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NEED TO MAINTAIN RELIABILITY

Electricity tariff hike inevitable as fuel costs increase



MIKE THOMAS

AS countries emerge from the Covid-19 pandemic lockdowns and restart their economies, the cost of generating electricity has been skyrocketing, driven by rising fuel prices for coal, gas and oil.

In Britain, which relies significantly on gas for power generation, rising gas prices have resulted in energy regulator Office of Gas and Electricity Markets raising the energy price cap (the maximum allowed charges on standard variable tariffs) by 54 per cent in April. A further surge is expected at the next review in October.

The extent of the disruption is unprecedented largely because the three main causes are unprecedented, creating extraordinary challenges for governments, utilities and electricity customers.

First, was the Covid-19 pandemic. We all know of the personal and societal disruptions, and in some cases, hardship and loss. The pandemic disrupted global fuel markets and made it difficult to forecast and plan. Initially, it was a question of whether there would be a recession worldwide.

When the pandemic started, the price of coal, oil and gas fell sharply, leading companies to defer or cancel planned energy projects. Perhaps if this were all that had happened, it would not have been so bad. But it was only one of the three major disruptions to regional and global fuel markets affecting Malaysian electricity customers.

Second, China experienced severe electricity shortages in September 2021 due mainly to insufficient coal-fired generations, and as a result, commercial and industrial customers had their power switched off for four to 10 days. The reason: coal-fired power generators could not make enough selling electricity to cover the cost of the coal.

To cut their financial risk, they reduced their coal purchases. This created a systemic shortage and China responded rapidly to the problem by raising the price of electricity and took steps to promote increased restocking of coal supplies.

A spike in China's demand for imported coal had a significant impact on Asian coal prices. To complicate matters, Indonesia, the source for most of China's imported coal, banned exports to conserve coal for its use. The developments in China and Indonesia threw regional coal markets in a tailspin, resulting in the mess it is now.

The third major factor that disrupted fuel markets globally was the Russian invasion of Ukraine. Europe imports vast amounts of coal and natural gas from Russia.

In recent weeks, projected future coal prices had increased even further as global markets continue to anticipate the likelihood of more European shifts away from Russian-sourced coal.

Any one of these three factors is extreme by itself. That they happened together over a short period is unprecedented.

Prices of the fuel that Malaysia and countries the world over depended on for electricity generation have risen sharply and appear likely to remain so for a year or more. Hence, recognition of the need for an electricity tariff increase should not be unexpected. Inevitably, the price of electricity will increase in tandem with the fuel costs to maintain reliability.

China's experience was a disruptive reminder that financial integrity is as important to reliable and secure supply of energy as is having adequate infrastructure. China had no shortage of energy infrastructure. It had a major problem aligning prices with costs, however.

Ultimately, businesses must secure the inputs and deliver the outputs to reliably serve customers and they must do so in a financially sustainable way.

Malaysians are not alone in their concern about rising energy prices. Globally, the cost of generating electricity has increased sharply and quickly.

Many European countries have used government funds to enhance protection of vulnerable groups. Even the United States, which has significant domestic natural gas and coal resources, has experienced electricity price hikes of around 10 per cent on average over the past year.

The reality is that the cost of coal to Malaysia's electricity sector has increased more than 50 per cent in 2021. And over 80 per cent of Malaysia's electricity generation is from coal and gas, so electricity prices will rise with the increase in the prices of these fuels. And Malaysia imports its coal for power generation.

Tenaga Nasional Bhd currently incurs a loss to generate electricity as its costs have exceeded the revenues collected from the regulated tariffs it charges its customers.

Under the government's Incentive Based Regulation (IBR), a change in fuel costs that is outside of TNB's control is recovered through the "imbalance cost pass-through" every six months. An inability to pass-through higher fuel costs can put TNB in jeopardy.

Financial institutions lend to utilities, and shareholders and pension funds invest in utilities on the basis that utilities are regulated in a manner that allows them to efficiently recover the costs that they incur when generating, transmitting and distributing electricity to customers.

When this does not happen, chaos ensues. So to ensure there are no disruptions to reliability, a tariff increase should be expected as fuel charges continue their path north.

The writer is the founding partner of The Lantau Group, a boutique consultancy focusing on the Asia Pacific energy industry