peninsular Malaysia; IBR is one method in the determination of electricity tariffs and gas and is used effectively in international economic regulation.



Completed

1. Issuance of 11 RIGs
2. Fuel-Cost Pass Through recommendations for Dec 2011-May 2012
3. Issuance of TNB Key Performance Targets for Incentive Framework
4. Full submission of IBR proposal to ST by TNB
5. Weighted Average Cost of Capital Discussion with TNB
6. ST Board approved the regulatory WACC

Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

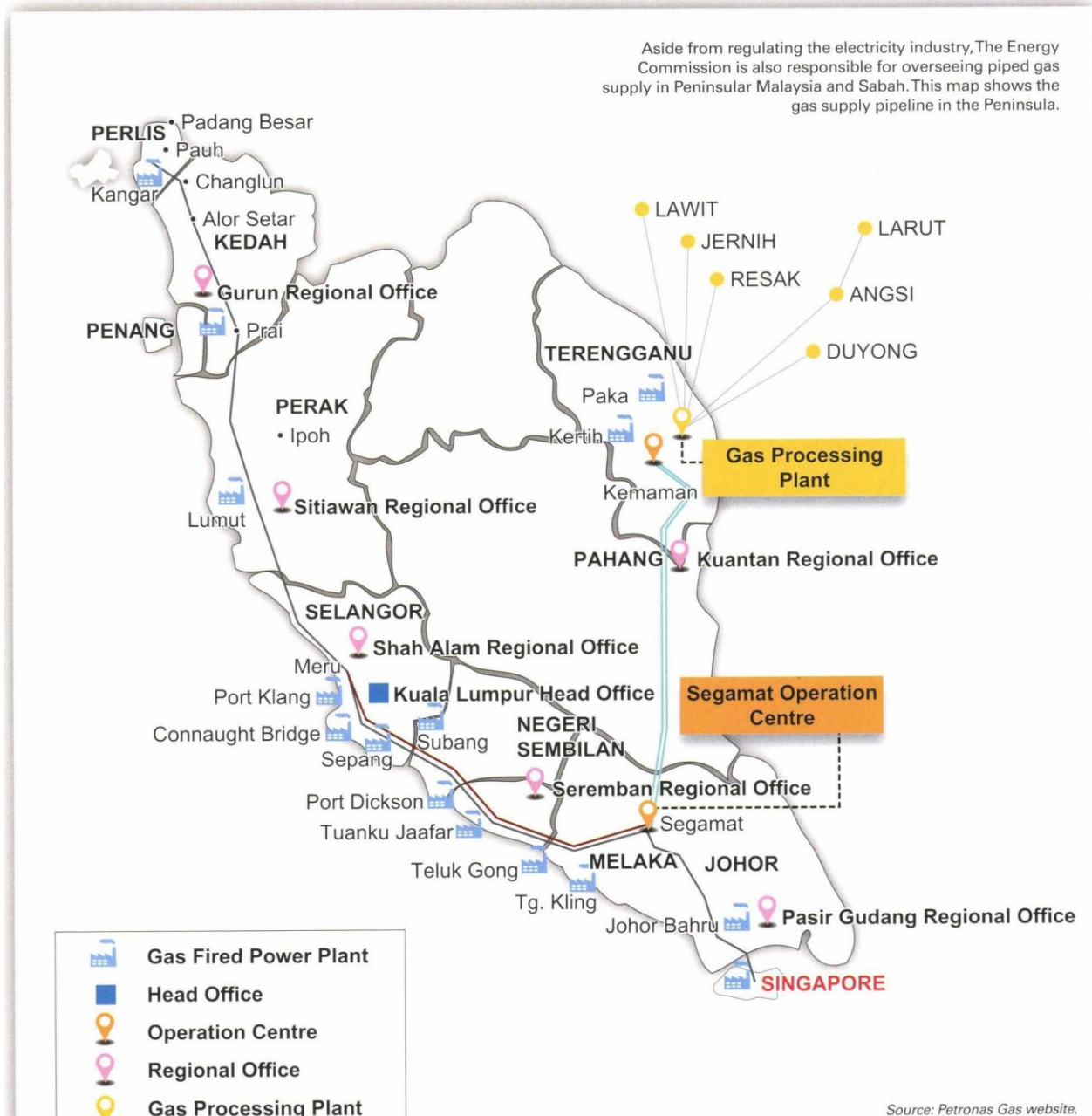
have to be regarded as necessary for the economy to grow. Nevertheless, they also add to the cost of power production.

WEIGHING THE OPTIONS

It falls on the Energy Commission's shoulders to come up with ways to mitigate the cost

without having to resort to hiking tariffs as this will prove untenable to the economy. When asked about the possibility of looking at alternative fuel sources, Tan Sri Dr Ahmad explained that the reality of the situation is that coal and gas will still be dominant, owing to drawbacks of the other fuel sources.

For instance, renewable energy (RE) is still relatively new. While there has been a push to encourage the development of RE in the country, the ST Chairman acknowledges that even if the goal of having RE account for 5.5% of energy supply by 2015 is reached, the remainder will still need to be accounted for.



Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

SE. Asia & Australasia | Special Feature

Deputy Prime Minister Tan Sri Muhyiddin Yassin (standing in the centre) posing for a group picture during the launching of the Diamond Building in Putrajaya. On his right is then Minister of Energy, Green Technology and Water Tan Sri Peter Chin, while on his left is ST Chairman Tan Sri Dr Ahmad Tajuddin Ali.



Hydropower is also not feasible owing to geographical limitations.

Then there is the nuclear option. Malaysia was reportedly looking at building a nuclear power plant. However, the meltdown of the Fukushima station in Japan in 2011 put a hiatus to such plans. The benefits of nuclear power cannot be denied – uranium is less polluting than fossil fuels and provides greater energy. Even so, nuclear power is a highly emotive issue, and as Tan Sri Dr Ahmad highlighted, the government has to take the reaction of the public into account. Therefore, at present, it seems like nuclear power is a no-go area.

Incidentally, Tan Sri Dr Ahmad Tajuddin Ali has the distinction of being one of Malaysia’s first

nuclear engineers, having received his doctorate in 1977. He revealed that he pursued such an unusual (at its time) discipline because even back then, Malaysia was already considering going nuclear. However, significant oil and gas reserves were later discovered and the nuclear option was shelved.

WORKING FOR EFFICIENCY

The reality is that coal and oil will – at least for the foreseeable future – make up the largest share of Malaysia’s energy mix. In light of this, the focus is on increasing energy efficiency where the output is maximised while costs are minimised. ST is taking the lead in promoting energy efficiency to power producers, electrical

manufacturers, and of course to members of the public.

He clarified that this ruling was gazetted on the 3rd of May 2013, and fully enforced one gazette, all manufacturers and importers of the five appliances have to comply with certain requirements in order to obtain the Certificate of Approval (CoA) from the Energy Commission before they can be imported, produced, marketed and sold in the country,” Datuk Ir Ahmad Fauzi explained. “The appliances are required to obtain at least two stars on ST’s Energy Label and failure to comply with MEPS may cause those appliances to be removed from the market.”

In addition, ST also organised the first National Energy Security

Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

International Business Review

Conference (NESC) in February 2012. This was a one-day conference themed 'Closing the Energy Supply-Demand Gap' and it reflected the Commission's commitment to improving energy security in the country, inviting 14 speakers from reputable international organisations and local energy sector to share their views on this issue.

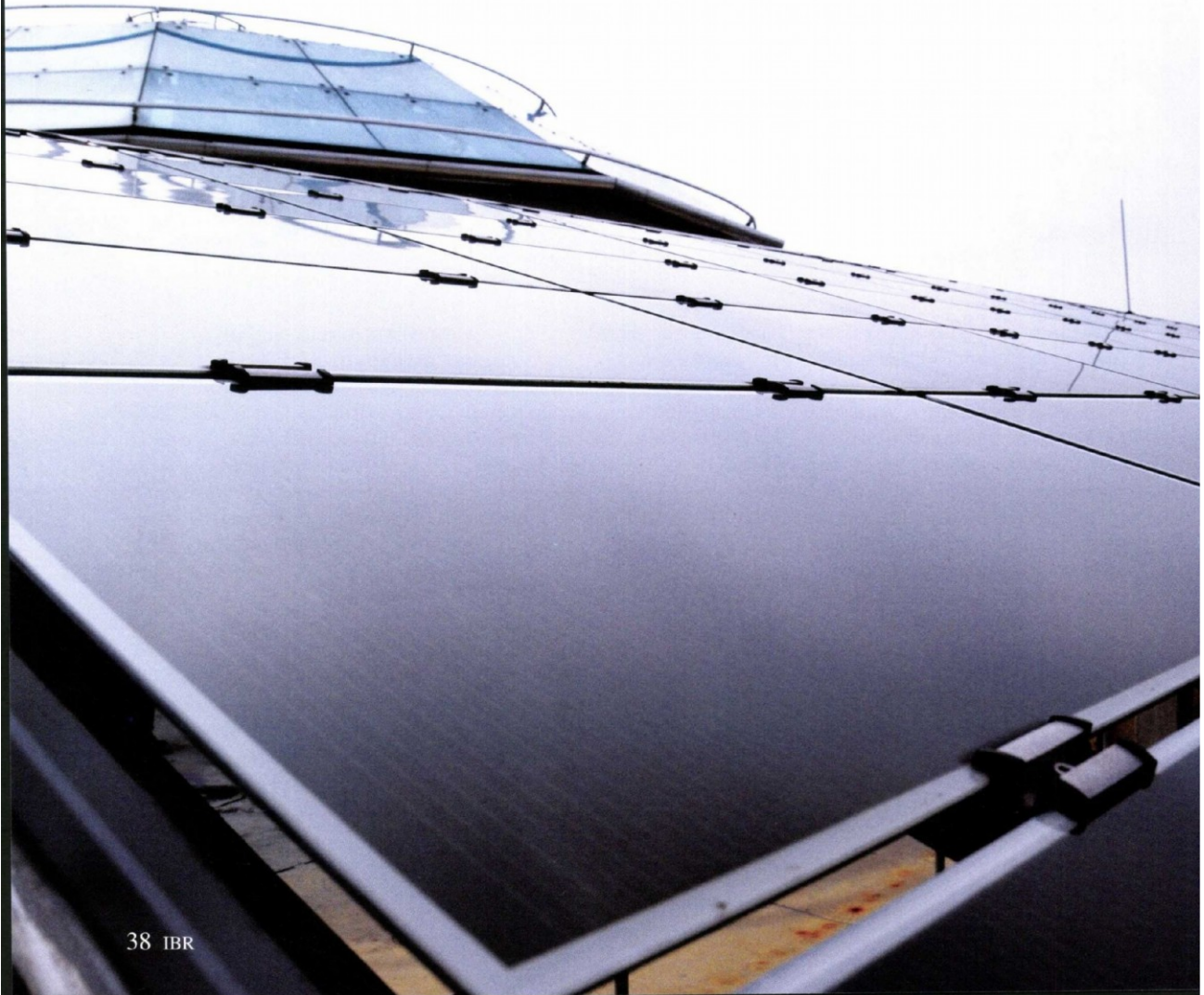
Also, in order to better disseminate information regarding the country's energy sector, ST has also set up and manages the Malaysia Energy Information Hub (MEIH). Explaining it, the ST CEO said, "MEIH is a portal that collates information on Malaysia's energy planning, pricing, and other relevant data, and makes it available to stakeholders in the

public and private sectors, as well as members of the public. Through this endeavour, people will be able to have a greater appreciation of the challenges ahead."

BOOSTING MARKET PRESENCE

Another initiative which is in the process of being introduced

Solar panels installed on the roof of the Energy Commission's headquarters allow it to save on energy costs as it produces its own electricity.



Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

is the Incentive Based Regulation (IBR) scheme, which will be implemented in January 2014. Elaborating further, CEO Datuk Ir Ahmad Fauzi said that at present the tariffs are determined according to a number of criteria. These include the government's energy policies, the prices of fuel gas and coal, and the cost of energy purchase by the utility (namely TNB in Peninsular Malaysia and Sabah Electricity in Sabah) from independent power producers (IPPs). In addition, other factors that are taken into consideration are the cost of supply to consumers – which cover transmission and distribution infrastructure expenses.

All in all, the aim is to give a reasonable rate of return to the utility company, while at the same time ensure that electricity prices are not too prohibitive as to stifle growth or hinder the socio-economic well-being of consumers.

According to the ST CEO, "IBR has been used to great effect internationally, and works by focusing on projections of future earnings by the utility, which are calculated by looking at efficient operating expenditure, depreciation of assets, return on funds invested, and tax payable." Also, under the IBR is the Fuel Cost Pass Through mechanism, which will allow for the revision of electricity tariffs depending on the price of feedstock and foreign exchange fluctuations.

For Datuk Ir Ahmad Fauzi, "The required income must also be commensurate with the level of services offered and that users get a reliable supply at a reasonable cost." Also, there should be no worry that electricity tariffs will shoot up immediately, as ST will still ensure that the needs of the public are not ignored.

Furthermore, utilities such as TNB are given incentives to reduce cost. In addition, the IBR aims to create a more conducive environment for private sector players in the energy industry. This, ST believes, will help beef up energy security as more providers join the field.

As it is tasked with promoting energy efficiency, it is only apt that the Energy Commission be a model for it. This can be seen in its headquarters – located in the Malaysian Federal administrative region of Putrajaya – which is the most energy efficient building in Malaysia and Singapore, and has been rated Platinum on the Green Building Index (GBI).

“I need the CEO to be open with me and to tell me if a plan is not viable, because he will best know the situation on the ground. Because of this dynamic, we work well together to ensure that the ST achieves its goals.”

Tan Sri Dr Ahmad Tajuddin Ali,
Chairman, The Energy
Commission of Malaysia

LOOKING AT THE LONG TERM

Ultimately, Tan Sri Dr Ahmad realises that the decisions made by ST today are for the long term. As

he explained, the ramifications of policies usually only come several years after their implementation. "I am now in my second two-year contract which will expire next year 2014," he explained. "This means that if I were to be offered and accept an extension, it will only be up to 2016 because I can only be chairman for three terms."

He recognises that whatever decision in which he has a part to play – given his position as ST Chairman – Malaysia and Malaysians will be affected by them long beyond 2016. This is why he is driven to give his best and why he strongly believes that the Energy Commission should always strive to be respected and trusted as an unbiased regulator as well as the champion of efficiency and excellence in the energy industry.

Tan Sri Dr Ahmad Tajuddin Ali is therefore proud that ST does not receive any government funding, but instead finances itself. Furthermore, it also has the advantage of being able to hire its own staff rather than through the Public Service Commission (PSC), and this allows it to attract top industry experts.

Also, he views the decision of the government to allow ST to manage the bidding process for power plants as an indication of the trust it has in the Commission. In line with this, the regulator has introduced the International Competitive Bidding process. Part of its objective to develop a more competitive and ultimately healthier power industry, it was used for the first time when calling for tenders for the building of a new Combined Cycle Gas Turbine (CCGT) of between 1000 to 4000 MW in Prai in November 2012.

Headline	CUSTODIANS OF POWER		
MediaTitle	International Business Review		
Date	30 Sep 2013	Color	Full Color
Section	NEWS	Circulation	14,078
Page No	32 to 40	Readership	80,800
Language	English	ArticleSize	3807 cm ²
Journalist	N/A	AdValue	RM 51,796
Frequency	Monthly	PR Value	RM 155,388

International Business Review

That is the goal that needs to be reached for Malaysia to become a fully developed nation – a healthier, more competitive, more efficient energy sector, and a power industry that is ready to meet the demands of a dynamic, growing economy. Making sure that this is possible is *Suruhanjaya Tenaga* – The Energy Commission which is constantly vigilant and always making sure that power is safe, secure, adequate and affordable.

The Energy Commission's headquarters – the Diamond Building – has become an almost iconic sight. The winner of the ASEAN Energy Awards 2012 for Energy Efficient Building – New and Existing Category, Certified Platinum by the Green Building Index, and recipient of the Singapore BCA Green Mark – it is the Greenest and most energy efficient and sustainable building in Malaysia and Singapore.



40 IBR