

# Stable energy supply comes at a price

**A**s a nation, we have enjoyed the benefits of subsidies for many years. In fact, we have come to consider subsidised goods, from basics like flour, rice and sugar to the more significant petrol, electricity and gas, as our entitlement.

However, as a developing economy with the vision of becoming a developed nation within the next nine years, rational energy policies need to be adopted. Without such policies, we run the risk of brownouts and unstable energy supply, which will indirectly affect the quality of our output and limit our economic performance.

Although most of us recognise these facts, we find it hard to accept price increases. This goes for even the well-heeled. Reducing or withdrawing these “entitlements” requires an explicit public explanation to convince the people that the long-term gain will outweigh the short-term pain.

Industries will need clear policy directions and committed implementation so that they can plan their businesses and make operational adjustments accordingly. The hardest hit will be the low-income group, which has to absorb higher prices without having the ability to increase its income.

A mechanism, often called targeted subsidy — which is effective and at the same time puts an end to the prolonged sense of entitlement — should be



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designed to prevent putting a heavy burden on public finances.

The government, through the enactment of the Price Control Act 1946 and the Control of Price Act 1961, ensured that Malaysians were protected from rising prices through the implementation of price controls and subsidies.

As at end-2010, national oil company Petronas alone had extended about RM131.3 billion in gas subsidies to both the power and non-power sectors. But why are we talking about gas subsidies when the immediate increase has been of the electricity tariff? Many of us do not realise that some 54.2% of Malaysia's electricity generation is powered by natural gas. Coal accounts for 40.2%, hydropower 5.2% and distillates 0.4%.

Many of us do not think twice about where our electricity comes from. We flip a switch and there is light and when we experience a power outage, we are quick to complain about the heat and inconvenience. Imagine brownouts and blackouts being a consistent part of our day-to-day lives — that is the risk we run if we continue to be subsidised by the government because there will never be enough funds to keep on subsidising our usage and wastage.

For this very reason, our energy policy has been re-evaluated and revised into a more rational and sustainable one that will benefit those who are in need, curb wastage and ensure a continuous and sta-

ble energy supply. The wealthy have every reason to waste, therefore with a rational and sustainable energy policy, such as the one being implemented, those in the higher usage bracket are charged a higher rate while those in the lower usage bracket of RM77 and below continue to benefit from the subsidy.

Also, free electricity will continue to be provided to 900,000 users who pay less than RM20, which will cost the government RM122 million this year alone. Not only are rational and sustainable energy policies necessary for economic sustainability, they also promote environmental consciousness. They allow and encourage renewable energy options to be considered, paving the way for a more environmentally conscious industry.

Yet the debate is, now that the tariff has been increased, where does the extra money go? If the government is running at a deficit by subsidising our usage, when we start paying real prices, it does not have to allocate so much for this expenditure. Instead, it has more resources for other usage, such as rural development, education and health. And we will be paying the rightful amount for the goods we are purchasing.

Technically, Tenaga Nasional Bhd or Petronas would not benefit from the tariff hike. This is because 1% of what is paid by those in the high usage bracket will be channelled into a renewable energy fund, according to Energy, Green Technology and Wa-

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# Tariff revision based on usage

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ter Minister Datuk Seri Peter Chin Fah Kui.

The argument that cheaper electricity gives us a competitive edge does not hold water anymore because it has become an unsustainable advantage. As it stands, the government's fiscal deficit is at 5.4% and needs to be reduced to 3% by 2015 to be on the right track towards achieving Vision 2020 and becoming a developed nation. Though the subsidy cuts and tariff hike seem severe at the present time, in the long run, being a subsidy-free country will create growth and a competitive economy while equilibrating market forces. It will also improve productivity and efficiency, which in turn will raise the standard of living.

Despite the recent tariff hike, Petronas and the government are still burdened by RM25.64 billion of gas subsidies for 2011 alone. The longer we are protected by subsidies, the harder it will be to wean us off them. However, the bid for a more rational and sustainable energy policy, coupled with the reasoning that it will benefit the people and the country, needs to be addressed in relation to good governance, lowering of corruption levels and transparency in the contracts of independent power producers in order for Malaysia to stay on solid ground.

The certainty that the cost of living will continue to rise is very real because of the chain reaction the tariff hike will have on the price of other goods. The government recognises this, which is why the revision of electricity tariff is based on usage and not a blanket cut. This focused revision is a shift from the community-wide subsidy practice and is based on equity and social justice while enabling sustainable consumption.

What may seem like an unending spiral of higher costs and increased inflation will be temporary. What the tariff increase inevitably does is encourage energy efficiency. Thus, what is needed from energy providers and the government is responsible energy development.

If the subsidies continue, Malaysia risks stagflation, which will harm market efficiency. The government's good intentions of providing subsidy have produced an embedded sense of entitlement, which if left unchanged will produce low growth and a loss of competitiveness. Hence, subsidies need to be reduced and tariffs increased to ensure our long-term economic growth and sustainability. **E**

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