Fixing the right gas tariff

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Calls for a downward revision of the regulated piped gas tariff may be justified, considering the low gas price environment and the third-party access (TPA) framework that allows more suppliers in the market.

However, any adjustment of the fixed tariff must take into consideration the circumstances of both suppliers and consumers, which had to enter into long-term contracts to ensure security of supply and stable pricing, says the Malaysian Gas Association (MGA).

To recap, the government imposed an average regulated tariff of RM33.65 per mmbtu in January 2020 on consumers who source gas via Gas Malaysia Bhd (GMB), despite the introduction of the TPA regime this year.

International gas prices plunged far below the regulated cost of supply in March through May, raising the question as to whether a revision is due.

"Any call to revisit the regulated tariff should take into account the whole gas supply and pricing ecosystem and not just be limited to opportunistic reaction towards LNG (liquefied natural gas) spot pricing," says MGA in a reply to *The Edge*.

The association, which represents 150 stakeholders across the value chain, also brought up the interval of the regulated pricing review, which was lengthened to every 12 months this year, instead of every six months, as was done from 2017 to 2019.

"The decision by the Malaysian government in December 2019 to regulate gas price with a pre-determined base tariff to consumers supplied by GMB for another two years affords the industrial players long-term surety of supply and pricing," it says.

"This move addressed concerns raised earlier by the industry that, in the past, late notice on changes to the regulated prices was 'too abrupt and destructive'.

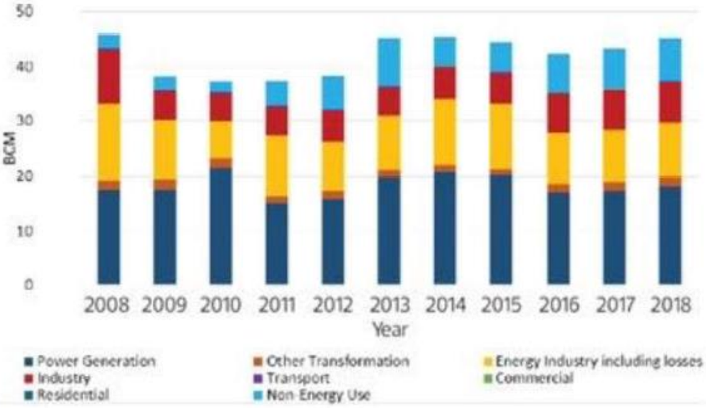
"Coincidentally, relying on supply from the spot LNG market will expose consumers to price volatility, which is contrary to the needs of the industry.

"To honour commitment to long-term contracts with their customers, the suppliers themselves will need to secure similar long-term contracts from their own suppliers.

OIES (2019)

Flat demand limits free market share

Gas demand by sector in Malaysia



"Any tariff set should consider the cost to the suppliers in procuring the supply and the risk undertaken by them to secure long-term supply to ensure uninterrupted supply to consumers."

With regard to the nature of long-term contracts, MGA says such contracts transfer the risk of supply and pricing from the consumer to the supplier during this transition period.

"Consumers can take advantage of purchasing natural gas at spot prices, but this means taking on the supply risk.

"With long-term contracts, the supply and price risks are transferred from the consumer to the supplier," it adds.

Manufacturers keen to exit regulated tariff regime

The Federation of Malaysian Manufacturers is eager to take on the supply risk to take advantage of current low prices.

Noting the recent release of the distribution access arrangement, FFM says "there is no issue on the removal of the regulated pricing regime".

"Manufacturers were ready for market liberalisation, which was originally scheduled to take place this year," FMM says in a response to *The Edge*.

"The full implementation was deferred to 2022, however, to allow more time for the transition, which coincides with the expiry of existing long-term contract signed by their current gas supplier Gas Malaysia Energy and Services Sdn Bhd (GMES) with its main supplier.

"During this two-year transition period, industrial customers are allowed to acquire the volume of gas above their contract terms with GMES from any supplier on a willing-buyer-willing-seller basis," says FMM.

Amid the prevalent market monopoly, third parties that are interested in supplying to industrial customers continue to face uncertainty, FMM notes.

"For the TPA to operate effectively, besides the tolling tariff, the distribution access arrangement is necessary to enable other suppliers to proceed with discussions with potential customers, especially those whose contract with GMES have expired or are expiring soon and that would like to take advantage of better pricing offered by other suppliers," it adds.

A regulated tariff is imposed on industrial consumers such as manufacturers, as well as commercial and retail consumers, which comprise 20% of the gas market in Peninsular Malaysia.

The other 80% — the power sector and large industrial consumers — have been purchasing gas on a willing-buyer-willing-seller basis since January this year.

Of the regulated tariff, the bundled cost of supply makes up RM31.15, or 92.6%. The other components are GMB's under-recovery gas cost for March to December 2019 (62 sen, or 1.84%) as well as the regulated distribution pipelines tariff (RM1.88, or 5.59%).

Until new suppliers come in, is it possible for the government to facilitate a renegotiation between GMB and Petronas to reflect the lower cost of supply, without changing the distribution tariff and the legacy cost recovery? E