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ELECTRICITY USAGE

ICPT HELPFUL IN COST SAVINGS

THROUGH the imbalance cost pass-through (ICPT) mechanism, regulated utility company Tenaga Nasional Bhd (TNB) will be able to maintain the two sen per kilowatt hour (kWh) rebate from July 1 to Dec 31.

How does this ICPT rate impact the electricity tariff for consumers?

The ICPT rate is pertinent to consumers as it affects the effective electricity tariff by TNB. To put into context, the ICPT mechanism is embedded in the Incentive-Based Regulation (IBR) framework adopted by TNB in early 2014 as part of the reform and modernisation initiatives of the electricity supply industry in ensuring a more efficient, structured and transparent electricity tariff setting.

The implementation of IBR in 2014 was considered a trial period. The first regulatory period (RP1) took place from 2015 to 2017, and the second regulatory period (RP2) commenced from 2018 to last year.

Nevertheless, due to the Covid-19 pandemic, the government decided to extend RP2 until the end of this year and postpone the implementation of the third regulatory period to next year un-

til 2024.

This decision was mainly to mitigate any uncertainty in the electricity supply industry and to ensure stability in the existing tariff structure, which is crucial for the country to remain resilient despite the grim economic condition.

There are two components under the IBR tariff-setting mechanism.

The first component refers to the base tariff setting, which is reviewed once every three years, and usually announced by the government prior to the onset of each regulatory period.

During the trial period and RP1, the base tariff was set at 38.53 sen per kWh. Currently, the base tariff for RP2 stands at 39.45 sen per kWh, which is a 2.38 per cent increase equivalent to 0.92 sen per kWh.

The second component entails the ICPT tariff setting, whereby the rates are adjusted every six months based on actual fuel price movements in the market and other generation-related costs in the past six months.

The ICPT tariff can be passed through to consumers in the form of a surcharge or rebate. To date, the ICPT tariff has been passed through four times as a surcharge

and nine times as a rebate since its inception in 2014.

In layman's term, the ICPT mechanism is quite simple to comprehend. A surcharge is incurred whenever the fuel price and generation cost are higher than the benchmarked price for the assessed period, while a rebate occurs when there are savings in fuel price and generation cost compared to the projected price for the reviewed period.

When there is a surcharge, the effective electricity tariff increases and when there is a rebate, consumers get to enjoy cheaper electricity.

The actual fuel prices for the power sector in the first half of this year showed a lower averaged piped gas price of RM17.16 per million British Thermal Unit (MMBtu) compared to the benchmark base gas price set at RM27.20 per MMBtu. Meanwhile, the average market price for coal for January until June marked a slight increase to US\$70.06 per tonne compared with the benchmark coal price of US\$67.45 per tonne.

These fuel prices contributed to overall generation cost savings of RM638.98 million.

The government has several

times intervened to cushion the impacts of tariff by subsidising the ICPT cost via the Electricity Industry Fund (EIF) administered by the Energy Commission.

This was seen again when the government decided to top up RM493 million from the EIF to make up the difference in rebate of 0.87 sen per kWh in order to retain the existing rebate at two sen per kWh.

With this two sen per kWh rebate, consumers can expect five per cent electricity bill reduction on average.

Amid these tough times, a balance needs to be struck by the government in fulfilling the socio-economic needs of the nation.

Apart from ensuring that businesses and industries continue to thrive, safeguarding the people's wellbeing and livelihood and easing the burden on the cost of living remains equally important.

In times of need, the ICPT mechanism has indeed once again proven to be a helpful impetus in extending cost savings to all electricity consumers.

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