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Malaysia data centres battle higher power costs, unclear pricing

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Malaysia data centres battle higher power costs, unclear pricing

BY SUDARSHAN VARADHAN & ASHLEY TANG
Reuters

KUALA LUMPUR (July 1): The operators of energy-hungry data centres in Malaysia are scrambling to reassess costs after steeper-than-expected power tariffs kicked in on Tuesday, industry players said, clouding prospects for the Southeast Asian hub of digital investments.

Competitive rates for electricity, which forms the bulk of operating costs, make Malaysia a magnet for data centres compared to land-scarce neighbour Singapore, luring billions of dollars in investment from companies like Microsoft and Google.

The tariff hike unveiled in December, with details fleshed out last month, could boost electricity costs by 10% to 14% before surcharges for major consumers such as data centres, an industry official and a government official said.

A key element of the uncertainty stems from the bands used to calculate power bills in the tiered pricing system, with industry players saying most major centres are expected to fall in the ultra-high voltage category with the highest tariffs.

With many in the industry unprepared for the scale of increases, some investors may now adopt a wait-and-watch approach, said Gary Goh, founder and director of data centre advisory firm Sprint DC Consulting.

"For a 100-megawatt (MW) facility, this could translate to an additional US$15 million (RM63.19 million) to US$20 million per year without considering fuel surcharge," he added.

The government plans to announce a fuel surcharge every month that reflects changes in fuel prices and foreign exchange. This month the surcharge stands at zero, state grid operator Tenaga Nasional Bhd (KL:TENAGA) said on its website on Tuesday.

Malaysia is set for the region's fastest surge in data centre power demand, tripling to 21% by 2027 from 7% in 2022, a joint report in May by consultancy Bain & Co and firms such as Google and Singapore's state-owned Temasek showed.

The new tariff structure means operators of big data centre operators will now account for a higher share of grid management costs than smaller peers, said Cheam Tat Inn, managing director of the Malaysian arm of US operator Equinix.

"If you are a large data centre, then you pay for a bigger share of the infrastructure or distribution network costs," Cheam said.

Equinix, with two data centres in Malaysia, was looking at various providers of alternative energy in anticipation of higher tariffs, Cheam said last month.

Tenaga declined to comment, directing queries to Malaysia's Energy Commission, which did not immediately respond to requests for comment. Prime Minister Datuk Seri Anwar Ibrahim has defended the increases as necessary to boost social spending.

Until now, Malaysia had used lower power prices and a stable power grid to lure investment in data centres.

But tariff hikes could drive investment towards neighbouring Vietnam and Thailand, said Mahadhir Aziz, president of the Data Centre Association of Malaysia, which groups firms such as Bridge, AirTrunk and DayOne, as well as Equinix.

"The government would have to look at this now, at least regionally," he added.

"Data centres or digital infrastructure business, while they may have invested in land and buildings here, can actually still reconsider their investments."