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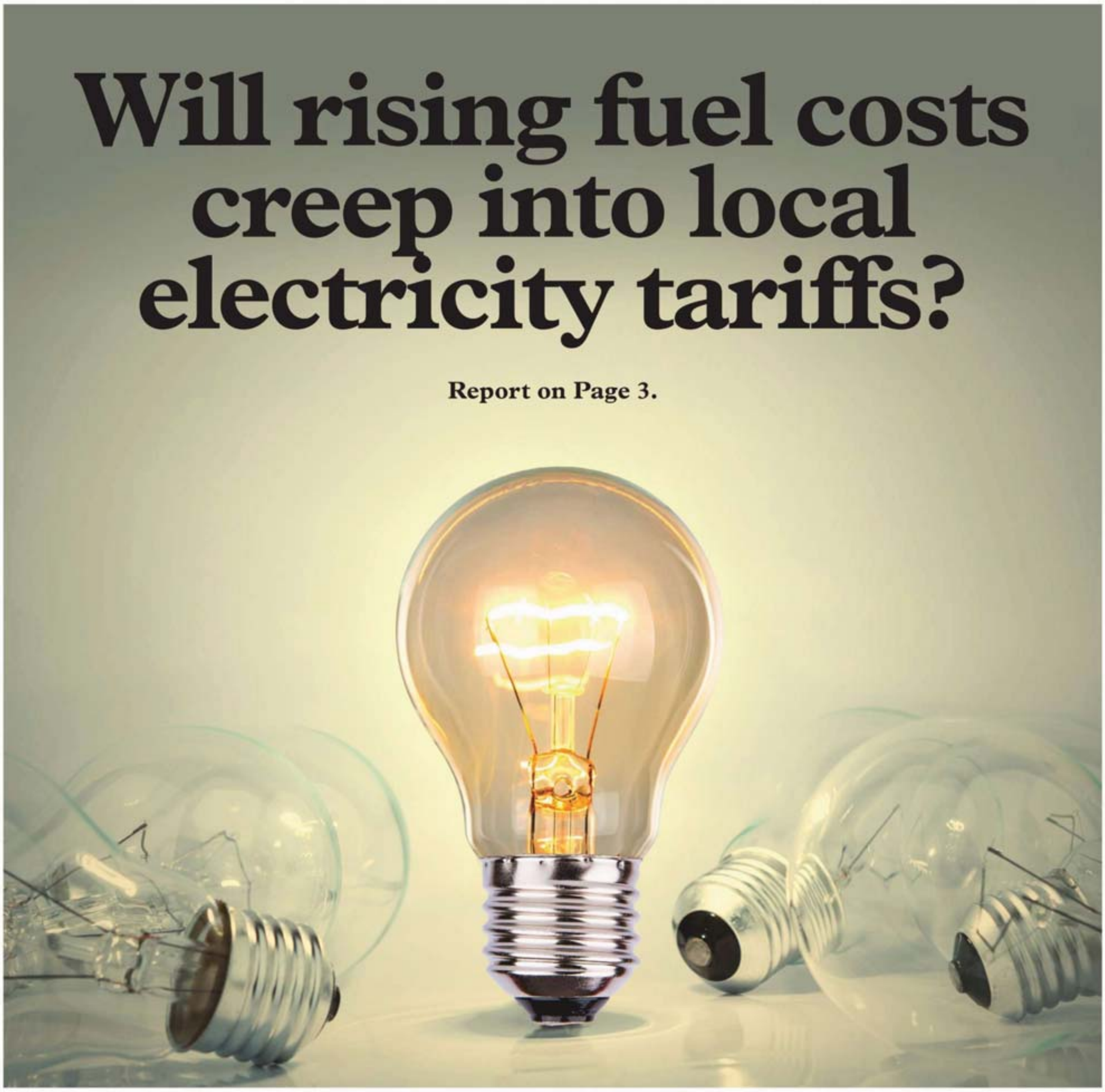

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Will rising fuel costs creep into local electricity tariffs?

BY ADAM AZIZ
theedgemarkets.com

KUALA LUMPUR (Oct 13): Malaysians on the streets have not felt the pinch of higher oil prices this year — which has more than doubled in the last 12 months — thanks to the government's decision to cap petroleum and diesel prices at the pumps, and to subsidise the difference.

At the time of writing, Brent crude oil was trading at its three-year high of US$83/bbl. Prices of other fuel sources, too, have skyrocketed amid a jump in global demand and supply shortages.

This includes natural gas and coal, which are used to generate nearly 95% of Peninsular Malaysia's electricity, the costs of which make up nearly 42% of base electricity tariff presently.

Regulators are due to firm up the next base electricity tariff adjustment for the 2022-2024 regulatory period (RP3), which will include a new base assumption of fuel costs for the three-year period that will start in just a few short months.

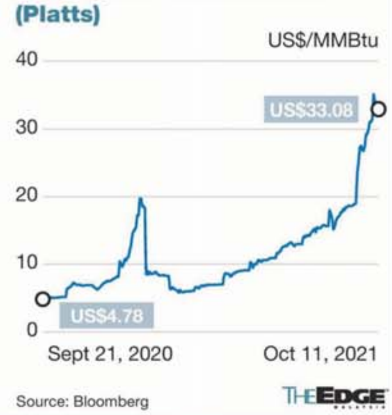
How will the rising prices for these two fuels influence Malaysia's electricity costs? And how will this affect households and businesses that are struggling to recover in the aftermath of the relentless Covid-19 pandemic?

National utility firm Tenaga Nasional Bhd, when contacted, said the base tariff review and setting are under the purview of the federal government.

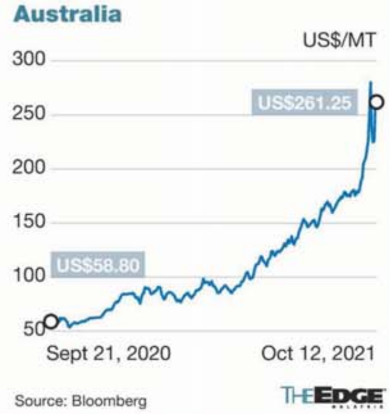
"The Energy Commission (EC), a statutory body established to regulate the energy sector in Peninsular Malaysia and Sabah, is still reviewing TNB's proposal on the base tariff that would be applicable for the period beginning Jan 2022 to Dec 2024," TNB said in its email reply to *The Edge*.

"Variations in fuel prices, on the other hand, would be addressed under the Imbalance Cost Pass-Through Mechanism (ICPT), which has been in place since 2014," it added.

LNG Japan/Korea Marker (Platts)



Coal, Newcastle Terminal, Australia



Swing in fuel costs after that adjustment will be incorporated as surcharge or rebate to the ICPT mechanism every six months. The next change is also scheduled for the start of 2022.

As a government-linked company, TNB has provided electricity bill discounts to end-users throughout much of the Covid-19 pandemic period, as part of the government's aid package to households and businesses.

According to TNB, some RM2.67 billion worth of electricity bill discounts have been disbursed to its customers in the April-Dec 2020 period. The discounts will add up to RM3.31 billion by the end of 2021.

The average base tariff stood at 39.45 sen/kWh in 2018-2021, of which 16.5 sen was for fuel costs. In 2H2021, an ICPT surcharge of 0.87 sen/kWh that amounted to RM493 million was borne by the Electricity Industry Fund (KWIE), which was given as rebates to consumers.

Surging fuel costs

Last Wednesday (Oct 6), Minister of Energy and Natural Resources Datuk Takiyuddin Hassan told the Dewan Rakyat that any consideration for rebates or discounts on electricity bills in the future is subject to the government's financial position.

In the gas market, industrial customers here are already experiencing higher gas prices — albeit still much lower than international benchmarks.

On Monday (Oct 11), Gas Malaysia Bhd raised the average natural gas selling price for 4Q2021 to RM36.42/MMBtu, up from RM30.03 per MMBtu for 3Q2021.

Still, the local average natural gas price is still substantially lower than the current spot price of liquefied natural gas (LNG) of US$35/MMBtu.

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Malaysia's gas price refers to the Reference Market Price (RMP), which is benchmarked to crude oil, and lags by four months against market pricing. This means that gas RMP in 2Q2021 is reflective of prices in Dec 2020-Feb 2021.

TNB booked an RMP of RM18.92/MMBtu in 2Q2021. Comparatively, Asia's benchmark LNG price has been on a steady increase, quadrupling from US$8/MMBtu in 1Q2021 to record high US$35.06/MMBtu on Oct 5. Traders are not anticipating the commodity to drop below US$10 until May 2023.

Newcastle spot coal price, meanwhile, touched a record high of US$280/MT on Oct 1, more than triple from around US$85/MT in 1Q2021.

In the second quarter of 2021, TNB's coal price averaged US$92/MT (RM379.80/MT), up 51.8% from US$60.60 (RM255.60) seen in 2020.

In the first half of 2021, TNB paid RM5.56 billion for 16.1 million tonnes of coal. Its coal price averaged US$86/MT (RM352.20/MT) in the period.

The highest full-year average coal price recorded by TNB in recent years was in 2018, at US$95.90/MT (RM388.10/MT), during which it forked out RM11.71 billion for 30.8 million tonnes.

Assuming TNB procures coal at an average discount of 10% to spot market price, back-of-the-envelope calculation shows that its 3Q2021 coal average cost could exceed the US$100/MT mark.

Managing the swing

Earlier this month, Minister in the Prime Minister's Department (Economy) Datuk Seri Mustapa Mohamed assured the Dewan Rakyat that Malaysia is not facing an energy crisis, as experienced by other nations that are dependent on fossil fuel.

According to the Report on Peninsular Malaysia Generation Development Plan 2021-2039, the region's power sector reserve margin — a measure of available capacity over and above the capacity needed to meet normal peak demand levels — is projected to be a whopping 52% in 2021.

This leaves room for the industry to manoeuvre between different power generation plants, depending on the pricing of different fuel types.

"The dispatch of power plants in the system is done by Grid System Operator (GSO) as per the schedule produced by Single Buyer (SB), guided by least-cost dispatch principles as stated in the Malaysian Grid Code," TNB said. "This will ensure the optimal generation cost to electricity consumers," it added.

The 2021-2039 report also underlines the retiring of eight power plants in 2021-2025 totalling 3.37 gigawatt, in exchange for more new installed capacity, the bulk of which are renewable energy (RE) plants that require no fuel costs.

"As we move to a larger share of the renewable energy mix, fuel and generation cost pressures (for thermal plants) which are market-driven, are expected to ease as more RE comes online. This is also supported by RE generation costs reaching grid parity in terms of levelised costs of electricity," TNB said.

It was reported that TNB's generation division is also actively looking at running its plants more efficiently and managing costs across the entire portfolio.

Other mechanisms to manage fuel costs include the KWIE fund, which houses collections under the ICPT mechanism that could be channelled back to subsidise electricity bills of the people.